HAA: Clearly negative result for 2013 is the consequence of restructuring obligations and one-off effects

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- EU state aid procedure concluded with Commission decision of 3.9.2013
- Result affected by EU Commission orders, weak economic situation and local special risks
- Consolidated result after taxes and minority interests of EUR -1,863.7 million (2012: EUR -22.9 million*)
- Result is within the expected framework of the EU restructuring plan for 2013
- Credit risk provisions increased to EUR -1,362.1 million (2012: EUR -308.5 million)
- SEE banks burdened by special effects to promote sale, but operationally remain positive
- Balance sheet total for the Group considerably reduced, by EUR 7.6 billion to EUR 26.2 billion
- Public liabilities down to EUR 13.2 billion, with liabilities of the State of Carinthia down to EUR 12.2 billion
- Core capital and equity ratios 9.8% (2012: 8.6%) and 14.9% (13.0%) respectively per 31.12.2013

(By analogy with the business report for 2013, all comparison figures from 2012 have been adjusted on the basis of IFRS 5 and IAS 19 regulations and may therefore differ from previously published figures.)*

Completion of EU state aid procedure in 2013

On 3 September 2013 the EU Commission communicated its final decision concerning the Hypo Alpe Adria state aid procedure, which had been ongoing since May 2009. The basis for the decision was the final restructuring plan for the bank which was communicated at the end of June 2013. Observance of the obligations contained therein in regard to new business is necessary up to the date of the reprivatisation which will be supervised by an independent trustee (the "Monitoring Trustee"). In addition explicit requirements have been set out in regard to the privatisation of the banks in south eastern Europe. As regards the remaining downsizing portion, which also includes the Italian subsidiary bank, the Commission decision envisages a more intensified and faster-paced Wind Down of these entities and portfolios.

The EU restructuring plan which the bank must follow reflects the requirements of the Commission concerning the position of the Italian subsidiary bank, the implementation of sale-promoting measures in the form of portfolio transfers and more conservative risk assessments in the SEE portfolio, and the accelerated sale of the downsizing portfolio. The losses arising from this in the period 2013 to 2017 relate primarily to expected sales losses from the sale of participations and also to increased risk provisions, and have been estimated in the restructuring plan at EUR -3.58 billion (the so called "Base Case") to EUR -6.33 billion (the so called "Stress Pessimistic Case"). The resulting recapitalisation requirement is between EUR 2.65 billion (Base Case) and EUR 5.40 billion (Stress Pessimistic Case) and has been approved by the EU Commission as state aid.

In 2013 the Republic of Austria provided the bank with EUR 1.75 billion in equity in three recapitalisation stages. Taking into account the additional capital measure of EUR 0.75 billion in April 2014, a total of EUR 2.50 billion has been provided, so that within the state aid framework as approved by the EU Commission a maximum of up to EUR 2.90 billion in capital measures would still be available.

Profit performance

For Hypo Alpe Adria-Bank International AG, with the completion of the state aid procedure before the European Commission in September, 2013 brought an event of huge significance which is reflected both in the operational business of the banking subsidiaries (via the prescribed market restrictions) and also (as a result of the detailed requirements regarding the time frame for example) in the entire course of the restructuring and downsizing of the Group. In parallel with this, the result has been heavily burdened by the continuing low reference interest rates and the continuing difficult economic situation in the core markets and the payment defaults associated therewith, as well as by provisions for local special risks in connection with foreign currency loans in south eastern Europe (SEE) and interest calculations for leasing agreements (Italy) which have been manipulated over a period of years.

The combination of reduced operating income, considerably increased credit risk provisions by comparison with the previous year, special effects of some magnitude, and more or less constant operating expenses has thus led to a clearly negative consolidated result after taxes and minority interests in the amount of EUR -1,863.7 million (2012: EUR -22.9 million). The result is thus essentially within the result forecast for 2013 as communicated to the Commission in the "Base Case" of the EU restructuring plan.

Broken down into segments, it becomes clear that in terms of value the greatest negative effects arise from the downsizing segments of the Group. Also negative in 2013 are the contributions from the Italy and the SEE network, although the latter posted a positive operating result of EUR 48.3 million before deduction of the risk provisions.

By comparison with the same period in the preceding year, there was an increase in the credit risk provisions (which were newly formed and mainly based on the external circumstances as described above,) and devaluations on other assets, from EUR -388.5 million to EUR -1,664.2 million. Included in this are also the additional provisions formed in accordance with the EU restructuring plan, reflecting more conservative valuations in the SEE bank network and promoting a faster portfolio sale in the Wind Down segment.

The net interest income for the Group fell by comparison with the same period in the preceding year from EUR 597.9 million to EUR 423.5 million. This was due inter alia to a reduction in customer receivables, since on the one hand the maturing downsizing portfolio is not being compensated for by new business, and on the other hand new business is generally restricted by the rigid requirements imposed by the EU.

Income from commission rose slightly during the financial year, from EUR 47.9 million to EUR 51.2 million. The commission expenses also include the liability commission for the guarantee provided by the Republic of Austria in the amount of EUR -18.2 million (2012: EUR -19.6 million).

The other operating profit, which in the comparable period in the preceding year was EUR 16.4 million, stood at EUR -244.6 million in the financial year 2013. This item includes EUR -22.8 million (2012: EUR -22.1 million) in bank taxes payable in Austria. The expenses shown elsewhere in other income and expenses resulted largely from compensation payments in connection with the interest manipulations in the Italian subsidiaries, which were exposed by the board of directors in spring 2013.

In total the operating earnings in 2013 reached EUR 307.0 million (2012: EUR 816.3 million), as against stable operating expenses of EUR -439.7 million (2012: EUR -441.7 million). The staff costs were reduced by EUR 13.9 million, from EUR -225.4 million in 2012 to EUR -211.6 million, which was essentially due to the reduced number of employees in the Group. The administration expenses rose in 2013 from the most recent figure of EUR -183.2 million to EUR -192.5 million, but are much lower by comparison with the preceding years, and in the SEE segment – before one-off effects – noticeable cost savings were achieved through increased efficiency.

In all, a consolidated result after taxes of EUR -1,843.4 million arises (after minority interests EUR -1,863.7 million (2012: EUR -22.9 million), i.e. an extraordinarily high loss for Hypo Alpe Adria after two years with more or less balanced results.

Changes in the balance sheet

There was a further significant decrease of EUR 7.6 billion in the balance sheet total for the Hypo Alpe Adria Group in the financial year 2013, from EUR 33.8 billion to EUR 26.2 billion. A large portion of this reduction was due to the sale, completed in December 2013, of the subsidiary Hypo Alpe-Adria-Bank AG (Österreich), which per 31 December 2012 posted a balance sheet total relevant to the Group of EUR 4.1 billion. The planned reduction in the size of the Group is also due to the decrease in the volume of financing of the credit and leasing business, and also by the devaluations and risk provisions undertaken in 2013.

Public liabilities also decreased by 22% on an annual comparison. The amount in bonds backed by federal and state guarantees per 31.12.2013 stood at EUR 13.2 billion (2012: 16.6 billion); around EUR 1.0 billion of this reduction is due to the departure of the Austrian subsidiary bank.

Own resources / capital

Related to the entire capital assessment base (including market and operational risk) the equity ratio per 31 December 2013 stood at 14.9 % (2012: 13.0 %), well above the minimum of 8.0% prescribed by law in Austria. The core capital ratio (Tier 1 ratio) per 31.12.2013 was 9.8% (8.6% on the same date in the preceding year).

The consolidated losses of EUR -1.9 billion in 2013 were partially compensated by equity provided by the Republic of Austria in the amount of EUR 1.75 billion. The main reason as to why it was nevertheless possible to achieve an overall increase in the equity ratios was the vigorous pruning of risk weighted assets in 2013, the overall volume of which (in spite of contrary effects from country rating downgrades, for example) was significantly reduced. The sale of Hypo Alpe-Adria-Bank AG (Österreich) also had the effect of reducing RWA. The credit risk, the market risks and the operational risk (total risk assets) fell by EUR 5.1 billion to EUR 18.4 billion.

Market performance

In 2013 also, developments on the markets of the operational banks were defined by the continuing low interest rates and the difficult economic situation in HAA's core markets. Following stable performance in regard to deposits in the first nine months of the financial year ended, in the fourth quarter increasing confusion was observed among customers (including on the foreign markets) as a result of intense public debate in Austria about the future of HAA. While the banks to some extent deliberately pursued the strategic dismantling of certain customer portfolios in order to optimise their risk and earnings structure, the full use of available market opportunities was restricted, in particular by the requirements imposed by the EU restructuring plan.

In liabilities towards customers (deposits) a decrease of EUR 2.3 billion (as compared with 31 December 2012) to EUR 6.1 billion was recorded. EUR 1.6 billion of this decrease is attributable to the departure of the subsidiary Hypo Alpe-Adria-Bank AG (Österreich) from the Group. In addition the requirement of the European Commission to exclude the Italian banking subsidiaries from new business was also followed by immediate outflows of existing customer deposits.

The planned downsizing of the Group, as well as the focus on low-risk customer groups and the EU restrictions on new business, reduced the net customer receivables (gross receivables after credit risk provisions) by 30 %, from EUR 21.3 billion to EUR 15.5 billion per 31.12.2013.

The entire balance sheet total attributable to the SEE bank network open to privatisation decreased to EUR 8.5 billion (2012: EUR 10.1 billion) by comparison with the preceding year as a result of the further transfer of non performing portfolios to the Wind Down entity. Associated with this was a reduction (increasing the saleability of the entity) in the NPL ratio in the operational SEE banks to 12.3% (2012: 15.0%). In spite of the difficult external framework conditions that were applied and the externally required business restrictions, in 2013 the SEE network achieved a positive operational result before risk provisions of EUR 48.3 million (2012: EUR 110.5 million).

Outlook for 2014

The forecast for 2014 is also based on the framework as defined by the decision of the European Commission and on the future path as mapped out by the owner leading towards an independent Wind Down entity. As of the end of 2013 and the beginning of 2014, the privatisation process of the SEE network which was begun in May 2012 has entered a phase which makes the conclusion of the sale of the network to financial or strategic investors in the current financial year appear realistic. This process will be accompanied by a final cleansing of the portfolios of the SEE banks through transfers of non performing loans to Wind Down entities, with the aim of a further reduction of the risk and a further optimisation of the loan-to-deposit ratio. According to the existing forecast, however, the economic situation in 2014 is unlikely to provide any significant support for the business management efforts being made by the bank in SEE. In parallel with this, an operational management holding company will be implemented in Austria for the SEE network in 2014, which is intended to function as a regulated supporting company for these participations.

As far as the greater part of the Hypo Alpe Adria portfolio is concerned, i.e. the Wind Down activities, sales are to be further promoted in 2014, from the realisation of loan collateral in individual loans to already initiated sales of subsidiaries.

The detailed execution will be very much dependent on the decisions that have to be taken and implemented over the coming months in regard to an independent deregulated Wind Down entity for the realisation of the entities that are not intended for privatisation. Every effort is being made to install this entity (which will have around two thirds of the balance sheet total of Hypo Alpe Adria and will be in the form of a corporation) by the end of the third quarter of 2014, partly depending on the legal basis to be created. The extensive preliminary work carried out by the bank in 2013 in terms of operational separation and organisational restructuring can be used as a basis on which to build.

On the basis of this timetable, the bank has informed its owner that the currently expected capital requirement for 2014 will be EUR 1.43 billion, EUR 750 million of which has already been provided in the form of a capital increase in April 2014. This capital requirement lies within the spectrum of the scenario calculations as posited in the EU restructuring plan and is covered within the currently approved state aid framework.

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