

HYPO ALPE-ADRIA (JERSEY) LIMITED
UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30TH JUNE 2013

HYPO ALPE-ADRIA (JERSEY) LIMITED

REPORT OF THE DIRECTORS

The Directors present their report and the unaudited interim financial statements for the period 1st January 2013 to 30th June 2013.

INCORPORATION

Hypo Alpe-Adria (Jersey) Limited (the "Company") was incorporated in Jersey, Channel Islands on 26th June 2001, as a public company, under the Companies (Jersey) Law 1991.

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 from which were used to grant Hypo Alpe-Adria Bank International AG ("HAA" or the "Bank") a loan facility of €75,000,000 (the "Subordinated Loan" or "Loan"). The Company's rights under the Loan Agreement were guaranteed by HAA under the terms of a Support Agreement (the Loan Agreement and the Support Agreement together comprising the "Issuer Assets"). The commercial effect of the Support Agreement is to give holders of the Preferred Securities rights that would be equivalent to their rights if the Preferred Securities had been issued by HAA itself. As referred to below, the Loan was cancelled on 27th April 2012 for €nil consideration, thereby leaving the Support Agreement as the sole remaining Issuer Asset. The Company's immediate and ultimate holding company is HAA.

As set out in the Offering Circular dated 10th July 2001, 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 Frankfurt Stock Exchange.

PURCHASE AND CANCELLATION OF PREFERRED SECURITIES

On 29th February 2012, HAA issued an Invitation Memorandum under the terms of which it invited holders of Preferred Securities to offer to sell their holdings for cash to HAA at a proposed price of €33.50 per €100 liquidation preference. The original deadline for receipt of such offers was 22nd March 2012. As at that date, an aggregate liquidation preference of €35,445,900 of the Preferred Securities had been tendered. Subsequently, HAA received further tenders after the original deadline for Preferred Securities with an aggregate liquidation preference of €3,013,200, bringing the aggregate liquidation preference of Preferred Securities tendered to €38,459,100. HAA accepted for purchase all such Preferred Securities tendered. The Settlement Date was 27th April 2012.

HAA has provisionally indicated that it might be willing to consider purchasing further Preferred Securities that may be tendered for sale in future, subject to all relevant regulatory approvals being granted for such purchases. However, HAA would not be compelled to offer to purchase such Preferred Securities. In addition, any such offers for sale would be considered on a case by case basis and HAA would not be bound by the terms of any previous purchases.

On 27th April 2012, the Loan Agreement was terminated for nil consideration by mutual consent between the Company and HAA, with the Company's liabilities under the remaining Preferred Securities subsequently being covered only by the Support Agreement, as amended by the Supplemental Support Agreement dated 26th April 2012, which was amended with the consent of each of the Company, HAA and the holders of the Preferred Securities. On 27th April 2012, Preferred Securities with an aggregate liquidation preference of €38,459,100 were purchased from HAA by the Company and then immediately cancelled, such purchase being funded by a concurrent pro-rata reduction in the notional amount covered by the Support Agreement. Immediately after these transactions had taken place, the principal amount of Preferred Securities remaining was €36,540,900.

In the event that any further Preferred Securities might be purchased by HAA in future, such Preferred Securities would be purchased from HAA by the Company and then subsequently cancelled. Concurrently with any such cancellation, the notional amount covered by the Support Agreement would be reduced by an equal and opposite amount.

HYPO ALPE-ADRIA (JERSEY) LIMITED

REPORT OF THE DIRECTORS - (CONTINUED)

BACKGROUND TO HAA

As a result of the worsening economic crisis in 2009, the Republic of Austria acquired 100% of the equity shares in HAA on 30th December 2009. With the acquisition of all shares in HAA, as demanded by the Commission of European Union (the "Commission"), the Republic of Austria presented a restructuring plan in April 2010, which was based on a time horizon up to 2014.

The Commission provisionally approved the measures taken by the Republic of Austria in December 2009 for a period of up to six months. The approval was made subject to the Commission approving the Bank's restructuring plan based on the state aid provided through the nationalisation in 2009. The provisional approval was extended indefinitely on 22nd June 2010. A revised restructuring plan was presented to the Commission on 24th January 2011. The discussions and subsequent list of questions from the Commission suggested that the Commission was in basic agreement with the Bank's revised strategy. The results of these direct discussions and the answers to the questions subsequently submitted to obtain more in-depth information on aspects of the plan were incorporated into a further revised version of the EU restructuring plan, which was submitted in April 2011. The updating of the restructuring plan was discussed in a meeting held in Brussels in November 2012 and, as agreed, this was presented to the shareholders at the beginning of February 2013 so that it could then be submitted to the Commission.

In response to the sovereign debt crisis in the eurozone and its effects on the European financial sector, the worsening of economic conditions in Europe and in particular in the regions of South-Eastern Europe and the conclusion reached by the supervisory authorities in the Joint Risk Assessment Decision process that there is a requirement for additional capital for the Bank's own capital funds as defined by the Austrian Banking Act, HAA adjusted its strategy. This included adjusting planning to take account of the worsened economic forecasts and, amongst other measures, resolving to switch its subsidiaries to self-financing through local deposits from 2012 onwards. As a measure to cover the additional capital requirement, a state-guaranteed bond was issued in the amount of EUR 1.0 billion and a EUR 500.0 million capital increase was carried out, both in December 2012. The state guarantee underpinning the bond was structured in such a manner that the bond was assigned ratings of Aaa (Moody's), AA+ (S&P) and AAA (Fitch), in spite of the fact that it is a subordinated bond.

The Commission expects to conclude its investigation in 2013, having indicated that, in principle, it is satisfied with the strategy being pursued by the Bank following its restructuring. The significant turbulence in financial markets in general and in the region of South Eastern Europe ("SEE") in particular, the scale of which was unexpected, is currently leading all concerned to focus on a possible modification of the timescales and deadlines involved, as well as the proceeds to be raised from the reprivatisation of the three tendered banking operations (the Austria, Italy and SEE networks). Potential scenarios and their ramifications were presented to the Commission in a paper and are being discussed on an ongoing basis in close cooperation with representatives of the Republic of Austria. All parties have stated their intention to bring the proceedings to a conclusion and to implement the actions agreed in 2013. However, at the time of writing, it cannot be estimated with any degree of certainty when the EU state-aid proceedings will in fact be concluded and whether or not the Commission will accept the restructuring plan for the Bank.

HAA announced on 1st July 2013 that a revised restructuring plan has been submitted to the Commission and that, although the Commission's final decision regarding the State Aid Procedure has not yet been taken, based on thorough discussions held before the submission, the eventual decision is likely to impose requirements and duties upon the Bank, which may have consequences for the evaluation of holdings and exposures. The extent of such implications and any resulting capital requirements are currently being assessed. However, significant effects on the business activities of the Bank cannot be ruled out as they are dependent on whether or not permanent approval is granted, along with any constraints related to the decision. With regard to assessing HAA's continuance as a going concern, the Bank's Executive Board draws on the same assumptions that underpin the Bank's restructuring plan, although there continues to be uncertainty with regard to the future economic performance, given the current volatility in economic and financial markets.

HYPO ALPE-ADRIA (JERSEY) LIMITED

REPORT OF THE DIRECTORS - (CONTINUED)

BACKGROUND TO HAA - (continued)

In accordance with the notices issued to the holders of the Preferred Securities in March 2010, March 2011, March 2012 and March 2013, HAA had an accumulated balance sheet loss as at the financial year ends 2009, 2010, 2011 and 2012 respectively. Consequently, due to insufficient distributable funds, the dividend payments on the Preferred Securities scheduled for: 13th July 2010, 2011, 2012 and 2013 respectively; 13th October 2010, 2011, 2012 and 2013 respectively; 13th January 2011, 2012, 2013 and 2014 respectively; and 13th April 2011, 2012, 2013 and 2014 respectively, were not made, or will not be made, except that the dividend payment scheduled for 13th April 2014 may be made if HAA has given notice to the Company of a balance sheet profit for the fiscal year 2013 resulting in sufficient Distributable Funds available to pay the dividend on 13th April 2014.

GOING CONCERN

It is currently the expectation of the Directors that it is likely that a small number of holders of Preferred Securities may continue to decline to offer their Preferred Securities for sale to HAA and may therefore continue to hold such Preferred Securities for the foreseeable future. In such event, the Directors currently expect HAA to continue to maintain the Company as one of its subsidiaries and therefore to continue to cover the Company's operational expenses. Under the terms and conditions of the Preferred Securities, any amount payable under such Preferred Securities would arise concurrently with an equal and opposite amount receivable under the terms of the Issuer Assets. Therefore, the Directors currently 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.

CORPORATE GOVERNANCE

The Company is not legally subject to any corporate governance code. However, the Directors have internal controls and reviews in place. Due to the nature of the principal activity for which the Company has been established and the limited risk within the Company these internal controls are limited, but are deemed to be appropriate for the Company. Due to the nature of the principal activity, there are no management or supervisory bodies other than the Board of Directors, as listed below.

RESULTS AND DIVIDENDS

The result for the period amounted to €nil (2012: €nil).

The Directors do not recommend the payment of a dividend for the period (2012: €nil).

DIRECTORS

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

H.C. Grant

M.P. Santer

S.M. Vardon (resigned 1st June 2013)

G.P. Essex-Cater

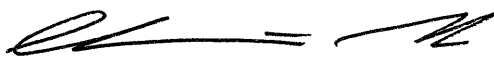
L.V. Pinnington

S.J. Hopkins (appointed 1st June 2013)

REGISTERED OFFICE

13 Castle Street, St Helier, Jersey, Channel Islands, JE4 5UT

BY ORDER OF THE BOARD



Authorised Signatory

Sanne Secretaries Limited

Secretary

Date: 29.08.13.

HYPO ALPE-ADRIA (JERSEY) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Jersey 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 fair 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, the 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;
- * make judgements and estimates that are reasonable and prudent;
- * 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.

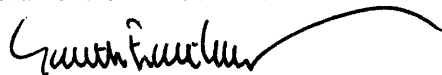
The Directors are also responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991 and International Financial Reporting Standards. 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.

STATEMENT OF PERSONS RESPONSIBLE WITHIN THE ISSUER

With regard to Regulation 2004/109/EC of the European Union (the "EU Transparency Directive"), the Directors of the Company whose names appear on page 3 confirm to the best of their knowledge that the unaudited financial statements for the period ended 30th June 2013 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as required by the applicable accounting standards. The Report of the Directors gives a fair review of the development of the Company's business, financial position and the important events that have occurred during the financial period and their impact on the financial statements. The principal risks and uncertainties faced by the Company are disclosed in note 8 of these financial statements.

Signed on behalf of the Board of Directors

Director:



Date:

09.08.13

HYPO ALPE-ADRIA (JERSEY) LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2013

	<u>Notes</u>	<u>30th Jun 2013</u>	<u>31st Dec 2012</u>
ASSETS			
Non-current assets			
Issuer assets	3	<u>1,827,045</u>	<u>12,431,214</u>
Current assets			
Receivables	4	<u>10</u>	<u>10</u>
TOTAL ASSETS		<u>€ 1,827,055</u>	<u>€ 12,431,224</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	6	<u>10</u>	<u>10</u>
TOTAL SHAREHOLDERS' EQUITY		<u>10</u>	<u>10</u>
Non-current liabilities			
Preferred Securities	5	<u>1,827,045</u>	<u>12,431,214</u>
TOTAL EQUITY AND LIABILITIES		<u>€ 1,827,055</u>	<u>€ 12,431,224</u>

The financial statements on pages 5 to 19 were approved and authorised for issue by the Board of Directors on the 29th day of August 2013 and were signed on its behalf by:

Director:



(The notes on pages 9 to 19 form part of these financial statements)

HYPO ALPE-ADRIA (JERSEY) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD 1ST JANUARY 2013 TO 30TH JUNE 2013

	<u>Notes</u>	1st Jan 13 to 30th Jun 13	1st Jan 12 to 30th Jun 12
INCOME:			
Gain on redemption of Issuer Assets	3	-	6,726,497
Gain on revaluation of Issuer Assets	3	-	6,573,708
Gain on revaluation of Preferred Securities	5	10,604,169	-
		<u>10,604,169</u>	<u>13,300,205</u>
EXPENDITURE:			
Loss on revaluation of Issuer Assets	3	(10,604,169)	-
Loss on repurchase of Preferred Securities	5	-	(6,726,497)
Loss on revaluation of Preferred Securities	5	-	(6,573,708)
		<u>(10,604,169)</u>	<u>(13,300,205)</u>
RESULT FOR THE PERIOD		<u>€ -</u>	<u>€ -</u>

Other comprehensive income

The Company had no other comprehensive income or losses for the period ended 30th June 2013 and for the period ended 30th June 2012.

(The notes on pages 9 to 19 form part of these financial statements)

HYPO ALPE-ADRIA (JERSEY) LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD 1ST JANUARY 2013 TO 30TH JUNE 2013

	Share capital	Total
Balance at 1st January 2013	10	10
Result for the period	-	-
Balance at 30th June 2013	€ 10	€ 10
Balance at 1st January 2012	10	10
Result for the period	-	-
Balance at 30th June 2012	€ 10	€ 10

(The notes on pages 9 to 19 form part of these financial statements)

HYPO ALPE-ADRIA (JERSEY) LIMITED

STATEMENT OF CASH FLOWS**FOR THE PERIOD 1ST JANUARY 2013 TO 30TH JUNE 2013**

	1st Jan 13 to <u>30th Jun 13</u>	1st Jan 12 to <u>30th Jun 12</u>
Cash flows from operating activities		
Result for the period	-	-
Net cash flow from operating activities	-	-
Net change in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the period	-	-
Cash and cash equivalents at the end of the period	€ -	€ -

(The notes on pages 9 to 19 form part of these financial statements)

HYPO ALPE-ADRIA (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 1ST JANUARY 2013 TO 30TH JUNE 2013

1. GENERAL INFORMATION

The Company was incorporated in Jersey, Channel Islands on 26th June 2001, as a public company, under the Companies (Jersey) Law 1991. The principal activity of the Company is the issue of Fixed/Floating Rate Non-cumulative Non-voting Preferred Securities (the "Preferred Securities"). The proceeds from the Preferred Securities were used to grant Hypo Alpe-Adria-Bank International AG ("HAA") a loan facility of €75,000,000 (the "Subordinated Loan" or "Loan").

The Company's rights under the Loan Agreement were guaranteed by HAA under the terms of a Support Agreement. The Loan Agreement and Support Agreement were entered into concurrently and in contemplation of each other. Consequently, these agreements were considered together to comprise the "Issuer Assets". The commercial effect of the Support Agreement is to give holders of the Preferred Securities rights that would be equivalent to their rights if the Preferred Securities had been issued by HAA itself. The Loan was cancelled on 27th April 2012 for €nil consideration, thereby leaving the Support Agreement as the sole remaining Issuer Asset, hereafter referred to as the "Issuer Assets". The Preferred Securities are listed on the Frankfurt Stock Exchange.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all the periods presented unless otherwise stated.

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee and have been prepared under the historical cost convention.

Going concern

The Preferred Securities are perpetual and therefore have no specified maturity date. The Preferred Securities are redeemable only at the option of the Issuer. Dividends on the Preferred Securities are payable on each Dividend Date at the rate specified in the Statement of Rights of the Preferred Securities as set out in the Offering Circular dated 10th July 2001 (the "OC") if the conditions specified therein are met. The Company's obligation to pay a dividend on the Preferred Securities on any given Dividend Date will at all times be matched by the Company's right to receive an equal and opposite amount from HAA under the terms of the Issuer Assets. However, in the event that one or more dividends are not payable, such dividends are non-cumulative (i.e. the right of the holders of the Preferred Securities to receive such dividends lapses) and no interest is payable on such unpaid dividends.

Under Clause 3.3 of the Support Agreement dated 13th July 2001 between HAA and the Company, HAA has undertaken "to maintain the Company as a subsidiary for so long as any Preferred Securities shall remain in issue." Consequently, HAA is responsible for paying the Company's expenses and to maintain the Company as a going concern for as long as any Preferred Securities remain in issue.

HYPO ALPE-ADRIA (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2013 TO 30TH JUNE 2013

2. ACCOUNTING POLICIES - (CONTINUED)

Going concern - (continued)

It is currently the expectation of the Directors that it is likely that a small number of holders of Preferred Securities might continue to decline to offer their Preferred Securities for sale to HAA and may therefore continue to hold such Preferred Securities for the foreseeable future. In such event, the Directors currently expect HAA to continue to maintain the Company as one of its subsidiaries in accordance with the Support Agreement and therefore to continue to cover the Company's operational expenses. Therefore, the Directors currently 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.

New Accounting Standards, amendments to existing Accounting Standards and/or interpretations of existing Accounting Standards (separately or together, "New Accounting Requirements") adopted during the current period

The Directors have assessed the impact, or potential impact, of all New Accounting Requirements. In the opinion of the Directors, except for the amendments to IAS 1 referred to below, there are no mandatory New Accounting Requirements applicable in the current period that had any material effect on the reported performance, financial position, or disclosures of the Company. Consequently, no other mandatory New Accounting Requirements are listed. The Company has not early adopted any New Accounting Requirements that are not mandatory during the period.

IAS 1, "Presentation of Financial Statements" (amendments)

The main change resulting from these amendments that is relevant to the Company is a requirement for entities to group items presented in other comprehensive income ("OCI") on the basis of whether they may potentially be reclassified to profit or loss subsequently (reclassification adjustments). This amendment has been reflected in the statement of comprehensive income. The amendments do not address which items are presented in OCI.

Non-mandatory New Accounting Requirements not yet adopted

IFRS 9, "Financial Instruments", was early adopted in the prior year, as disclosed in the audited financial statements for the year ended 31st December 2012. In the Directors' opinion, there are no other non-mandatory New Accounting Requirements that are either permitted to be adopted, or would have a material effect on the reported performance, financial position, or disclosures of the Company. Consequently, no such New Accounting Requirements have either been adopted during the period, or listed.

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 period. Actual results could differ from those estimates. Details of such estimates are provided in note 8 to the financial statements.

HYPO ALPE-ADRIA (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2013 TO 30TH JUNE 2013

2. ACCOUNTING POLICIES - (CONTINUED)

Financial assets at fair value through profit or loss

In accordance with IFRS 9, the Company classifies the Issuer Assets as financial assets measured at FVTPL. Upon initial recognition, the Issuer Assets are measured at fair value plus transaction costs that are directly attributable to the acquisition of such assets. Subsequently, they are measured at fair value with changes thereof being recognised directly in the income statement. Financial assets at FVTPL are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all risks and rewards of ownership. In the Directors' opinion, the commercial substance of HAA's obligations under the Issuer Assets was unaffected by the termination of the Loan Agreement and amendment of the Support Agreement on 27th April 2012. Consequently, the recognition, classification and measurement of the Issuer Assets was unaffected by these transactions.

Impairment

As required by IAS 39, all financial assets, except those carried at fair value through profit or loss, are subject to review for impairment at each reporting date. However, the Company's only material financial assets (the "Issuer Assets") are classified as at FVTPL and are therefore not subject to review for impairment.

Preferred Securities

Preferred Securities are designated at FVTPL in order to eliminate the accounting mismatch that would otherwise occur in the Company's statement of financial position and income statement if the Issuer Assets were to be measured at FVTPL whilst the Preferred Securities would otherwise be measured at amortised cost. Consequently the Preferred Securities are initially and subsequently measured at FVTPL. 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. Therefore, the Preferred Securities are presented within non-current liabilities in the statement of financial position.

Segmental reporting

For management purposes, the Company is organised into one main operating segment. Accordingly, all significant operating decisions are based upon analysis of the Company as a single segment. Consequently, in the Directors' opinion there are no reportable operating segments as defined by IFRS 8, "Operating Segments."

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.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**FOR THE PERIOD 1ST JANUARY 2013 TO 30TH JUNE 2013****2. ACCOUNTING POLICIES - (CONTINUED)****Recognition/Derecognition of financial assets and liabilities**

Derecognition is the point at which the Company removes a financial asset or financial liability from the statement of financial position. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to the cash flows on that financial asset are cancelled, expire or are transferred to another party, or if the Company retains the contractual rights but enters into a contract under which the relevant cash flows must be duly paid under a 'pass-through arrangement'. Preferred Securities are derecognised when they are extinguished; i.e. when the obligation is discharged, cancelled or expired.

Fair value estimation

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date.

Although the Preferred Securities issued by the Company are listed on a recognised stock exchange, only limited liquidity may exist for these securities at certain times. However, in the Directors' opinion, in the absence of other suitable alternatives, the best available estimate of the fair value of the Preferred Securities is provided by the last traded market price on or before the financial reporting date, being: 5.00% as at 30th June 2013, 34.02% as at 31st December 2012 and 34.00% as at 30th June 2012.

The Directors note that the Issuer Assets are neither quoted nor actively traded. The Company's liabilities under the Preferred Securities are at all times matched by its Issuer Assets by an equal and opposite amount. Consequently, in the Directors' opinion, the estimated fair value of the Issuer Assets is at all times equal and opposite to the estimated fair value of the Preferred Securities.

The estimated fair values of the Issuer Assets and the Preferred Securities are disclosed in note 8.

The level of reliance that can be placed upon estimated fair values is limited and the fair values disclosed may, or may not, be reasonable estimates of the prices at which a trade could have taken place at the reporting date. Due to the limited liquidity of the market in the Preferred Securities, the actual amount that could have been realised by a holder of the Preferred Securities could have been significantly different from the prices disclosed above.

3. ISSUER ASSETS

	<u>30th Jun 13</u>	<u>31st Dec 12</u>
<i>Issuer Assets (principal amount):</i>		
Opening balance as at 1st January	36,540,900	75,000,000
Redemptions during the period/year	-	(38,459,100)
Closing balance as at 30th June/31st December	€ 36,540,900	€ 36,540,900

HYPO ALPE-ADRIA (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2013 TO 30TH JUNE 2013

3. ISSUER ASSETS - (CONTINUED)	<u>30th Jun 13</u>	<u>31st Dec 12</u>
<i>Issuer Assets (carrying amount)</i>		
Opening balance as at 1st January	12,431,214	12,007,500
Redemption of Issuer Assets (consideration received)	-	(12,883,799)
Gain on redemption of Issuer Assets	-	6,726,497
(Loss)/Gain on revaluation of Issuer Assets	(10,604,169)	6,581,016
Closing balance as at 30th June/31st December	€ 1,827,045	€ 12,431,214

The net proceeds from the issue of the Preferred securities of €75,000,000 were used by the Company to grant a loan facility (the "Loan") to Hypo Alpe-Adria-Bank International AG (formerly Hypo Alpe-Adria-Bank AG) ("HAA"), with HAA also providing a Support Agreement. The Loan Agreement and Support Agreement were entered into concurrently and in contemplation of each other. Consequently, these agreements were considered together to comprise the "Issuer Assets".

The Loan was granted on 13th July 2001 under the terms and conditions, detailed in the Facility Agreement between the Company and HAA. On 27th April 2012, the Loan Agreement was terminated for nil consideration by mutual consent between the Company and HAA, with the Company's rights under the Issuer Assets subsequently being represented by the Support Agreement only. The Loan bore interest at a fixed rate of 7.375% per annum, payable quarterly in arrears each 13th January, 13th April, 13th July and 13th October. Payment of interest was receivable only if the amount of interest due was available from annual profits of HAA's previous fiscal year (before movement of reserves).

The Support Agreement (formerly the Loan) has no fixed repayment date, however HAA had the option to repay the Loan in full on 13th July 2006 or on any date thereafter, subject to giving the Company 30 days prior notice.

The obligations under the Support Agreement (Issuer Assets) 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 Support Agreement 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 Support Agreement until the claims of all unsubordinated creditors of HAA shall have been satisfied in full.

No interest was received under the Support Agreement during the current period and previous year due to insufficient distributable profits arising at HAA. Consequently, no dividends were paid on the Preferred Securities.

4. RECEIVABLES	<u>30th Jun 13</u>	<u>31st Dec 12</u>
Other receivables	€ 10	€ 10

HYPO ALPE-ADRIA (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2013 TO 30TH JUNE 2013

5. PREFERRED SECURITIES	<u>30th Jun 13</u>	<u>31st Dec 12</u>
<i>Preferred Securities (principal amount):</i>		
Opening balance as at 1st January	36,540,900	75,000,000
Repurchases during the period/year	-	(38,459,100)
Closing balance as at 30th June/31st December	€ 36,540,900	€ 36,540,900
<i>Preferred Securities (carrying amount)</i>		
Opening balance as at 1st January	12,431,214	12,007,500
Repurchase of Preferred Securities (redemption proceeds paid)	-	(12,883,799)
Loss on repurchase of Preferred Securities	-	6,726,497
(Gain)/Loss on revaluation of Preferred Securities	(10,604,169)	6,581,016
Closing balance as at 30th June/31st December	€ 1,827,045	€ 12,431,214

750,000 Series A Non-voting Non-cumulative Preferred Securities (the "Preferred Securities"), each bearing a liquidation preference of €100 per Preferred Security (i.e. an aggregate liquidation preference of €75,000,000), were issued by the Company on 13th July 2001 under the terms of an Offering Circular dated 10th July 2001 (the "OC").

The Preferred Securities bear dividends at a fixed rate of 7.375% per annum, payable quarterly in arrears each 13th January, 13th April, 13th July and 13th October.

A Support Agreement was entered into on 13th July 2001 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 reporting date immediately preceding the dividend payment date. The commercial effect of the Support Agreement is to give holders of the Preferred Securities rights that would be equivalent to their rights if the Preferred Securities had been issued by HAA itself.

The Preferred Securities are perpetual and therefore have no specified maturity date. The Preferred Securities are redeemable only at the option of the Company, in whole but not in part, from and including 13th July 2006 and on any interest 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. Dividends on the Preferred Securities are payable on each Dividend Date at the rate specified in the Statement of Rights of the Preferred Securities as set out in the OC if the conditions specified therein are met.

HYPO ALPE-ADRIA (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2013 TO 30TH JUNE 2013

5. PREFERRED SECURITIES - (CONTINUED)

The Company's obligation to pay a dividend on the Preferred Securities on any given Dividend Date will at all times be matched by the Company's right to receive an equal and opposite amount from HAA under the terms of the Issuer Assets (see note 3). However, in the event that one or more dividends are not payable, such dividends are non-cumulative (i.e. the right of the holders of the Preferred Securities to receive such dividends lapses) and no interest is payable on such unpaid dividends. 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 €100 plus any accrued and unpaid dividends. The Preferred Securities are listed on the Frankfurt Stock Exchange.

As no interest was received from the Support Agreement (Issuer Assets) during the current period and prior year, no corresponding dividend payments were made to the holders of the Preferred Securities on the relevant dividend payment dates.

6. SHARE CAPITAL

	<u>30th Jun 13</u>	<u>31st Dec 12</u>
AUTHORISED:		
16,500 Ordinary Shares of €1 each	€ <u>16,500</u>	€ <u>16,500</u>
ISSUED:		
10 Ordinary shares of €1 each	€ <u>10</u>	€ <u>10</u>

The Company has issued 10 ordinary shares of €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.

The Company is not subject to externally imposed capital requirements.

7. CHANGE OF REGISTERED OFFICE AND COMPANY SECRETARY

With effect from 1st June 2013, the Company changed its registered office from 22 Grenville Street, St Helier, Jersey, Channel Islands, JE4 8PX to 13 Castle Street, St Helier, Jersey, Channel Islands, JE4 5UT and changed its Company Secretary from State Street Secretaries (Jersey) Limited to Sanne Secretaries Limited.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**FOR THE PERIOD 1ST JANUARY 2013 TO 30TH JUNE 2013****8. FINANCIAL RISK MANAGEMENT****Financial risk factors**

The principal activity of the Company is the issue of Preferred Securities, the proceeds from which were used to grant a Loan to HAA. 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 credit risk, liquidity risk and market risks such as interest rate risk, currency rate risk and price risk.

Interest rate risk

The Company finances its operations through the issue of Preferred Securities upon which dividends are payable. Dividend payments under the Preferred Securities are non-cumulative and are equal and opposite to amounts receivable from HAA under the Support Agreement (Issuer Assets). Amounts receivable under the Support Agreement precisely match any amounts payable under the Preferred Securities. Therefore the Directors believe that there is no material interest rate risk to the Company.

			<u>30th Jun 13</u>		<u>31st Dec 12</u>	
	Interest charging basis	Effective interest rate	(principal amount)	Effective interest rate	(principal amount)	
<i>Financial assets:</i>						
Support Agreement / Issuer Assets	Floating	0.000%	€ 36,540,900	0.000%	€ 36,540,900	
<i>Financial liabilities:</i>						
Preferred Securities	Floating	0.000%	€ (36,540,900)	0.000%	€ (36,540,900)	

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

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's principal financial asset is the Support Agreement (Issuer Assets) entered into with HAA, from which all of the Company's income is derived. Credit risk arises principally from this Support Agreement. The maximum exposure to credit risk, without taking into account any collateral held or other credit enhancements is as follows:

HYPO ALPE-ADRIA (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2013 TO 30TH JUNE 2013

8. FINANCIAL RISK MANAGEMENT - (CONTINUED)

Credit risk - (continued)	<u>30th Jun 13</u>	<u>31st Dec 12</u>
Support Agreement / Issuer Assets	36,540,900	36,540,900
Receivables	10	10
	<u>€ 36,540,910</u>	<u>€ 36,540,910</u>

The Directors believe that there is no material credit risk to the Company since dividend payments under the Preferred Securities are non-cumulative, and are equal and opposite to amounts receivable from HAA under the Support Agreement (Issuer Assets).

In the event that HAA is unable to repay the full principal amount of the remaining Support Agreement (Issuer Assets) balance, such loss would be borne by the holders of the Preferred Securities, not by the Company.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Distribution payments under the Preferred Securities are non-cumulative, and are equal and opposite to amounts receivable from HAA under the Support Agreement (Issuer Assets).

Due to the nature of the Company's operations, the Directors consider the net liquidity risk faced by the Company to be minimal. The most significant cash outflow consists of the payment of interest on the Preferred Securities. The timing of its cash outflows fall due on the same dates as the cash inflows from the Support Agreement (Issuer Assets). The Company's expenses are paid on its behalf by HAA and therefore the Directors consider its available cash resources to be sufficient.

Maturity of financial assets and liabilities

The expected maturity profile of the Company's financial assets and liabilities is/was as follows (at principal amount):

	<u>30th Jun 13</u>	<u>30th Jun 13</u>	<u>31st Dec 12</u>	<u>31st Dec 12</u>
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
In less than one year	10	-	10	-
In more than five years	36,540,900	(36,540,900)	36,540,900	(36,540,900)
	<u>€ 36,540,910</u>	<u>€ (36,540,900)</u>	<u>€ 36,540,910</u>	<u>€ (36,540,900)</u>

HYPO ALPE-ADRIA (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2013 TO 30TH JUNE 2013

8. FINANCIAL RISK MANAGEMENT - (CONTINUED)

Fair values

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

	<u>30th Jun 13</u>		<u>31st Dec 12</u>	
	Principal amount	Fair value	Principal amount	Fair value
Support Agreement / Issuer Assets	€ 36,540,900	€ 1,827,045	€ 36,540,900	€ 12,431,214

The fair value of the Preferred Securities has been obtained from quoted prices on the Frankfurt Stock Exchange. In the opinion of the Directors, the fair value of the Support Agreement / Issuer Assets held is approximately equal and opposite to the fair value of the Preferred Securities, as the terms and conditions of the Preferred Securities are equal and opposite to those of the Support Agreement / Issuer Assets and the credit risk attached to both the Preferred Securities and the Support Agreement / Issuer Assets are similar, being in each case closely related to that of HAA. In the opinion of the Directors, it is not practicable to estimate with sufficient reliability any difference in fair value between the Support Agreement / Issuer Assets and the Preferred Securities and any such difference in fair value that might exist is not expected to be significant.

Sensitivity analysis

As disclosed above, in the Director's opinion, there is no material difference between the fair value of the Issuer Assets and the fair value of the Preferred Securities. From the perspective of the Company, any change in the fair value of the Issuer Assets would be matched by an equal and opposite change in the fair value of the Preferred Securities. Consequently the Company has no net exposure to 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. In addition, as the fair values have been determined directly from quoted market prices (i.e. Level 1 fair values under IFRS 7), no material assumptions have been made by the Directors when determining such fair values other than the assumption that such quoted market prices represent the best available estimate of fair value.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FO FOR THE PERIOD 1ST JANUARY 2013 TO 30TH JUNE 2013

8. FINANCIAL RISK MANAGEMENT - (CONTINUED)

Capital management

The Company's objective, when managing its capital, is to safeguard the Company's ability to continue as a going concern. In order to maintain this, the Company's assets and liabilities and the relative underlying terms and conditions are exactly matched. The transactions are designed to enable the Company to pay its liabilities as they fall due only, without realising a return on capital. The level of interest income and interest expense are exactly matched and were established on incorporation of the Company in order that the Company realises a net result of € nil each period.

There were no changes in the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

9. TAXATION

Profits arising in the Company are subject to Jersey Income Tax at the rate of 0%.

10. ULTIMATE CONTROLLING PARTY

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

11. RELATED PARTIES

Each of H.C. Grant, G.P. Essex-Cater, S.M. Vardon, L.V. Pinnington and S.J. Hopkins was an employee of a subsidiary of State Street Corporation ("SSC"). Affiliates of SSC provided company secretarial and administrative services to the Company at commercial rates. SSC ceased its provision of company secretarial and administrative services to the Company with effect from 31st May 2013.

Each of H.C. Grant, G.P. Essex-Cater, L.V. Pinnington and S.J. Hopkins is a Director of Sanne Corporate Services Limited, a company which provides administration services to the Company at commercial rates with effect from 1st June 2013 to date. S.J. Hopkins is also a Director of Sanne Secretaries Limited, a company which provides secretarial services to the Company at commercial rates with effect from 1st June 2013 to date.

M.P. Santer 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 transactions with HAA are disclosed in the notes to the financial statements.