Interim Financial Report 2014

Hypo Alpe Adria

Key data based on the interim consolidated financial statements drawn up in accordance with IFRS

Hypo Alpe-Adria-Bank International AG (Group) EUR m

	2014	2013	2012
income statement	**1.1.-30.6.**	**1.1.-30.6.***	**1.1.-30.6.***
Net interest income	173.1	228.0	300.0
Net fee and commission income	21.0	24.9	22.0
Impairment on financial instruments – at cost (risk provision)	-245.1	-623.0	-123.1
Operating expenses	-204.3	-218.6	-220.0
Operating result – prior to risk provisions on loans and advances	-1,423.2	-205.4	155.4
Operating result – after risk provisions on loans and advances	-1,668.3	-828.4	32.3
Result for the period after tax	-1,663.5	-859.8	3.4
Statement of financial position	**30.6.**	**31.12.**	**31.12.**
Loans and advances to customers	17,807.2	19,289.0	24,401.5
Liabilities to customers	5,719.9	6,120.9	8,405.9
Debt securities in issue and subordinated capital and hybrid capital	11,462.7	12,311.8	16,799.1
Equity (including non-controlling interests)	948.2	1,858.8	1,968.4
Total assets	25,153.4	26,218.6	33,803.7
Risk-weighted assets (banking book)	16,595.4	16,643.6	21,323.5
Key figures	**1.1.-30.6.**	**1.1.-30.6.***	**1.1.-30.6.***
Cost/income ratio	n.a.	173.9%	55.2%
Net interest income/Ø risk-weighted assets (banking book)	1.0%	1.1%	1.3%
Risk/earnings ratio	141.6%	273.3%	41.0%
Risk/Ø risk-weighted assets (banking book)	1.5%	3.0%	0.5%
Bank-specific figures	**30.6.**	**31.12.**	**31.12.**
Own capital funds according to BWG/CRR	2,186.7	2,739.8	3,057.1
Own capital funds requirement	1,531.6	1,473.8	1,883.2
Surplus capital/shortage	655.1	1,266.0	1,173.9
Core capital (Tier 1)	776.9	1,808.3	2,022.1
Tier 1 ratio	4.1%	9.8%	8.6%
Total capital ratio	11.4%	14.9%	13.0%
Moody's rating	**30.6.**	**31.12.**	**31.12.**
Long-term (liabilities not covered by statutory guarantee)	withdrawn	withdrawn	withdrawn
Long-term (liabilities covered by statutory guarantee)	Caa1	A1	A1
Short-term	withdrawn	withdrawn	withdrawn
Bank Financial Strength Rating (BFSR)	withdrawn	withdrawn	withdrawn
Employees and locations	**30.6.**	**31.12.**	**31.12.**
Employees at closing date (Full Time Equivalent – FTE)	6,082	6,008	6,576
Employees average (FTE)	6,061	6,574	7,371
Number of locations	296	303	317

* Previous year's figures for the first halves of 2013 and 2012 were adjusted according to the change in the income statement at the end of 2013.

Interim Financial Report 2014

Interim Management Report

1. Overview of the first half of 2014

The start of 2014 was dominated by ongoing public debate on insolvency, which spread to the media in core countries in South-Eastern Europe. Due to the uncertainty caused by these discussions, there was a significant outflow of customer deposits at subsidiary banks.

The debate was only set aside in mid-March 2014 with the announcement by the Austria Federal Government of the further steps regarding the wind-down Hypo Alpe-Adria-Bank International AG. In compliance with the EU resolution from 3 September 2013, the SEE network is to be sold as soon as possible and the rest of the bank is to be transferred into a de-regulated company under private law. Moreover, it was announced that investors of subordinate and participation capital, the State of Carinthia and Bayerische Landesbank (BayernLB), should be involved in the restructuring of Hypo Alpe Adria.

In its attempts to implement these measures, the bank focussed intensively on preparations for the sale of the SEE network in the first half of 2014. This included the organisational implementation of Hypo SEE Holding AG (SEE holding), which acts as a holding company for the SEE subsidiary banks, and the performance of further portfolio transfers. These transfers serve to establish the saleability of SEE banks and are carried out by transferring non-performing loan portfolios to the remaining wind-down companies within the Hypo Alpe Adria group. In addition, the process of selling the SEE network that began in 2012 was continued. After orders were submitted both for individual parts of the banking network as well as the network as a whole in May 2014, the bank is currently in the process of negotiating with a number of different bidders.

In June 2014, the Austrian Council of Ministers resolved a legislative package concerning the implementation of the wind-down strategy determined in March and presented it to the national council (see 1.4 for more details). The package came into force on 1 August 2014, while the Austrian Financial Market Authority (FMA) issued a corresponding directive on 7 August 2014. The involvement of subordinate creditors stipulated by this legislative package (HaaSanG – Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG) became effective on this date.

Write-downs on the SEE network and the Italian subsidiary bank had a major negative effect on the group result for the first half of 2014; the recognition of these write-downs in the consolidated financial statements is due to the transfer (carve out) of these companies to the Federal Republic or rather companies belonging to the Federal Republic stipulated by the special legislation. The losses resulting from the planned carve outs had to be recognised in the consolidated financial statements as at 30 June 2014 in the form of provisions formed pursuant to IAS 37.

The losses resulting from the disposal of the SEE network on the consolidated financial statements for 2014 were already expected in the prior year, but were unable to be recognised in the consolidated financial statements at that time due to the specific accounting regulations of IFRS, whereas a large majority of the losses had to be already recognised in the separate financial statements of Hypo Alpe-Adria-Bank International AG under UGB/BWG as at 31 December 2013.

The loss-compensating effects of the entry into force of the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG) only applied once the law came into force in August 2014, which is why the temporary breach of regulatory requirements with regard to minimum capital and large exposures caused by the recognition of provisions for pending losses was only able to be compensated in August 2014.

1.1. Group result after tax for the period

After last year's negative group result which was largely affected by the implications of the EU restructuring plan, the group result for the first half of 2014 was also significantly negative. The group result after tax and before non-controlling interests amounted to EUR -1,663.5 million (1 January to 30 June 2013: EUR -859.8 million); after allowing for non-controlling interests, the result stands at EUR -1,673.0 million (1 January to 30 June 2013: EUR -869,5 million).

The greatest negative effects resulted from the recognition of provisions for losses from the planned transfers of SEE holding and the Italian subsidiary bank of EUR -1,440.7 million). The losses had to be recognised, as the legislative package resolved by the Council of Ministers in June had already come into force on the date on which the interim consolidated financial statements were prepared and it is necessary to dispose of both companies within the scope of the carve out in order to comply with the requirements of the Federal Law on the Creation of a Wind-Down Unit (GSA).

Excluding the aforementioned one-off effects from the carve outs that are currently being carried out, the result for the first half of 2014 stands at EUR -232.3 million and is therefore in line with expectations detailed in the EU restructuring plan for this period.

As a result of the implementation of the group's wind-down strategy, which permits new business in individual SEE subsidiary banks but only under extremely restrictive conditions, the operating result fell by a substantial margin once again in the first half of 2014 despite a fall in operating expenses.

Thanks to the systematic cost management policy, which has seen administrative and personnel costs fall by a considerable margin, lower income was able to be compensated to a certain degree.

1.2. Changes to the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG

On 20 December 2013, following the process of advertising the position, Alexander Picker was appointed new chairman of the Executive Board with effect from 1 January 2014.

Chief Risk Officer (CRO) Wolfgang Edelmüller announced on 10 January 2014 that he would resign as member of the Executive Board of Hypo Alpe-Adria-Bank International AG as at 28 February 2014. Upon the departure of Wolfgang Edelmüller, chairman of the Executive Board Alexander Picker assumed the function of CRO in an interim capacity. On 26 August 2014 the Supervisory Board of the Bank announces the appointment of Rainer Jakubowski as Chief Risk Officer per 15 September 2014.

On 4 February 2014, Ludwig Scharinger left the Supervisory Board. Klaus Liebscher resigned as Chairman of the Supervisory Board as at 21 February 2014. With effect from 23 May 2014, the remaining members of the Supervisory Board of Hypo Alpe-Adria-Bank International AG, comprising Deputy Chairman Rudolf Scholten, Helmut Draxler, Alois Steinbichler and Adolf Wala, resigned. At the extraordinary shareholders' meeting held on the same day, the shareholder, the Republic of Austria, represented by the Federal Ministry of Finance, appointed Herbert Walter, Wolfgang Hartmann, Christine Sumper-Billinger, Regina Friedrich and Alois Hochegger to the Supervisory Board of Hypo Alpe-Adria-Bank International AG. The term of the Supervisory Board has initially been set at the term of the previous Supervisory Board, which runs until the end of the general shareholders' meeting in the 2015 financial year. In the constitutive meeting of the Supervisory Board on 3 June 2014, the Supervisory Board appointed Herbert Walter as Chairman and Wolfgang Hartmann as Deputy Chairman.

1.3. Capital measures of the Republic of Austria

The Republic of Austria, as the bank's sole shareholder, resolved a capital measure of EUR 750.0 million at the general shareholders' meeting on 9 April 2014, which was carried out in April 2014. This primarily served to eliminate the capital shortage resulting from the negative result as at 31 December 2013.

With the creation of a de-regulated, wind-down company under private law, Hypo Alpe-Adria-Bank International AG will no longer be subject to equity requirements applicable to credit institutions.

1.4. Legislative package for the winding-down of Hypo Alpe Adria

On 18 March 2014, the Austrian Federal Government reached a decision regarding the continued winding-down of Hypo Alpe-Adria-Bank International AG. Based on this decision, the SEE network is to be sold as quickly as possible and the remaining bank is to be transferred to a de-regulated company under private law, which should be wind down in individual value maximising parts. It was also made clear that is essential to involve the bank's providers of subordinated and participation capital in the solution, initiate negotiations regarding a settlement with the Bayerische Landesbank and the Free State of Bavaria and to commit the State of Carinthia to substantial contribution regarding the wind-down.

On 11 June 2014, the Council of Ministers agreed on a legislative package to wind-down Hypo Alpe Adria; this package included the Federal Law on the Creation of a Wind-Down Unit (GSA), the Federal Law incorporating a federal Wind-Down holding company for HYPO ALPE-ADRIA-BANK S.P.A. (HBI-Bundesholdinggesetz), the Federal Law incorporating a federal Wind-Down (public limited) company (ABBAG-Gesetz) and the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG) and amending the Law on financial market stability (FinStaG) and the Law on the Financial Market Supervisory Authority (FMABG).

This legislative package was passed by the National Council on 8 July 2014 and by the Federal Council on 24 July 2014. After being signed by the Federal President, the laws were published in Austria's Federal Law Gazette on 31 July 2014 and entered into force on 1 August 2014.

1.5. Withdrawal of participation capital

With the resolution of the general shareholders' meeting of Hypo Alpe-Adria-Bank International AG of 23 May 2014, the Executive Board is authorised according to section 103q (14) BWG in conjunction with section 26b (2) sent. 2 BWG to withdraw, with the approval of the Supervisory Board, participation capital issued from the company in full or regarding individual issues of participation capital or separate tranches defined already at the issue, while guaranteeing equal treatment of the parties eligible, up to and including 31 December 2015. The Executive Board resolved on 7 July 2014 to exercise its authority and to withdraw participation capital issued by the company in part, meaning to withdraw the total participation capital of 2009 – which was not subscribed to in accordance with the Law on financial market stability (FinStaG) – with a nominal value of EUR 64,428,867.95 (after reduction by resolution of the general shareholders' meeting of 30 May 2011), for cash consideration of zero with approval from the Supervisory Board. The Supervisory Board approved the redemption with its resolution of 8 July 2014. This requires approval from the Austrian Financial Markets Authority (FMA). Application for approval was submitted to the FMA on 24 July 2014. Moreover, the respective court appointed a court withdrawal auditor in mid-July to audit the withdrawal plan drawn up by the Executive Board, in particular the reason stated in accordance with section 26b (4) BWG regarding the defined appropriate cash consideration for the eligible parties, taking into account the terms of the respective participation capital. The court withdrawal auditor has confirmed in the mean time the resolved cash consideration of zero as appropriate. The necessary documents were submitted to the commercial register one month prior to the resolution regarding the withdrawal and a notice relating to the intended redemption was duly published. After providing the necessary documentation for inspection by the shareholder and the holders of the participation capital, and after receiving approval from the FMA, it is planned that the participation capital is withdrawn accordingly. The resolved authorisation to withdraw the capital should be viewed in relation to the difficult capital situation of Hypo Alpe-Adria-Bank International AG in 2014, as this measure will provide a positive effect on the regulatory, eligible core capital without the need for additional funds to be provided by the shareholder.

1.6. Privatisation activities

The bidding process for Hypo Alpe Adria's bank network in South-Eastern Europe (SEE network) initiated in the fourth quarter of 2012 was continued in the first half of 2014. The deadline for the submission of tenders was set at mid-May 2014. Tenders were received both for individual subsidiaries as well as for the newly created Hypo SEE Holding AG (SEE-Holding) with its six subsidiary banks in five countries. After analysis of the received tenders, negotiations are now being held with several bidders, while the bidders carry out their confirmatory due diligence at the same time.

The ongoing sales activities regarding some material hotel holdings are developing contrary to expectations due to the delays in the signing of the contracts.

On 26 March 2014, another milestone was reached in reducing the investment portfolio of Hypo Alpe Adria with the signing of a contract with a Dutch company for the sale of 100% of the shares in the Ukrainian leasing company. The transaction was closed on 26 May 2014.

1.7. Organisational changes at Hypo Alpe-Adria-Bank International AG

As a result of the reprivatisation of the SEE banks determined by the European Commission's restructuring plan, coupled with the implementation of legal requirements concerning the winding-down of Hypo Alpe Adria, there is major need to restructure the group parent company Hypo Alpe-Adria-Bank International AG. The systematic separation of continuation and wind-down portfolios that has been pursued at subsidiary level over the past few years was followed by the legal implementation of the bundling of banking units in South-Eastern Europe earmarked for privatisation under Hypo See Holding AG (SEE holding) in the first quarter of 2014. In the second quarter of 2014, these activities were combined with the "Save the Taxpayer" (STP) project initiated by the owner focussed beside the establishment of the SEE holding on splitting off the Italian subsidiary bank and de-regulating Hypo Alpe-Adria-Bank International AG. Key milestones, such as the application for a banking licence from the Federal Market Authority (May 2014) and the transfer of key personnel to SEE holding (August 2014), have already been reached. The plan moving forward is based on the prompt issuance of a banking licence for SEE holding and the transfer (carve out) of both SEE holding and the Italian subsidiary bank in the fourth quarter of 2014. Once these measures are complete, legal requirements for the creation of a wind-down unit will have been complied with and a framework will have been created for the sale of the South-Eastern Europe banking network in accordance with the plan.

1.8. Portfolio transfers

Since 2011, comprehensive portfolio transfers have been carried out in Slovenia, Bosnia and Herzegovina, Montenegro, Croatia, Austria and Italy to make the reprivatisation of the marketable units easier.

In Serbia, the portfolio transfers started in 2013 were completed in the first half of 2014; the portfolio which was affected by the transfer was around EUR 0.1 bn. Moreover, additional portfolio transfers are planned in the second half of the year in Bosnia and Herzegovina for around EUR 0.15 bn, which are currently being prepared. In those countries where portfolio transfers have been synthetic (Bosnia and Herzegovina, Croatia, Slovenia), transactions are currently underway which involve the legal transfer of the underlying assets in the form of a "true sale". The purpose of these sales is to facilitate the handling and settlement of the financing cases, whereby the opportunities and risks arising from the underlying portfolios have already been passed on to the wind-down units through the synthetic transfer.

The sale process of non-performing retail and SME portfolios in Serbia, Croatia, Montenegro and Slovenia, which began in the last quarter of 2013, was continued. In August a sales contract was signed with an investor specialised in the collection of receivables for a portfolio of around EUR 169 million. The transaction is expected to be concluded in the next few weeks. The reduction of the NPL portfolios is expected to make it easier to sell the SEE network.

1.9. Investigation of the past

Since its introduction as part of the line organisation of Hypo Alpe-Adria-Bank International AG, the Forensics department has been concerned with in-depth forensic investigations of the past – especially a determination of the causes of the sudden loss of value. The department reports directly to the Executive Board and the representatives of the Republic of Austria and manages the task of investigating and working through the past both within Austria and abroad. It focuses on protecting, preparing and describing the results of forensic investigations. By 30 June 2014, a total of 88 cases (120 individual cases) in Austria and abroad had been reported to the relevant public prosecutors with total damages amounting to approximately EUR 1.4 bn. In addition, seven civil law suits against former senior executives and third parties are currently pending before the civil courts in Austria, in which claims for around EUR 109 million are being asserted.

In the first half of 2014, the Forensics department continued to focus on the following major sets of issues: “BayernLB”, “Consultants” and “Liechtenstein” as well as forensic investigations of the international subsidiaries, in particular Bulgaria and Italy. In addition, progress was made in the active search for assets and their recovery (asset-tracing), network analysis and options for utilising forensic expertise. The ongoing forensic investigations into the Alpe-Adria Privatbank (AAP) in liquidation in Liechtenstein are likewise of considerable relevance and also feed into the ongoing official investigations.

To date, the findings made in the course of forensic investigations into the past and the statements of fact that could be derived from those investigations have resulted in 13 convictions, of which six are binding judgements with prison sentences of multiple years. The direct and indirect return flows represent an amount in the three-digit millions and hence clearly balance out the costs allocated to this area. The data material secured and organised so far includes around 6.5 million documents and is processed with specialised software and made available to the various stakeholders, public prosecutors, Federal Criminal Police Office, the ministry of finance, auditors, the Austrian Attorney General’s office and other recipients according to the applicable rules and regulations for their respective purposes. The forensic structures established in the subsidiaries also make a major contribution to this.

1.10. Italian subsidiary bank

In 2013, the subsidiary bank in Italy was confronted with the fact that long-running interest rate adjustment clauses in leasing agreements were applied incorrectly to the disadvantage of the lessee, resulting in higher obligations for customers. These cases applied to corporate/SME leasing clients; retail customers were not affected. Hypo Alpe Adria initiated the requisite internal investigations to clarify the facts immediately upon being informed of the matter; these investigations resulted in criminal charges being brought, investigations by the local financial police and the Italian regulatory authorities as well as personnel and organisational consequences. The public prosecutors of Udine are currently investigating the case. The cases handled by the specially dedicated task force already led to the repayment of the majority of the incorrectly stated interest. By the end of 2013, external experts had revealed other minor cases of malversation during recent investigations; compensation of affected customers was immediately initiated. The repayment of all incorrectly retained amounts was largely completed in the first half of 2014.

In 2014, all members of the bodies of the subsidiary bank in Italy were newly appointed. The business development of the company is generally characterised by the wind-down due to the EU decision, the poor economic situation in Italy and also the effects of a faster expected sale of non-performing loans and financial securities. As part of the continued wind-down of Hypo Alpe Adria and in accordance with the fulfilment of special law requirements, the Italian subsidiary bank is to be spun off and transferred to the newly established HBI-Bundesholding AG (carve out).

1.11. EU state aid investigation

The Hypo Alpe Adria EU state aid investigation was brought to a conclusion in September 2013 on the basis of the final decision by the European Union (European Commission). The basis for the decision of the European Commission communicated on 3 September 2013 was the restructuring plan of Hypo Alpe Adria announced at the end of June 2013.

The bank is required to comply with the rules for new business included in the restructuring plan until reprivatisation. In addition, the reprivatisation of the banks of the SEE network is scheduled by mid-2015. The conclusion (closing) of the sale of the Austrian subsidiary bank, which had been scheduled prior to mid-2014 according to the plan, was already completed in 2013. The Italian subsidiary bank was also allocated to the wind-down segment as at 1 July 2013. Observance of the restructuring plan and the “behavioural measures” imposed for the SEE network until reprivatisation will be monitored by an independent monitoring trustee.

1.12. Joint Risk Assessment & Decision Process (JRAD)

Within the context of the Joint Risk Assessment & Decision Process ("JRAD") initiated by the regulatory authorities in 2011, Hypo Alpe Adria was required to achieve a minimum total capital ratio and ensure that the deficit between the expected losses in the area of credit risk and total risk provisions (shortfall) is covered as at the implementation date.

Hypo Alpe Adria received the decision on the JRAD investigation (JRAD III) conducted in 2013. At a consolidated level, it was stated that the FMA regards the capital requirements set out in JRAD II for Hypo Alpe Adria as adequate. This means that an equity ratio of 12.40% and the covering of the shortfall (risk provision minus expected losses (EL)) must continue to be guaranteed until deregulation.

1.13. Equity-substitution loans from BayernLB

At the end of 2012, former majority shareholder of Hypo Alpe-Adria-Bank International AG, BayernLB, sought a declaratory judgement from the Munich I regional court in relation to the financing lines, which in the view of Hypo Alpe Adria are subject to the EKEG and may therefore neither be serviced by interest payments nor redeemed until further notice. Hypo Alpe-Adria-Bank International AG submitted a comprehensive statement of defence against the application and contested the order sought in its entirety.

BayernLB has since converted the claim as one for payment. The last verbal negotiation took place on 30 June 2014 and the proceedings are expected to continue in autumn 2014.

Hypo Alpe-Adria-Bank International AG had also made repayments from August 2008 until knowledge of the existence of the conditions for a repayment ban under the Equity Substituting Capital Act on refinancing lines of BayernLB, which were subsequently recognised as substituting for equity. Based on the Equity Substituting Capital Act Hypo Alpe-Adria-Bank International AG is therefore entitled to claim these payments back from BayernLB. In order to avert the threat of lapse of time, Hypo Alpe-Adria-Bank International AG was compelled to judicially enforce the respective repayments it had made by means of counterclaim in the proceedings named above against BayernLB in Munich. A total amount of around EUR 3.4 bn is actively being sought at present.

1.14. Proceedings regarding the involvement of former shareholders

On 21 March 2012, Hypo Alpe-Adria-Bank International AG filed a suit against original shareholders HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS), HYPO-BANK BURGENLAND Aktiengesellschaft, Kärntner Landes- und HypothekenbankHolding and B & Co BeteiligungsgmbH as well as a total of nine former Executive and Supervisory Board members (so-called "Special Dividend/Consultants" civil suit). The sum in dispute is EUR 50.1 million, of which EUR 50.0 million is for demands for performance of obligations and EUR 0.1 million for declaratory relief. The claims made relate to what Hypo Alpe-Adria-Bank International AG considers the undue distribution of a disproportionate special dividend to the abovementioned shareholders in 2008 for the 2007 financial year.

In a submission dated November 2012, one of the joint defendants, B & Co BeteiligungsgmbH, filed a counterclaim during the proceedings for EUR 250.0 million due to assumed deception when acquiring shares relating to a Hypo Alpe-Adria-Bank International AG capital increase in 2006 to be offset against the claim (and up to that amount); the company also addressed this purported claim out of court. Hypo Alpe-Adria-Bank International AG does not believe this counterclaim to be valid.

The preliminary hearings of the proceedings took place in the first quarter of 2014 and evidence taking started in spring 2014 and will be continued in autumn 2014. In July 2014, settlements of around EUR 19 million (around 75% of the disputed sum) to Hypo Alpe-Adria-Bank International AG in connection with the first defendant and second defendant old shareholder, and two former members of executive bodies were agreed. The proceedings will be continued against the remaining defendants with a limited claim of around EUR 27 million.

1.15. Rating

Hypo Alpe Adria withdrew its institutional rating in November 2011. All state and federally guaranteed bonds as well as the covered bond ratings remain unaffected by this step and will continue to be rated.

In terms of rating action in the first half of 2014, prolonged discussion on possible insolvency scenarios and possible loss sharing by creditors as well as uncertainties connected with this concerning the continuance of the bank as a going concern caused Moody's to downgrade the Guaranteed Debt Ratings on 14 February 2014. As part of this rating action, Moody's reduced the Guaranteed Senior Unsecured Debt Rating from A1 to Baa2 and the Guaranteed Subordinated Debt Rating from A2 to Baa3, both ratings with a review for further downgrade. Subsequently in a separate rating action on 24 February 2014 the rating for Guaranteed Public Sector Covered Bonds was reclassified from AAA to Aa2 with "review for downgrade" and the rating for Unguaranteed Public Sector Covered Bonds was reclassified from Aa2 to A3 with "review direction uncertain."

On 6 March 2014, Moody's changed its rating for bonds with a guarantee from the Republic of Austria from "Aaa – outlook negative" to "Aaa – outlook stable". This amendment was a consequence of the corresponding adjustment of the rating of the Republic of Austria that had occurred previously.

Due to several media announcements by the Federal Government that investors are to participate in the wind-down costs of the bank, Moody's downgraded the Guaranteed Subordinated Debt Rating from Baa3 to B3 to a non-investment grade in its recent rating action of 23 May 2014. In addition, the Guaranteed Senior Unsecured Rating was reduced from Baa2 to Ba1. In a separate rating action of 27 May 2014, the Guaranteed Public Sector Covered Bonds Rating was also downgraded from Aa2 to A1 with "review for downgrade".

Following the publication of the legislative package for the continued wind-down of Hypo Alpe Adria, which included a concrete description of the interest of investors, Moody's again lowered the rating for Subordinated Debt from B3 to Ca (for bonds maturing after 30 June 2019) and C (for bonds maturing before 30 June 2019) on 20 June 2014. The Guaranteed Senior Unsecured Rating was also reduced from Ba1 to Caa1 (negative). In connection with this, the Guaranteed Public Sector Covered Bonds Rating was reduced from A1 to Baa3 and the rating for Unguaranteed Public-Sector Covered Bonds was downgraded from A3 to Baa3.

On 22 August 2014, Fitch rating agency confirmed its AAA rating for Hypo Alpe Adria's guaranteed public sector bond with a nominal value of EUR 1.0 bn (term 2012 to 2022).

Information on the individual ratings as well as all associated Moody's publications is published on the group's website (www.hypo.alpe.adria.com) in the Investor Relations section.

2. Economic development of the group

2.1. Development of results

The first half of 2014 at Hypo Alpe Adria was shaped by the implementation of the wind-down strategy defined by the approved EU restructuring plan, which was specified by the resolution of the Austrian Federal Government in March 2014 concerning the manner in which the bank is to be wound-down. Preparation for the sale of marketable units in SEE countries and the establishment of a holding company in Austria was continued according to plan. Preparations are also ongoing for the pending transfer of the rest of the bank into a de-regulated company under private law, which is set to be completed before the end of the year.

The legislative package that came into force on 1 August 2014 stipulates as a condition for de-regulation that Hypo Alpe-Adria-Bank International AG may not have qualifying participations, either directly or indirectly, as defined by the CRR in a credit institution or investment firm. Therefore, the Italian subsidiary bank, Hypo Alpe-Adria-Bank S.p.A., Hypo SEE Holding AG, the holding company for marketable units, including their banking units must be split off from the group (carve out).

In this respect, provisions for impending losses pursuant to IAS 37 of EUR 1,440.7 million had to be recognised as expenses as at 30 June 2014 due to the absence of any alternative options; these provisions resulted from the difference between the net asset values of the aforementioned companies and the estimate of the anticipated sales prices for the transfer to the Federal Government or rather HBI-Bundesholding AG as provided for in the legislative package.

Within the scope of the valuation of loans and other bank assets, additional risk provisions were formed at the SEE units and for loans and advances to customers in wind-down units. Further negative effects came from the Italian subsidiary bank, which once again made a negative contribution to the group result.

With operating expenses declining year on year and operating income substantially negative, the aforementioned effects meant that the group result after taxes came in at EUR -1,663.5 million (1 January to 30 June 2013: EUR -859.8 million).

The group's net interest income declined from EUR 228.0 million to EUR 173.1 million (-24.0%) as a result of a further decline in interest-bearing assets due to the natural maturing of portfolios and the low market interest rate. This trend, which has been observed for years now, is being intensified by EU restrictions on new business and is having a particular effect on South-Eastern Europe. Besides a reduction in regular interest income, the so-called "unwinding" effect that results from increasing the net present value of net receivables of non-performing loans (NPL) over time also decreased. The expenses from the guarantee commission for the state-guaranteed subordinate bond issued in December 2012 of EUR 1.0 bn are also recognised in net interest income in the amount of EUR -26.4 million.

Net interest income
in EUR m

Net fee and commission income, which contributed approximately EUR +24.9 million to the result for the same period the previous year, fell in the first half of 2014 by EUR -3.9 million to EUR +21.0 million.
Gains from financial instruments not recognised at fair value through profit or loss increased from EUR +1.4 million to EUR +7.5 million. The lion's share (EUR +5.8 million) was attributed to the result from afs (available for sale) financial investments.

The trading result remained relatively stable and stood at EUR +7.2 million (1 January to 30 June 2013: EUR +7.4 million). The group's trading activities remained extremely restricted.

The result from hedge accounting, which derives from hedge inefficiencies, was marginally positive at EUR +1.7 million (1 January to 30 June 2013: EUR -3.8 million).

The result from financial investments designated at fair value through profit or loss (fair value option) amounted to EUR +39.6 million (1 January to 30 June 2013: EUR -5.8 million) and increased by EUR +45.4 million in the first half of 2014. This positive effects was largely the result of the adjustment of the bank's own credit spread due to the change in the market situation in relation to the decision on the further wind-down of Hypo Alpe-Adria-Bank International AG announced by the Austrian Federal Government, while the measurement recognised in the fair value option of the portfolio of investment company HBInt. Credit Management Limited which Hypo Alpe-Adria-Bank International AG manages together with a third-party investor came to EUR 4.0 million.

The operating result from investment properties, which amounted to EUR +15.0 million in the same period the previous year (adjusted), stood at EUR +10.4 million in the first half of the financial year. This decline was the result of a fall in rental income and a rise in other expenses.

The other operating result declined from EUR -141.5 million (adjusted) to EUR -1,454.1 million year on year (adjusted). This item includes provisions for impending losses anticipated in relation to the planned transfer of holdings to the Federal Government or rather to HBI-Bundesholding AG as provided for in the legislative package (transfer).

The impairment of financial assets of EUR -246.4 million in total was largely attributed to the impairment of financial assets valued at cost (risk provisions on loans and advances).

These newly formed risk provisions on loans and advances remain high at EUR -245.1 million (1 January to 30 June 2013: EUR -623.0 million). Problem portfolios continued to be wound down, however the tough economic climate in core markets is making it increasingly difficult to liquidate collaterals or it is only possible at short notice with corresponding haircuts. At SEE banks, further portfolio rationalisation was necessary to ensure that the banks could be privatised quickly, for example the portfolio transfer in Serbia that began in 2013 reaching a conclusion.

A total of EUR -1.4 million is attributed to impairments on afs financial assets (1 January to 30 June 2013: EUR -1.9 million).

The impairment on non-financial assets stood at EUR -24.0 million, significantly down year on year from EUR -110.5 million (adjusted).

Risk provisions
in EUR m

On the cost side, operating expenses fell by EUR -14.3 million year on year, from EUR -218.6 million to EUR -204.3 million.

Personnel expenses declined by EUR -3.1 million, from EUR -107.2 million to EUR -104.1 million, which was mainly the result of the decline in the group's average workforce. Administrative expenses declined substantially by EUR -5.6 million year on year to EUR -83.9 million. Depreciation and amortisation on tangible and intangible assets fell year on year to EUR -16.3 million (1 January to 30 June 2013: EUR -21.8 million).

In total, negative operating income amounting to EUR -1,193.6 million (1 January to 30 June 2013: EUR +125.7 million) – which was particularly affected by the formation of provisions totalling EUR -1,440.7 million for the disposal of the Italian subsidiary bank and the SEE network – was offset by impairments of EUR -270.4 million (1 January to 30 June 2013: EUR -735.4 million) and operating expenses of EUR -204.3 million (1 January to 30 June 2013: EUR -218.6 million). This resulted in an operating result of EUR -1,668.3 million. (1 January to 30 June 2013: EUR -828.4 million)

Taxes on income amounted to EUR +4.8 million in the reporting period (1 January to 30 June 2013: EUR +62.7 million). While tax effects from the Italian subsidiary bank had a positive influence on this item in the previous year, the first half of 2014 saw no material one-off effects.

The result for the period after tax from continued operation was negative at EUR -1,663.5 million (1 January to 30 June 2013: EUR -765.6 million), equating to a result for the period after allocating the share in the results attributable to non-controlling interests in the group of EUR +9.5 million (1 January to 30 June 2013: EUR +9.7 million), as there was no result from discontinued operations in the first half of 2014 (1 January to 30 June 2013: EUR -94.1 million).

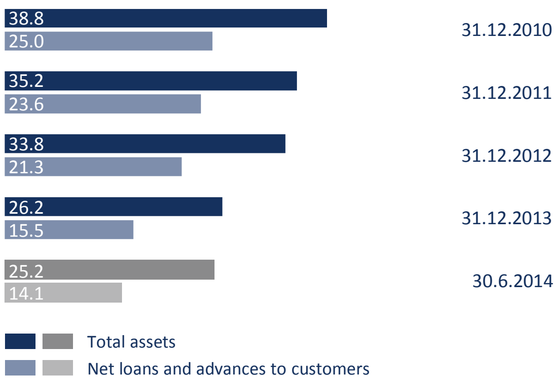
2.2. Statement of financial position

With total assets of EUR 25.2 bn as at 30 June 2014, Hypo Alpe Adria is EUR -18.1 bn down on the record level of EUR 43.3 bn reached as at 31 December 2008. As a result, just under 41.8% of the original business volume has already been reduced. In the first half of 2014, total assets fell from EUR 26.2 bn to EUR 25.2 bn.

The decline in total assets was the result of the scheduled repayment of liabilities, restrictions imposed on new business at units operating in SEE markets, the reduction of portfolios as a result of the wind-down of the remainder of the bank and write-downs on assets and risk provisions. Cash and balances increased by approximately EUR +0.6 bn to EUR 2.9 bn, while loans and advances to credit institutions came to EUR 1.8 bn (decline of approximately EUR -0.3 bn or -14.8% against 31 December 2013).

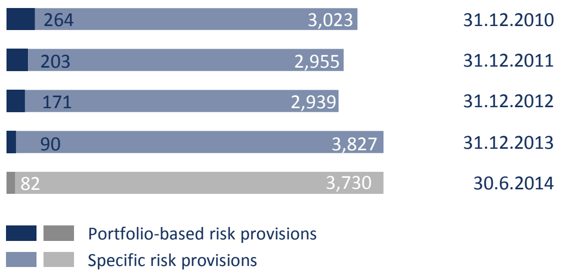
On the assets side, gross loans and advances to customers fell by roughly EUR -1.5 bn to EUR 17.8 bn. In net terms (gross loans and advances after consideration of risk provisions on loans and advances), there was a decline of approximately EUR -1.4 bn from EUR 15.5 bn to EUR 14.1 bn (-9.0%).

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



The level of risk provisions on loans and advances, which stood at EUR 3.9 bn as at 31 December 2013, remained at EUR 3.8 bn as at 30 June 2014. Net allocations of EUR 0.2 bn carried out in the first half of 2014 resulted in a corresponding rise in risk provisions, although the use of risk provisions overcompensated for this increase.

Development of risk provisions on loans and advances
in EUR m



Compared with year-end 2013, derivative financial instruments, which, on the assets side, include positive fair values from derivative transactions, were largely unchanged at EUR 1.1 bn.

Financial investments designated at fair value through profit or loss (FVO) remained at EUR 0.5 bn in the reporting period.

The total value of financial assets available for sale (afs) declined in the reporting period from EUR 2.4 bn to EUR 2.3 bn, largely as a result of reduced holdings of debt instruments and fixed-interest securities.

Investment properties remained unchanged at EUR 1.1 bn compared to 31 December 2013. The value of tangible and intangible assets stayed constant at EUR 0.3 bn.

Tax assets as at 30 June 2014 came to EUR 0.1 bn (31 December 2013: 0.1 bn).

The assets available for sale include those assets that should be reduced in line with the group's strategy by means of sales processes and that fulfil the criteria of IFRS 5. In the 2014 financial year, these included two hotel holdings available for sale in Croatia, the assets and liabilities of a Serbian service provider, which has so far provided internal group IT services, and the retail portfolios that are available for sale.

On the liabilities side, liabilities to credit institutions decreased from EUR 4.6 bn to EUR 4.3 bn in the first half of 2014.

Liabilities to customers fell by EUR -0.4 bn from EUR 6.1 bn to EUR 5.7 bn in the first half of 2014. This effect was largely due to the Italian subsidiary bank, which was allocated for winding-down in 2013, as well as the public debate on insolvency in the first half of 2014 that led to an outflow of deposits in South-Eastern Europe. Liabilities evidenced by certificates fell by EUR -0.9 bn from EUR 10.4 bn to EUR 9.5 bn in the reporting period. Provisions rose to EUR 1.6 bn above all as a result of the aforementioned requirement for provisions for the carve out of the Italian subsidiary bank and the SEE network.

Subordinated capital remained constant in the reporting period at approximately EUR 2.0 bn as the effects of the special legislation (Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG) that came into force as at 30 June 2014 was not to be taken into consideration.

The change in equity in the first half of 2014 was due to the capital increase of EUR 0.75 bn carried out in April as well as the loss generated in the reporting period of EUR -1.67 bn. In total, equity fell from EUR 1.9 bn to EUR 0.9 bn, with EUR 0.4 bn attributable to the owners of the parent company.

2.3. Own capital funds

As at 1 January 2014, the bank switched the method by which it calculates equity and determines minimum regulatory requirements (RWA) from Basel II to Basel III.

IAS/IFRS are now used as accounting standards to determine group equity. In addition, stricter regulations concerning the recognition of core Tier 1 capital also apply. In Tier 1, non-controlling interests (known as "minority interests") and non-state participation capital are being successively "phased out". In relation to Tier 2 capital, the previous cap no longer applies, which means that any Tier 2 components not previously able to be recognised (particularly the subordinated bond of EUR 1.0 bn issued in 2012) can now be recognised in full. As a result, the effect of the loss of non-CRR-compliant Tier 2 equity components is more than compensated for. According to CRR, Tier 3 no longer applies. Therefore, the switch from Basel II to Basel III resulted in a reduction in Tier 1 capital as well as a rise in total equity due to the recognition of all available Tier 2 capital.

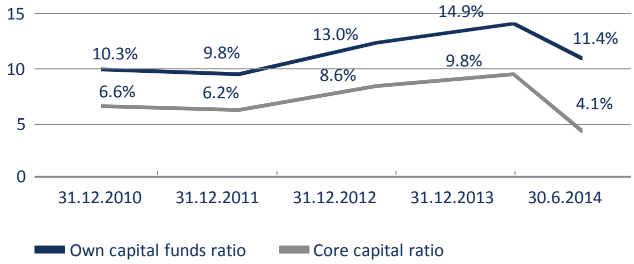
In April 2014, the Republic of Austria, as the owner of the bank, performed a share capital increase of EUR 0.75 bn. Despite this capital injection and the rise in supplementary capital eligible for recognition, the consideration of the losses in the first half of 2014 led to a decline in equity and a breach of the core equity ratio of 5.5%. As at 30 June 2014, total own capital funds under CRR stood at EUR 2.19 bn (31 December 2013: EUR 2.74 bn), while the minimum legal requirement was EUR 1.53 bn (31 December 2013: EUR 1.47 bn). However, the core capital ratio of 4.1% stood at roughly EUR 0.3 bn, below the minimum legal requirement.

As at 30 June 2014, risk-weighted assets (RWAs) of the credit risk (banking book) remained unchanged compared to 31 December 2013 at EUR 16.6 bn. While a major portfolio reduction in the first half of the year led to a corresponding decline in RWAs, the conversion from Basel II to Basel III offset this effect. One factor is the new definition of "defaulted receivables", which is no longer based on 90 days of default on individual accounts, rather classifies the entire customer as having defaulted.

In consideration of market risks, operational risk and counterparty default risk in relation to open derivative positions ("CVA"), risk-weighted assets rose from EUR 18.42 bn (31 December 2013) to EUR 19.15 bn (30 June 2014). It is therefore evident that the reduction in RWAs in terms of credit risk in this period was fully compensated by Basel III effects.

The total capital ratio in relation to the total capital assessment basis (including market and operational risk) may stand at 11.4% and therefore above the minimum legal requirement of 8.0%, but the core capital as at 30 June 2014 was below the minimum legal threshold of 5.5% at 4.1%. With regard to the compensatory effects from the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG anticipated in the third quarter of 2014, which are set to lead to a return to compliance with legal regulations, please refer to Note (1) Important events in the interim consolidated financial statements.

Change in own capital funds and core capital ratio
in percent



As at 30 June 2014, Hypo Alpe-Adria-Bank International AG has a total equity ratio of 13.1% at the level of the individual institution as a result of the removal of the cap on Tier 2 capital, however due to the recognition of impairment losses, particularly in relation to Hypo Alpe-Adria-Bank S.p.A., Udine, and the SEE network, the Tier 1 equity ratio comes in at 1.5%, below the minimum requirement of 5.5% The aforementioned effects from the first-time application of Basel III regulations – particularly those concerning the new definition of default and the CVA effect – also mean that the Tier 1 basis, which was strengthened by the capital increase, has also been reduced by the recorded losses and Basel III phase-out regulations for non-state participation capital.

2.4. Key profit indicators

The cost/income ratio, which shows the ratio of operating expenses to operating income, is not relevant as at 30 June 2014, as operating income was negative in the reporting period (1 January to 30 June 2013: 174%).

The risk/earnings ratio fell during the reporting period to 141.6% (1 January to 30 June 2013: 273.3%) after one-off effects relating to the EU restructuring plan in the interim financial statements for 2013.

Risk/earnings ratio (credit risk/net interest income)
in percent

3. Outlook for the second half of 2014

The interim consolidated financial statements as at 30 June 2014 are the last showing Hypo Alpe Adria as an entire group, since according to the Federal Law on the Creation of a Wind-Down Unit (GSA), Hypo will be separated into three organisationally completely independent parts during the second half of 2014. The Italian subsidiary bank and the SEE bank network will be separated from Hypo Alpe-Adria-Bank International AG, while the remaining part of Hypo Alpe Adria will be newly organised and will concentrate on the wind-down.

In accordance with the Federal Law on the establishment of a state-owned holding company for HYPO ALPE-ADRIA-BANK S.P.A. (HBI-Bundesholdinggesetz), the Italian subsidiary bank is to be managed as a direct subsidiary of HBI-Bundesholding AG and – in line with the decision by the European Commission in 2013 – will continue to wind down its portfolio as a credit institute.

Major progress has already made in the reprivatisation process concerning the sale of the bank network in South-Eastern Europe, including the domestic holding, (SEE network) after years of preparation. Besides final preparatory measures, such as performing portfolio transfers, obtaining a banking licence and operational setting up the holding company Hypo SEE Holding AG (SEE Holding), the bidding process has already reached an advance stage, meaning that the complete disposal of the SEE network is expected by mid-2015 and within the time frame set down by the European Commission. In accordance with the GSA, before a sale to a third-party investor, the SEE network must be transferred to the Republic of Austria in order to allow the de-regulation of Hypo Alpe-Adria-Bank International AG before the end of 2014.

The previous parent company, Hypo Alpe-Adria-Bank International AG, will no longer be in possession of a banking licence as part of the obligatory de-regulation process and is intended to function as a holding company for the wind-down units. In order to do so, the portfolio is to be liquidated in an orderly, active and optimum fashion to achieve the aims set out in the special legislation and to minimise the burden on the taxpayer. This portfolio wind-down process is to take place according to the wind-down plan defined in the GSA as a key management parameter on which development work will continue into the second half of 2014. The Executive Board committee will also be reshuffled in accordance with the outcome of the selection process so that it is able to take on the tasks of the new organisation.

In the second half of 2014, work will continue on winding down assets alongside the implementation of organisational changes. As explained in the group management report as at 31 December 2013, this portfolio wind-down process in operating business is expected to lead to further losses, as the income generated from the portfolio will not be able to cover the incurred costs.

The sale of the shares in the Italian subsidiary bank and the SEE network as stipulated by law could also lead to effects indirectly or directly to the Republic of Austria as the respective transfer prices have not yet been finalised. Any possible differences between the expected sales revenue recognised in the consolidated interim financial statements as at 30 June 2014 and the final sales revenue will therefore impact the future group result.

The result for the second half of 2014 will also be affected by the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG), which came into force on 1 August 2014 and provides for the distribution of losses among certain subordinated creditors and the Bayerische Landesbank (BayernLB). Under this law and the directive of the Federal Market Authority (FMA) issued on 7 August 2014, bank liabilities totalling EUR 1.6 bn were declared expired (at book value) and are to be de-recognised in the third quarter of 2014. In terms of the group income statement in the second half of 2014, the bank therefore expects major positive effects that should compensate for a large portion of the losses recorded in 2014. Certain subordinated creditors and BayernLB have announced their intentions to take legal action against this special legislation, they believe that it is in breach of the constitution and EU law. In this respect, we refer to risks for Hypo Alpe Adria that could affect future profit and loss and therefore the development.

All in all, Hypo Alpe Adria still finds itself within the restructuring plan approved by the European Commission and the state aid defined by it, even in consideration of the negative one-off effects. Moving forward, the remainder of the group will focus on the swift wind-down of the financing portfolios built up in the years prior to the nationalisation

Interim Financial Report

as at 30 June 2014
for Hypo Alpe-Adria-Bank International AG

I. Group statement of comprehensive income

Income statement

EUR m

	Note	1.1. - 30.6.2014	1.1. - 30.6.2013*
Interest and similar income	(8)	467.5	592.9
Interest and similar expenses	(9)	-294.4	-365.0
Net interest income		**173.1**	**228.0**
Fee and commission income	(10)	39.5	46.7
Fee and commission expenses	(11)	-18.6	-21.8
Net fee and commission income		**21.0**	**24.9**
Gains and losses from financial instruments not measured at fair value through profit and loss	(12)	7.5	1.4
Result from trading		7.2	7.4
Result from hedge accounting		1.7	-3.8
Result from fin. investments – designated at fair value through profit or loss	(13)	39.6	-5.8
Operating result from investment properties	(14)	10.4	15.0
Other operating result	(15)	-1,454.1	-141.5
Operating income		**-1,193.6**	**125.7**
Impairment of financial assets	(16)	-246.4	-624.9
thereof financial assets – at costs (risk provision)		-245.1	-623.0
thereof financial assets– available for sale		-1.4	-1.9
thereof financial assets – held to maturity		0.0	0.0
Impairment of non financial assets		-24.0	-110.5
Operating income after impairment		**-1,464.0**	**-609.8**
Personnel expenses		-104.1	-107.2
Other administrative expenses	(17)	-83.9	-89.5
Depreciation and amortization on tangible and intangible assets		-16.3	-21.8
Operating expenses		**-204.3**	**-218.6**
Operating result		**-1,668.3**	**-828.4**
Result from companies accounted for at equity		0.0	0.0
Result for the period before tax from continued operation		**-1,668.3**	**-828.4**
Taxes on income		4.8	62.7
Result for the period after tax from continued operation		**-1,663.5**	**-765.6**
Result for the period after tax from discontinued operations		**0.0**	**-94.1**
Result for the period after tax		**-1,663.5**	**-859.8**
thereof attributable to non-controlling interests		9.5	9.7
thereof from continued operations		9.5	9.7
thereof from discontinued operations		0.0	0.0
thereof attributable to equity holders of parent (consolidated result for the period after tax and non-controlling interest)		-1,673.0	-869.5
thereof from continued operations		-1,673.0	-775.4
thereof from discontinued operations		0.0	-94.1

* Previous year's figures for the first half of 2013 were adjusted according to the change in the income statement at the end of 2013.

Other comprehensive income

EUR m

	1.1. - 30.6.2014	1.1. - 30.6.2013
Result for the period after tax	**-1,663.5**	**-859.8**
Other comprehensive income		
Remeasurement of the net defined benefit liability	0.9	-0.6
Remeasurement of the net defined benefit liability from discontinued operations	0.0	0.2
Deferred tax relating to items that will not be reclassified to profit or loss	0.0	0.0
Total items that will not be reclassified to profit or loss	**0.9**	**-0.4**
Available-for-sale-reserve	12.0	25.9
Gains/losses on available-for sale evaluation	16.7	22.6
Effects of deferred taxes	-0.6	-0.3
Gains/losses on available-for sale disposal (reclassification)	-5.4	-0.4
Effects of deferred taxes	0.0	0.0
Gains/losses on available-for sale impairment (reclassification)	1.4	0.0
Effects of deferred taxes	0.0	0.0
Gains/losses from discontinued operation	0.0	5.3
Effects of deferred taxes from discontinued operations	0.0	-1.3
Foreign exchange differences (change in foreign currency reserve)	2.0	8.2
Total items that will be reclassified to profit or loss	**14.0**	**34.1**
Total other comprehensive income	**14.9**	**33.7**
Total comprehensive income	**-1,648.6**	**-826.1**
thereof attributable to non-controlling interests	11.2	8.4
thereof from continued operations	11.2	8.4
thereof from discontinued operations	0.0	0.0
thereof attributable to equity holders of parent	-1,659.8	-834.5
thereof from continued operations	-1,659.8	-744.6
thereof from discontinued operations	0.0	-89.9

II. Group statement of financial position

EUR m

	Note	30.6.2014	31.12.2013
ASSETS			
Cash and balances at central banks		2,882.7	2,312.7
Loans and advances to credit institutions	(18)	1,778.6	2,087.4
Risk provisions on loans and advances to credit institutions	(20)	-8.5	-8.3
Loans and advances to customers	(19)	17,807.2	19,289.0
Risk provisions on loans and advances to customers	(20)	-3,737.3	-3,825.1
Trading assets	(21)	4.0	12.5
Derivative financial instruments	(22)	1,095.8	1,070.1
Financial investments – designated at fair value through profit or loss	(23)	518.2	505.2
Financial investments – available for sale	(24)	2,287.7	2,421.5
Financial investments – held to maturity		82.7	83.7
Investments in companies accounted for at equity		5.9	5.9
Investment properties	(25)	1,119.9	1,115.3
Intangible assets		15.7	16.3
Tangible assets		254.8	260.8
Tax assets		126.6	126.7
thereof current tax assets		62.7	29.0
thereof deferred tax assets		64.0	97.7
Assets classified as held for sale	(26)	236.7	97.5
Other assets	(27)	720.5	688.6
Risk provisions on loans and advances on other assets	(20)	-37.9	-41.2
Total assets		**25,153.4**	**26,218.6**
EQUITY AND LIABILITIES			
Liabilities to credit institutions	(28)	4,304.6	4,665.3
Liabilities to customers	(29)	5,719.9	6,120.9
Liabilities evidenced by certificates	(30)	9,486.0	10,395.8
Derivative financial instruments	(31)	828.2	777.3
Provisions	(32)	1,586.6	191.5
Tax liabilities		15.1	14.8
thereof current tax liabilities		4.4	2.3
thereof deferred tax liabilities		10.6	12.4
Liabilities included in disposal groups classified as held for sale	(33)	7.6	5.6
Other liabilities	(34)	280.7	272.7
Subordinated capital	(35)	1,975.2	1,914.8
Hybrid capital	(36)	1.5	1.2
Equity		948.2	1,858.8
thereof attributable to equity holders of parent		431.2	1,341.1
thereof attributable to non-controlling interests		516.9	517.7
Total equity and liabilities		**25,153.4**	**26,218.6**

III. Group statement of changes in equity

EUR m

	Issued capital	Partici-pation capital	Additional paid-in capital	Available-for-sale-reserve	Foreign currency trans-lation	Cumu-lative results	Owners of the parent	Non- con-trolling interests	Total
Equity as at 1.1.2014	**1,669.1**	**1,139.5**	**250.0**	**-27.3**	**-104.2**	**-1,586.0**	**1,341.1**	**517.7**	**1,858.8**
Capital increases	750.0	0.0	0.0	0.0	0.0	0.0	750.0	0.0	750.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-11.8	-11.8
Total comprehensive income	0.0	0.0	0.0	10.3	2.0	-1,672.1	-1,659.8	11.2	-1,648.6
Result for the period after tax	0.0	0.0	0.0	0.0	0.0	-1,673.0	-1,673.0	9.5	-1,663.5
Other comprehensive income	0.0	0.0	0.0	10.3	2.0	0.9	13.2	1.8	14.9
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.2
Equity as at 30.6.2014	**2,419.1**	**1,139.5**	**250.0**	**-17.0**	**-102.3**	**-3,258.1**	**431.2**	**516.9**	**948.2**

EUR m

	Issued capital	Partici-pation capital	Additional paid-in capital	Available-for-sale-reserve	Foreign currency trans-lation	Cumu-lative results	Owners of the parent	Non- con-trolling interests	Total
Equity as at 1.1.2013	**969.1**	**339.5**	**0.0**	**-43.1**	**-95.7**	**277.7**	**1,447.6**	**520.9**	**1,968.4**
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-20.9	-20.9
Total comprehensive income	0.0	0.0	0.0	27.2	8.2	-869.9	-834.5	8.4	-826.1
Result for the period after tax	0.0	0.0	0.0	0.0	-0.2	-869.5	-869.7	9.7	-860.0
Other comprehensive income	0.0	0.0	0.0	27.2	8.4	-0.4	35.2	-1.3	33.9
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity as at 30.6.2013	**969.1**	**339.5**	**0.0**	**-15.9**	**-87.5**	**-592.1**	**613.1**	**508.3**	**1,121.4**

IV. Condensed group statement of cash flows

EUR m

	2014	2013
Cash and cash equivalents at end of previous period (1.1.)	**2,312.7**	**2,873.2**
Cash flows from operating activities	-192.2	-225.3
Cash flows from investing activities	-38.0	8.0
Cash flows from financing activities	799.8	-18.6
Effect of exchange rate changes	0.3	5.6
Cash and cash equivalents at end of period (30.6.)	**2,882.7**	**2,642.8**

V. Notes to the interim consolidated financial statements

Accounting policies and basis of consolidation

(1) Important events

On 3 September 2013, the European Commission published its final decision on the investigation launched in 2009 regarding the state aid provided to Hypo Alpe Adria. Pursuant to this decision, the banks that make up the South-Eastern Europe network of Hypo Alpe Adria must be reprivatised by mid-2015. These companies are to be wound down – in the same way as Hypo Alpe Adria's remaining wind-down portfolio – in the event that the banks in Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro cannot be sold by mid-2015. The new business requirements for the SEE banks stipulated in the European Commission's decision must be complied with until these have been reprivatised. Compliance with the restructuring plan and the behavioural measures imposed by the European Commission's decision is monitored by an independent monitoring trustee.

Prolonged public insolvency discussions in early 2014 were brought to an end on 14 March 2014 with the Minister of Finance making a public announcement regarding the future of Hypo Alpe-Adria-Bank International AG, which spread to the media in core countries in South-Eastern Europe. The Austrian Federal Government resolved on 18 March 2014 that the bank be wound down, with the SEE network being sold as quickly as possible and the wind-down part of the bank being transferred to a de-regulated company under private law. It was also resolved that the providers of subordinated and participation capital, Bayerische Landesbank, the majority shareholder prior to the bank being nationalised, and the State of Carinthia should be involved in the solution and should also be required to make a significant contribution to the winding-down of the bank.

The Council of Ministers approved a legislation package on 11 June 2014 to wind-down Hypo Alpe Adria; this included the Federal Law adopting the Federal Law on the Creation of a Wind-Down Unit (GSA), the Federal Law incorporating a federal wind-down holding company for HYPO ALPE-ADRIA-BANK S.P.A. (HBI-Bundesholdinggesetz), the Federal Law incorporating a federal Wind-Down (public limited) company (ABBAG-Gesetz) and the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG) and amending the Law on financial market stability (FinStaG) and the Law on the Financial Market Supervisory Authority (FMABG). The legislative package was adopted by the National Council on 8 July 2014 and the Federal Council on 24 July 2014. The package was announced in Austria's Federal Law Gazette on 31 July 2014 and came into force on 1 August 2014.

The GSA specifies that Hypo Alpe-Adria-Bank International AG will in future be managed as a de-regulated wind-down unit. The de-regulation of Hypo Alpe-Adria-Bank International AG and its subsequent continuation in the form of a wind-down unit will occur once a decision by the Austrian Financial Markets Authority (FMA) that the following two requirements have been satisfied enters into legal force: firstly, that the bank will no longer operate a deposit business, and secondly, that the bank no longer holds any qualified participations within the meaning of the CRR (Capital Requirements Regulation) in a credit institution or an investment firm, either directly or indirectly. The end to the bank's license as provided for in the GSA is not comparable to the termination of the license within the meaning of section 7 BWG, as section 3 GSA states that the wind-down unit may continue to hold a license to conduct banking operations. The de-regulation therefore does not justify the according of termination, approval or other rights or rights to secure claims tied to the termination of rights under banking laws. The license is also not materially terminated in full either, as the banking business can continue to be conducted during the wind-down. Hypo Alpe-Adria-Bank International AG's future function as a wind-down unit is the orderly, active and best possible utilisation of the assets it manages. The wind-down unit may only conduct transactions that serve to wind-down its portfolio. It may not, therefore, set up new business divisions or expand existing ones. Its function is solely the best possible utilisation of its assets. Furthermore, the wind-down unit may also provide transitional services for former Hypo Alpe Adria group companies that had been included in the consolidated financial statements of Hypo Alpe Adria as at 31 December 2013. However, these services are limited to only such services that had been provided on a contractual basis at the time of Hypo Alpe-Adria-Bank International AG's de-regulation. These services may only be provided for two years from the date on which the Republic no longer holds direct or indirect stakes in the company for which the services are being provided. The BWG is only applicable to the wind-down unit to a limited extent as the planned de-regulation means that the banking license will be terminated. In particular, regulations for ensuring the sustainability of normal banking operations, such as equity and liquidity regulations, will cease to apply. However, individual BWG provisions will continue to apply in the GSA in order to ensure the requisite oversight. The wind-down unit is not permitted to raise money from the public or provide investment activities.

The GSA authorises the Minister of Finance to transfer the shares currently held directly by the Republic of Austria in Hypo Alpe-Adria-Bank International AG to the federal wind-down (public limited) company (ABBAG). The purpose of the ABBAG is the management of shares in the wind-down unit.

As one of the prerequisites for de-regulation is that Hypo Alpe-Adria-Bank International AG no longer holds any qualified participations within the meaning of the CRR (Capital Requirements Regulation) in a credit institution or an investment firm, either directly or indirectly, the Italian subsidiary, Hypo Alpe-Adria-Bank S.p.A., will have to be separated from Hypo Alpe-Adria-Bank International AG and transferred to a specially created federal wind-down holding company, HBI-Bundesholding AG. The shares in Hypo Alpe-Adria-Bank S.p.A. can be transferred either by legal contract or by transfer order. The purpose of HBI-Bundesholding AG is the management of shares in Hypo Alpe-Adria-Bank S.p.A. and its direct and indirect management.

The Austrian subsidiary, Hypo SEE Holding AG (SEE-Holding), must also be spun-off from the group. SEE-Holding has lodged an application for a banking license. In future, this company will act as a holding and management holding company for the banking subsidiaries in South-Eastern Europe. However, as Hypo Alpe-Adria-Bank International AG at the time of de-regulation is not permitted to hold any qualified participations within the meaning of the CRR (Capital Requirements Regulation) in a credit institution or an investment firm, either directly or indirectly, the shares in the SEE-Holding must be transferred to the Republic of Austria prior to the de-regulation (carve out). The next step will be the transfer of these shares to the highest-bidding investor. The bank is currently engaged in preparing for this sale. These steps include securing a banking license for the management holding company and establishing the related organisational conditions, as well as transferring additional portfolios to the wind-down company. Negotiations are currently underway with bidders after interested investors rendered offers in May 2014.

The Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG) also came into force on 1 August 2014. The HaaSanG designates the Austrian Financial Markets Authority (FMA) as the authority empowered to implement the reorganisation as provided by the law. The HaaSanG stipulates that with the announcement of a regulation adopted by the FMA for this purpose will (i) terminate specific subordinated liabilities and shareholder liabilities of Hypo Alpe-Adria-Bank International AG and (ii) defer the maturity of certain contested liabilities until a final decision is made with regard to the contested liabilities in question. This applies to some EUR 800 million of the bank's subordinated liabilities, all outstanding supplementary capital issues and certain shareholder loans granted by BayernLB since the first FinStaG measure was implemented in December 2008. The legal measures provided pursuant to HaaSanG will become effective immediately without the bank needing to take further action or the liabilities needing to be formally withdrawn pursuant to their terms and conditions. The termination and deferment of the liabilities listed in the FMA regulation take effect by act of law with the announcement of the FMA regulation; this means that repayment sums, interest or other ancillary fees owed by the bank, where applicable, will automatically be reduced to zero. In the case of contested liabilities, the date of maturity will be deferred until at least 30 June 2019. Pursuant to section 3 HaaSanG, subordinated liabilities and all collateral including guarantees for such liabilities are all terminated. The FMA enacted the corresponding regulation on 7 August 2014. It should be emphasised that according to media reports, the constitutionality and the compatibility of the HaaSanG with EU law are currently being discussed and affected investors could bring appeals before the applicable courts against the termination of their receivables by effect of law. No claims had been filed against the bank as at the date that the interim consolidated financial statements as at 30 June 2014 had been drawn up on 27 August 2014. Given the fact that the HaaSanG did come into force after the balance sheet date, the interim consolidated financial statements as at 30 June 2014 did not take the effects of this law into account. Based in the group's income statement, the bank expects considerably positive effects in the second half of 2014; these effects are expected to offset a significant share of the losses incurred in 2014. In light of previous loss allocations on the supplementary capital issued by Hypo Alpe-Adria-Bank International AG pursuant to section 23 (7) BWG (old version), the value of this supplementary capital was set at zero; explicit reference to this was made in the previous consolidated financial statements. No positive effects from the supplementary capital are to be expected from the application of HaaSanG as a result of this and the fact that the carrying amount already had been set at zero in the previous financial statements.

The bank is currently working feverishly on creating the conditions for establishing the new wind-down unit. The Federal Minister of Finance initially commissioned Österreichische Industrieholding AG (ÖIAG) to establish and manage a project to create the new wind-down unit. At the time, this was done under the premise that direct or indirect ownership would pass to ÖIAG within the scope of the planned restructuring process. However, the package of Austrian federal laws adopting the Federal Law on the Creation of a Wind-Down Unit (GSA) as well as the Federal Law incorporating a federal wind-down (public limited) company (ABBAG-Gesetz), stipulated that the shares in the wind-down unit would be transferred to the ABBAG, which in turn is indirectly owned by the Federal Government. As the conditions do not exist at this time, ÖIAG continues to be commissioned by the Federal Minister of Finance to manage and coordinate the project. The bank assumed the management of the project after the appointment of a new Supervisory Board for Hypo Alpe-Adria-Bank International AG; representatives from the Federal Government, the Federal Ministry of Finance and ÖIAG advise the bank in this undertaking.

The bank is currently implementing the steps required to discontinue the deposit business. The bank is expected to lodge an application for the issuing of the FMA decision pursuant to section 2 (1) GSA in mid-October. Efforts are also focused on meeting the necessary requirements for the transfer of shares of SEE-Holding and Hypo Alpe-Adria-Bank S.p.A (carve out). The transfer of shares of Hypo Alpe-Adria-Bank S.p.A. requires the approval of Banca d´Italia. The transfer of shares of SEE-

Holding requires the approval of the FMA and certain notifications needs to be made to local regulatory authorities. The Federal Government is expected to establish HBI-Bundesholding AG and ABBAG in August and September 2014 respectively.

At the general shareholders' meeting held on 9 April 2014, the Republic of Austria as the bank's sole shareholders resolved a capital measure in the amount of EUR 750.0 million, which was implemented on 11 April 2014. The measure largely serves to restore the capital underruns by the single institution, Hypo Alpe-Adria-Bank International AG, resulting from the negative result for 2013. The consolidated financial statements as at 31 December 2013 clearly highlighted the deferred pending loss risks from the SEE network; however, according to the accounting regulations pursuant to IFRS, these did not need to be anticipated by the consolidated financial statements as at this reporting date. However, these losses had to be recognised as at 30 June 2014 as the legislative package resolved by the Council of Ministers in June had already come into force by the date on which the interim consolidated financial statements were prepared, and both participations must be sold in order to meet the requirements of establishing a Wind-Down Unit (GSA). Pursuant to IAS 37, a provision – comprising the difference between the expected sales revenue and net assets – had to be recognised for the required transfer of the two participations as alternative course of action no longer exist. The resulting loss meant that regulatory stipulations as to minimum capital requirements and large exposures could not be complied with in the first half of 2014.

The positive effects expected from the coming into force of the HaaSanG will only impact the group's income statement starting from August; consequently, the temporary non-compliance with regulatory requirements would be redressed from this date. Please refer to the remaining collateral for details on the ultimate amount affecting capital.

Holders of subordinated capital liabilities have announced that they will file claims against the bank as they question the legality and constitutionality of the HaaSanG. It therefore cannot be excluded with reasonable confidence that the HaaSanG is valid. Consequently, a residual risk of some EUR 800 million (subordinated liabilities) and EUR 800 million (BayernLB) remain with regard to the liabilities derecognised in August 2014.

With regard to assessing Hypo Alpe Adria's continuance as a going concern, the Executive Board draws on the same assumptions that underpinned the group's restructuring plan as authorised by the European Commission. In order to support the going concern assumption, further capital measures are planned for the future and have already been approved by the European Commission in order to cover the expected losses over the course of the portfolio wind-down. As the wind-down company will not require a banking license in the future, it will not be subject to the minimum equity requirements applicable to credit institutions following its de-regulation. However, insolvency law provisions will continue to apply to Hypo Alpe-Adria-Bank International AG even after its de-regulation. Pursuant to the GSA, applications for opening of insolvency proceedings could only be filed by the FMA.

With respect to the further wind-down of Hypo Alpe Adria's remaining portfolio, high risks remain in connection with the disposal of loan collateral, although further impairments cannot be ruled out in the future.

(2) Significant accounting policies

The interim consolidated financial statements of Hypo Alpe Adria as at 30 June 2014 were drawn up in accordance with the IFRS as adopted by the EU for interim reporting (IAS 34). The condensed interim consolidated financial statements do not contain all the information and notes required for the full consolidated financial statements. For this reason, the interim consolidated financial statements should be read in conjunction with the most recently published consolidated financial statements for the year as at 31 December 2013.

The interim consolidated financial statements as at 30 June 2014 have neither been audited nor reviewed by the auditors.

The interim consolidated financial statements have been prepared in accordance with the generally accepted accounting principles, under consideration of the general requirement, to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group.

In drawing up the interim consolidated financial statements, the Executive Board applied the going concern principle.

All figures in the interim consolidated financial statements are expressed in millions of euros (EUR m); the euro (EUR) is the functional currency. The tables may contain rounding differences.

Unless otherwise stated, the same accounting and measurement principles as well as methods of calculation have been applied in these interim consolidated financial statements as in the recently published consolidated financial statements as at 31 December 2013, apart from where new standards, amendments and interpretations, which are valid for financial years beginning on or after 1 January 2014, have been applied.

IFRS, whose application was mandatory as at the balance sheet date, have been used in these interim consolidated financial statements. The following new or amended IFRS/IAS standards and interpretations, which were issued by the IASB and adopted by the EU, were applied for the first time in 2014:

Standard	Description		Compulsory for annual period
IAS 32	Financial instruments: Presentation	Offsetting Financial Assets and Financial Liabilities (December 2011)	2014
IAS 36	Impairment of assets	Disclosures on the recoverable amount for non-financial assets	2014
IAS 39	Financial Instruments	Novation of Derivatives and Continuation of Hedge Accounting	2014
IFRIC 21	Levies		2014

The standards that affect Hypo Alpe Adria are explained below. As a consequence of the amendment to IAS 39, derivatives are still designated as hedging instruments in continuing hedging relationships despite novation. In order to benefit from the amended guidance, novation to a central counterparty must happen as a consequence of statutory or regulatory provisions. This amendment has so far no impact on the consolidated financial statements as no derivatives were transferred to a central counterparty or were transferred by a central counterparty in the first half of 2014.

(3) Use of estimates and assumptions/uncertainties in connection with estimates

There were no material changes to estimates in the first half of 2014.

With regard to the assessment of the continuance of the Hypo Alpe Adria group as a going concern, please refer to note (1) Important proceedings.

The parameters for calculating portfolio-based risk provisions were validated as at 30 June 2014. The validations of the default probabilities and cure rates did not lead to any significant changes (difference < 1%). The Loss Identification Period (LIP) factors are estimated for specific segments, dependent upon the prevailing processes for, and developments in, risk monitoring. The LIP factors currently valid for banks and states remain at 0.1. The minimum threshold for retail and corporate customers also remains unchanged at 0.5. All parameters are checked regularly and adjusted as required.

For further information on discretionary decisions regarding estimates and assumptions, please refer to the most recently published group annual report as at 31 December 2013.

(4) Scope of consolidation

The interim consolidated financial statements comprise 17 Austrian companies (31 December 2013: 16) – including Hypo Alpe-Adria-Bank International AG – and 71 (31 December 2013: 70) foreign subsidiaries:

	30.6.2014		31.12.2013	
	Fully consolidated	Equity method	Fully consolidated	Equity method
Start of period (1.1.)	**84**	**2**	**102**	**4**
Newly included in period under review	5	0	6	0
Merged in period under review	0	0	-3	0
Excluded in period under review	-3	0	-21	-2
Reclassified	0	0	0	0
End of period (30.6./31.12.)	**86**	**2**	**84**	**2**
thereof Austrian companies	15	2	14	2
thereof foreign companies	71	0	70	0

In the first half of 2014 the following five companies were included for the first time in the interim consolidated financial statements. Tridana d.o.o. and HETA 2014 Tanacsado Kft. are companies that need to be considered in the context of collateral takeovers from loan commitments. Hypo Prep d.o.o., HYPO Leasing d.o.o. (former Hypo CB d.o.o.) and Saraxe Beteiligungsverwaltung GmbH are companies that assumed portfolios and equity investments from other group companies within the scope of the restructuring.

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
Tridana d.o.o.	Ljubljana	100.0%	Fully consolidated	Acquisition
HETA 2014 Tanacsado Kft.	Budapest	100.0%	Fully consolidated	Foundation
HYPO Leasing d.o.o. (former Hypo CB d.o.o.)	Ljubljana	100.0%	Fully consolidated	Materiality
Hypo Prep d.o.o.	Ljubljana	100.0%	Fully consolidated	Materiality
Saraxe Beteiligungsverwaltung GmbH	Vienna	100.0%	Fully consolidated	Materiality

Tridana d.o.o. is a project company headquartered in Ljubljana, whose business activities focus on the construction and sales of real estate, and was established to construct a commercial and residential complex in Ljubljana. The shares in the company were assumed by Hypo Alpe Adria in the context of credit restructuring.

HETA 2014 Tanacsado Kft. is a Hungarian subsidiary established in the first quarter of 2014 and serves to acquire assets taken over as part of rescue purchases.

HYPO Leasing d.o.o. (formerly Hypo CB d.o.o.) and Hypo Prep d.o.o., which have to date not been consolidated on grounds of materiality, assumed a real estate and leasing portfolio from group companies in its books in the contest of the restructuring; Hypo Prep d.o.o. assumed a real estate portfolio while HYPO Leasing d.o.o. assumed a leasing portfolio. The companies were consolidated for the first time in the second quarter of 2014.

Saraxe Beteiligungsverwaltung GmbH acquired a consolidated subsidiary whose main activity is the holding of equity investments at the end of the first half of 2014.

Companies which are of secondary importance to Hypo Alpe Adria, either because of reduced business activities or because of planned liquidation, are excluded from the scope of consolidation. Three fully-consolidated subsidiaries were excluded from the scope of consolidation in the course of the first six months of the 2014 financial year:

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
HYPO ALPE-ADRIA-LEASING TOV	Kiev	100.0%	Fully consolidated	Sale
Hypo Alpe-Adria Jersey Limited	St. Helier - Jersey	100.0%	Fully consolidated	Materiality
Hypo Alpe-Adria (Jersey) II Limited	St. Helier - Jersey	100.0%	Fully consolidated	Materiality

The Ukrainian leasing company was sold in the second quarter of 2014. The result out of the sale amounted to approximately EUR -1.0 million; this amount has yet to be taken into account. The elimination of the two other companies from the group had no material effects on the result of Hypo Alpe Adria.

(5) Sales activities

5.1. Sales activities related to the SEE network

The restructuring plan for Hypo Alpe Adria submitted to the European Union by the Federal Ministry of Finance (BMF) at the end of June 2013 calls for the sale of the banks in the South-Eastern European countries of Slovenia, Croatia, Serbia, Bosnia and Herzegovina as well as Montenegro. With the decision of 3 September 2013, the restructuring plan was approved by the commission. Pursuant to the European Commission's decision, Hypo Alpe Adria is required to sell the SEE network by June 2015; the SEE network will be wound-down in the event that this sale does not take place.

A number of offers were obtained in the first half of May 2014; these offers relate to both the entire SEE network and individual subsidiary banks. The bank is currently negotiating with a number of interested investors who have made offers for the entire SEE network. In accordance with IFRS 5, the following conditions pursuant to IFRS 5.7 and IFRS 5.8 must all be met for the assets and liabilities to be disclosed and measured separately:

- Available for immediate sale, i.e. the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets
- Concrete intention to sell, active search for a buyer
- Expected sale within twelve months
- Such a sale must be highly probable.

With regard to management's sales plan, the "direct availability" criteria had not been met as at 30 June 2014 since the following requirements in particular still have to be met: obtaining a bank license for the management holding company and establishing the associated organisational requirements, carrying out additional portfolio transfers on wind-down units, the sale of retail portfolios, and the possible dissolution or redefinition of existing business relationships with the wind-down unit (in particular portfolio administration). Consequently, the assets and liabilities of the SEE banking group were not to be accounted for and reported pursuant to the requirements of IFRS 5 as at 30 June 2014.

5.2. Planned transfer of the NEE network and the Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A.

The de-regulation of Hypo Alpe-Adria-Bank International AG as defined by the Federal Government as at 14 March 2014 stipulates that Hypo Alpe-Adria-Bank International AG may not hold at the time of de-regulation any qualified participations within the meaning of the CRR in a credit institution, either directly or indirectly. This means that the shares in Hypo SEE Holding AG (SEE-Holding) must be transferred (carve out) to the Republic of Austria prior to the de-regulation. The possible transfer to the Federal Government is provided within the Federal Law on the Creation of a Wind-Down Unit (GSA); this option will be utilised within the scope of a Share Purchase Agreement. The review of the criteria required by IFRS 5 revealed that the "available for immediate sale" criteria for this transfer has also not yet been met, primarily due to the lack of a banking license for the parent company, SEE-Holding. Consequently, the assets and liabilities of the SEE banking group as at 30 June 2014 were not to be accounted for and reported pursuant to the requirements of IFRS 5 within the carve out process.

The same also applies to the shares in the Italian subsidiary bank, Hypo Alpe-Adria-Bank S.p.A., Udine, held by Hypo Alpe-Adria-Bank International AG. This company must also be disposed from the Hypo Alpe Adria group in order to fulfil statutory requirements and to enable the de-regulation of Hypo Alpe-Adria-Bank International AG. Pursuant to the Federal Law incorporating a federal wind-down holding company for HYPO ALPE-ADRIA-BANK S.P.A. (HBI-Bundesholdinggesetz), the shares will be transferred to HBI-Bundesholding AG, which is owned by the Republic, by means of a share purchase agreement or a company reorganisation. This transfer is not a sale transaction within the meaning of IFRS 5 (IFRS 5.10), as this is not a transaction conducted for commercial reasons based on a management plan but one prescribed by law. The transfer is expected to be completed once Banca d'Italia approves the transaction in the second half of 2014.

However, the transfer of SEE-Holding and Hypo Alpe-Adria-Bank S.p.A. to the Republic of Austria or rather a company that it owns is an unavoidable obligation for Hypo Alpe Adria, the effects of which were taken into account as at 30 June 2014 in the consolidated financial statements. The alternative courses of action that existed until this date for the Executive Board of Hypo Alpe-Adria-Bank International AG are therefore discontinued. Given the fact that draft laws and proposals had been presented to decisive bodies (particularly the Council of Ministers) as at 30 June 2014 and that special laws had already come into force as at the date the interim consolidated financial statements had been drawn up, the IAS 37 criteria as to recognise a provision for the expected losses resulting from the legally stipulated carve out are to be regarded as having been fulfilled.

It should be noted that the sale prices for the transfer of shares of the SEE-Holding and the Hypo Alpe-Adria-Bank S.p.A. have not yet been established. Any possible difference between the expected and the actual sales revenue will impact the future group result as a disposal loss or gain. Furthermore, the proportion of the currency reserve that applies to the SEE network will have a negative impact on the income statement of Hypo Alpe Adria upon disposal, because the amounts recorded in the currency reserve (EUR -130.8 million as at 30 June 2014) have to be recognised through profit or loss at the time of disposal according to the applicable accounting standards.

5.3. Other sales activities in the wind-down business portfolio

The systematic wind-down of the investment portfolio and therefore the complexity of Hypo Alpe Adria continued in the first half of 2014. The sale of the Ukrainian leasing company was concluded in the second quarter of 2014; this resulted in the end of Hypo Alpe Adria's business activities in Ukraine.

The ongoing sales process related to a number of material hotel holdings – GRAND HOTEL LAV d.o.o. and the Croatian real estate project "Skiper" – could not be completed as anticipated. However, the measurement and reporting requirements pursuant to IFRS 5 continue to apply for both hotel holdings.

Furthermore, the assets and liabilities of the Serbian IT company ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD, which is responsible for providing IT services, are accounted for pursuant to the regulations of IFRS 5 and reported separately in the interim consolidated financial statements as at 30 June 2014. An agreement governing the provision of IT services for the subsidiary banks in South-Eastern Europe was signed with an external service provider on 21 August 2014. The outsourcing of the data centre, which had previously been operated by the group, serves as further preparation for the sale of the SEE network. The bulk of the ZIS is to be transferred in the third quarter of 2014 within the scope of an asset deal once approval has been granted by local regulatory bodies.

(6) Business combinations and acquisitions

Slovenia company Tridana d.o.o. was fully consolidated as at March 2014. The effects from the first-time consolidation on the interim consolidated financial statements of Hypo Alpe Adria group are as follows:

EUR m

	Tridana d.o.o.
Date of acquisition	31.3.2014
Acquired share (direct in %)	100.0%
Revalued assets	**47.9**
Revalued liabilities	**47.9**
Net assets	**0.0**
Acquisition costs	0.0
Remaining goodwill	**0.0**

EUR m

Assets	Tridana d.o.o.	Purchase Price Allocation Adjustments	Tridana d.o.o. after Purchase Price Allocation Adjustments
Loans and advances to credit institutions	0.5	0.0	0.5
Investment properties	30.7	-13.0	17.7
Tangible assets	0.4	-0.1	0.3
Other assets	51.4	-22.0	29.4
Total assets	**83.0**	**-35.1**	**47.9**

Other assets primarily include apartments, which are held for sale.

EUR m

Liabilities	Tridana d.o.o.	Purchase Price Allocation Adjustments	Tridana d.o.o. after Purchase Price Allocation Adjustments
Liabilities to affiliated companies	81.5	-39.5	42.0
Liabilities to customers	9.5	-4.2	5.3
Other liabilities	0.6	0.0	0.6
Equity	-8.6	8.6	0.0
Total equity and liabilities	**83.0**	**-35.1**	**47.9**

Notes to the income statement

(7) Segment reporting

The basis for segment reporting is provided by IFRS 8 – Operating Segments. Segment reporting is based on the information provided regularly to the Executive Board in its capacity as primary decision-maker in accordance with IFRS 8.7 (so-called management approach). The basis for segment reporting is Hypo Alpe Adria's business structure itself.

In line with the restructuring plan prepared for the purpose of the EU proceeding, that part of the group which is being systematically wound down is reported separately from continuing operations, which, in line with the restructuring plan, will be successively reprivatised.

The "SEE network" group units consist of the bank and (the recently established) leasing units in Slovenia, Croatia, Bosnia and Herzegovina, as well as the banks in Serbia and Montenegro. In order to pursue the fundamental objective of winding down the bank, the focus is on selling the network in South-Eastern Europe with a reduced domestic management holding company, Hypo SEE Holding AG (SEE-Holding). The process of selling the SEE network commenced in 2012. This process is being accompanied by an external consultant and, according to the EU decision of 3 September 2013, is to be completed by no later than 30 June 2015. The objective is to sell the SEE network as a group. In order to continue driving forward the privatisation of the SEE network, a holding company was established in 2013 and the investments are being transferred to it. After the necessary permits were granted by the local authorities, the transfer of investments was completed in July 2014. In order to be able to function as a management unit for the SEE banks, the SEE-Holding applied for a banking license in May 2014, which is expected to be granted in the second half of 2014. In its reporting to management, the SEE-Holding, which will not be effectively equipped to start banking operations until the third quarter of 2013, is presented as though it had already been operational since the first half of 2014.

The "Asset Resolution/Hypo Italy" segment combines the Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A., as well as all group leasing companies which are active in Croatia, Germany, Austria, Hungary, Macedonia, Montenegro, Bulgaria, Bosnia, Serbia and Italy and are set to be wound down. Non-performing wind-down portfolios are also included in this segment. These were separated from the SEE bank network in Bosnia and Herzegovina, Montenegro, Slovenia, Serbia and Croatia and will be wound down. Besides Hypo Alpe-Adria-Bank International AG, this segment also includes the securities portfolios of the investment companies HBInt Credit Management ltd. and Norica Investments ltd. Investments that are assigned to Tourism and Real Estate outside the banking and leasing business and are intended for sale, are also reported in this segment. The companies are collectively referred to as "Asset Resolution".

The "Consolidation" division includes effects from the consolidation of various business segments. It should be noted that unlike the previous segment reporting, those parts of the group holding company which relate to the core activities are no longer included in "Consolidation/Head Office" division, but are now included in the SEE network segment as from the segment reporting for the first half of 2014.

Following the adjustments, the structure of the segment reporting now corresponds to the structure as presented to the Executive Board since the 2014 financial year. The comparative figures for 2013 are adapted to this reporting format as well.

7.1. SEE network

The business units included in this segment generated total net interest income of EUR +113.4 million (1 January to 30 June 2013: EUR +121.7 million) and net fee and commission income of EUR +31.3 million (1 January to 30 June 2013: EUR +30.2 million) and thus contributed around 59% and as much as 149% to the respective total figures for the group. In terms of net interest income, this corresponds to a decline of EUR -8.3 million compared to the first half of the previous year. Net fee and commission income increased by EUR +1.1 million, mainly due to offsetting fees and commissions to the units of the wind-down companies of the group as a result of the servicing of synthetically transferred loan portfolios.

The other result, which includes the financial result, was positive again at EUR +1.1 million compared to the previous year (1 January to 30 June 2013: EUR -14.7 million). In the previous year, negative one-time effects from provisions for litigation relating to foreign currency loans of EUR -17.4 million weighed down on the results.

While this segment reported extremely high risk provisions of EUR -128.5 million as at 30 June 2013 due to the EU restructuring plan, risk costs somewhat normalised in the first half of 2014 and amounted to EUR -38.3 million. The effects of the flooding in the Balkans in May this year were considerably lower than initially assumed. The risk provisions in the SEE network accordingly account for less than a third of total risk provisions as at 30 June 2013, with Slovenia and Croatia accounting for the largest regional share.

The total operating expenses of the SEE network increased by EUR 5.5 million to EUR -112.0 million compared to the first half of 2013 (EUR -106.5 million). This increase is primarily due to the fact that the segment results as at 30 June 2014 were allocated to the Austrian SEE-Holding, which was not included in the first half of 2013. Personnel expenses of EUR -11.3 million and administrative expenses of EUR -7.1 million were reported in the SEE segment which were allocated to the "Consolidation/Head Office" segment the year before. Including this effect, the remaining banking group was able to achieve costs savings of EUR 12.9 million thanks to stringent cost management.

Taking into account a slightly positive tax effect, the segment result after tax for 2014 is EUR -4.3 million (1 January to 30 June 2013: EUR -96.8 million). The SEE network therefore reported considerably better results compared to the previous year and almost broke even, which continues to be the target for this segment for full-year 2014.

Segment assets fell slightly by EUR -0.1 bn compared to 31 December 2013 (EUR 8.6 bn) and amounted to EUR 8.5 bn as at 30 June 2014.

7.2. Asset Resolution/Hypo Italy

In the first half of 2014, the companies in this segment reported a sharp decline in net interest income to EUR +75.3 million (1 January to 30 June 2013: EUR +122.2 million). This drop is largely due to the lower business volume of the group, which is refinanced via the management holding company Hypo Alpe-Adria-Bank International AG recognised in this segment. Moreover, impaired assets also increased sharply, which also impacts the net interest result. The Italian subsidiary bank also reported a steep decline in the net interest result compared to the first half of 2013 as the ban on new business as part of the implementation of the EU restructuring plan applies since 1 July 2013.

The negative net fee and commission income of EUR -10.3 million is largely a result of the commission payable of around EUR -9.9 million in connection with the guarantee agreement concluded with the Republic of Austria at the end of 2010. The deterioration compared to the previous year (1 January to 30 June 2013: EUR -5.2 million) is primarily a result of the new business ban for the bank in Italy.

In the first half of 2014, the other result amounted to EUR +20.5 million and improved considerably compared to the previous year (1 January to 30 June 2013: EUR -204.3 million). The previous year's result was largely impacted by the malversation detected at the bank and leasing company in Italy relating to incorrect interest rates charged to customers, which led to very high provisioning requirements. On the other hand, the change of the bank's own credit spreads in the first half of 2014 due to the altered market situation based on the Federal Government's decision regarding the further winding-down of Hypo Alpe-Adria-Bank International AG had a positive impact on the financial result, which is included in the other result. The ensuing positive effect on the measurement of the bank's own liabilities, which are carried at fair value, amounts to EUR +34.5 million and will in turn have a negative impact on future periods.

The decline in operating expenses to EUR -109.3 million in the first half of 2014 (1 January to 30 June 2013: EUR -146.6 million) is attributable to cost savings in the whole segment and the absence of the unscheduled depreciation on the headquarters in Udine in the previous year totalling around EUR -10 million.

The risk provisions on loans and advances in this segment fell to EUR -209.1 million in the first half of 2014 compared to the previous year (EUR -485.8 million). While the creation of risk provisions on loans and advances have dropped sharply year on year at the parent company and the bank in Italy, the creation of new risk provisions on loans and advances remains at a high level in the "Asset Resolution" segment.

Taking into account operating expenses, risk provisions on loans and advances and income taxes, the result after tax for the "Asset Resolution/Hypo Italy" segment is negative at EUR -228.6 million (1 January to 30 June 2013: EUR -658.8 million).
The assets allocated to this segment amounted to EUR 19.4 bn as at 30 June 2014 (30 June 2013: EUR 20.0 bn) and declined by EUR 0.6 bn in the last six months.

7.3. Consolidation

This segment includes the consolidation effects between the individual segments. In previous periods, this business area which was referred to as "Consolidation/Head Office" also contained the core activities of the Austrian holding company. This part was allocated to the "SEE network" segment as at the first half of 2014.

The main effect in this area is expected to be the provision for pending losses taken into account as at 30 June 2014 relating to the planned transfer of the SEE network and the Italian subsidiary bank to the Republic of Austria or to HBI-Bundesholding AG as envisioned as part of the legislative package. This provision is included in the other result at EUR -1,440.7 million.
As at 30 June of the previous year, the result from discontinued operations included the expected gains from the disposal of the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG ("HBA") of EUR -93.0 million. The company was sold at the end of 2013 and is no longer part of the group.

7.4. Former subsidiary bank Hypo Alpe-Adria-Bank AG Klagenfurt/IFRS 5

The current result of Hypo Alpe-Adria-Bank AG (HBA), which was still a part of Hypo Alpe Adria as at 30 June 2013 and was sold at the end of 2013, has been reported under "HBA/IFRS 5" at EUR -1.1 million under the "result from discontinued operations" item in the first half of 2013.

7.5. Segment presentation

in EUR Mio.

Period 1.1. - 30.6.2014	SEE-Group	Asset Resolution/ Hypo Italy	thereof Hypo Italy	Consolidation	Hypo Group
Operating income	**145.8**	**85.5**	**30.8**	**-1,445.0**	**-1,213.7**
Net interest income	113.4	75.3	30.2	2.9	191.6
Net fee and commission income	31.3	-10.3	2.9	0.0	21.0
Other result	1.1	20.5	-2.4	-1,447.9	-1,426.3
Operating expense	**-112.0**	**-109.3**	**-21.6**	**11.9**	**-209.4**
Operating result – prior to risk provisions on loans and advances	33.8	-23.8	9.2	-1,433.1	-1,423.2
Risk provisions on loans and advances	-38.3	-209.1	-34.2	2.2	-245.1
Segment result for the period after tax from continued operation	**-4.3**	**-228.6**	**-17.9**	**-1,430.6**	**-1,663.5**
Result for the period after tax from discontinued operations	0.0	0.0	0.0	0.0	0.0
Segment result for the period after tax	**-4.3**	**-228.6**	**-17.9**	**-1,430.6**	**-1,663.5**
Segment assets	**8,451.3**	**19,415.9**	**2,628.1**	**-2,713.8**	**25,153.4**
Loans and advances to customers	6,007.7	11,799.2	2,446.9	0.3	17,807.2
Liabilities to customers	3,865.3	1,854.9	365.3	-0.3	5,719.9

in EUR Mio.

Period 1.1. - 30.6.2013	SEE-Group	Asset Resolution/ Hypo Italy	thereof Hypo Italy	Consolidation	HBA/IFRS 5	Hypo Group
Operating income	**137.2**	**-87.3**	**-58.3**	**-17.8**	**0.0**	**32.1**
Net interest income	121.7	122.2	33.7	1.2	0.0	245.2
Net fee and commission income	30.2	-5.2	3.9	0.0	0.0	24.9
Other result	-14.7	-204.3	-95.9	-19.0	0.0	-238.0
Operating expense	**-106.5**	**-146.6**	**-32.8**	**15.7**	**0.0**	**-237.4**
Operating result – prior to risk provisions on loans and advances	30.6	-233.9	-91.1	-2.1	0.0	-205.4
Risk provisions on loans and advances	-128.5	-485.8	-121.4	-8.7	0.0	-623.0
Segment result for the period after tax from continued operation	**-96.8**	**-658.8**	**-178.6**	**-10.1**	**0.0**	**-765.6**
Result for the period after tax from discontinued operations	0.0	0.0	0.0	-93.0	-1.1	-94.1
Segment result for the period after tax	**-96.8**	**-658.8**	**-178.6**	**-103.1**	**-1.1**	**-859.8**
Segment assets	**8,553.0**	**19,989.6**	**2,727.8**	**-2,324.0**	**0.0**	**26,218.6**
Loans and advances to customers	6,370.0	12,919.0	2,632.4	0.0	0.0	19,289.0
Liabilities to customers	4,105.0	2,015.9	400.0	0.0	0.0	6,120.9

(8) Interest and similar income

EUR m

	1.1. - 30.6.2014	1.1. - 30.6.2013*
Interest income	**467.5**	**592.9**
from loans and advances to credit institutions	3.9	28.7
from loans and advances to customers	273.5	340.9
from bonds, treasury bills and other fixed-interest securities	25.8	29.3
from derivative financial instruments, net	100.3	108.5
from finance leasing	60.2	81.9
Other interest income	3.7	3.7
Total	**467.5**	**592.9**

* Previous year's figures for the first half of 2013 were adjusted according to the change in the income statement at the end of 2013.

(9) Interest and similar expenses

EUR m

	1.1. - 30.6.2014	1.1. - 30.6.2013
Interest expenses	**-268.0**	**-334.8**
for liabilities to credit institutions	-44.9	-54.5
for liabilities to customers	-79.1	-111.2
for debt securities in issue	-117.6	-142.1
for subordinated capital	-26.0	-25.8
for other liabilities	-0.3	-1.2
Similar expenses	**-26.4**	**-30.2**
Total	**-294.4**	**-365.0**

(10) Fee and commission income

EUR m

	1.1. - 30.6.2014	1.1. - 30.6.2013
Credit business	8.5	11.4
Securities and custodian business	4.1	5.3
Bank transfers including payment transactions	16.2	18.2
Other financial services	10.7	11.8
Total	**39.5**	**46.7**

(11) Fee and commission expenses

EUR m

	1.1. - 30.6.2014	1.1. - 30.6.2013
Credit business	-10.5	-12.2
Securities and custodian business	-1.8	-2.9
Bank transfers including payment transactions	-3.3	-3.3
Other financial services	-3.0	-3.3
Total	**-18.6**	**-21.8**

(12) Gains and losses from financial instruments not measured at fair value through profit and loss

EUR m

	1.1. - 30.6.2014	1.1. - 30.6.2013*
Result from fin. investments – available for sale	5.8	1.4
Result from fin. investments – held to maturity	-0.2	-0.2
Result from fin. investments – at cost	1.9	0.2
Total	**7.5**	**1.4**

* Previous year's figures for the first half of 2013 were adjusted according to the change in the income statement at the end of 2013.

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

EUR m

	1.1. - 30.6.2014	1.1. - 30.6.2013
Result from financial assets and related derivatives	**5.0**	**8.7**
from loans and advances to customers and credit institutions	1.2	2.6
from equity instruments	-0.3	0.0
from debt instruments	4.2	6.2
from treasury bills	-0.1	-0.2
Result from financial liabilities and related derivatives	**34.4**	**-14.4**
from liabilities evidenced by certificates	9.7	-18.6
from subordinated capital	24.7	4.1
from other liabilities	0.0	0.0
Current income from shares and other not fixed interest securities	**0.1**	0.0
Total	**39.6**	**-5.8**

Changes in the fair value of financial liabilities attributable to a change in the bank's own credit spread or to those resulting from third-party liabilities amounted cumulatively to EUR 165.8 million in the period under review (31 December 2013: EUR 134.9 million), which led to a positive effect of EUR +31.0 million on the income statement (30 June 2013: negative effect of EUR -14.4 million).

(14) Operating result from investment properties

EUR m

	1.1. - 30.6.2014	1.1. - 30.6.2013*
Rental income	24.9	26.8
Depreciation	-11.2	-11.1
Other expenses	-3.3	-0.7
Total	**10.4**	**15.0**

* Previous year's figures for the first half of 2013 were adjusted according to the change in the income statement at the end of 2013.

(15) Other operating result

EUR m

	1.1. - 30.6.2014	1.1. - 30.6.2013*
Other income	41.8	49.0
other expenses	-1,495.9	-190.5
Total	**-1,454.1**	**-141.5**
Result from operate lease assets	1.7	1.0
Other rental income	0.5	0.6
Net capital gains/losses from the sale of intangible and tangible assets	-0.1	2.3
Result from emergency acquisitions and repossessed asset	-0.2	-0.6
Result from allocation/release of other provisions	4.4	-10.0
Other tax expenses (incl. bank tax except income tax)	0.7	-14.7
Expenses from complete or partial sale of fully consolidated companies	-1.0	-1.6
Restructuring expenses	-1.4	-3.4
Income from assets classified as held for sale and disposal groups	-12.3	0.0
Other result	-1,446.3	-115.0
Total	**-1,454.1**	**-141.5**

* Previous year's figures for the first half of 2013 were adjusted according to the change in the income statement at the end of 2013.

The loss expected from the sale of the SEE network and the Italian subsidiary bank to the Republic of Austria and HBI-Bundesholding AG respectively is reported in the other operating result (see also note (1) Important events).

(16) Impairment of financial assets

The impairment of financial assets is composed as follows:

EUR m

	1.1. - 30.6.2014	1.1. - 30.6.2013*
Impairment financial assets – at cost (risk provision on loans and advances)	**-245.1**	**-623.0**
Allocations	-401.6	-779.5
Releases	166.2	159.4
Receipts from loans and advances previously impaired	7.3	11.6
Directly recognised impairment losses	-17.0	-14.4
Impairment financial assets – available for sale	**-1.4**	**-1.9**
Expenses from impairment	-2.4	-5.1
Income from write-up	1.0	3.2
Impairment financial assets – held to maturity	**0.0**	**0.0**
Expenses from impairment	0.0	0.0
Income from write-up	0.0	0.0
Total	**-246.4**	**-624.9**

* Previous year's figures for the first half of 2013 were adjusted according to the change in the income statement at the end of 2013.

(17) Other administrative expenses

EUR m

	1.1. - 30.6.2014	1.1. - 30.6.2013
Infrastructure costs	-18.8	-20.5
IT- and telecommunications	-20.1	-19.0
Advertising costs	-3.6	-4.2
Legal and advisory costs	-16.6	-11.7
Expense for audit and audit-related services	-2.1	-2.2
Expenses related to reorganisation and restructuring	-2.3	-3.1
Investigation of the past	-4.0	-7.1
Staff training cost	-1.4	-1.0
Administration expenses related to HBInt. Credit Management	-0.8	-0.8
Other general administrative expenses	-14.1	-19.9
Total	**-83.9**	**-89.5**

Notes to the statement of financial position

(18) Loans and advances to credit institutions

EUR m

	30.6.2014	31.12.2013
Austria	191.8	421.1
Central and Eastern Europe (CEE)	427.8	411.3
Other countries	1,159.0	1,255.0
Total	**1,778.6**	**2,087.4**

(19) Loans and advances to customers

19.1. Loans and advances to customers – by type of customer

EUR m

	30.6.2014	31.12.2013
Public sector	1,805.3	2,008.8
Corporate clients	11,405.4	12,391.4
Retail clients	4,596.5	4,888.8
Total	**17,807.2**	**19,289.0**

19.2. Loans and advances to customers – by region

EUR m

	30.6.2014	31.12.2013
Austria	1,132.4	1,213.0
Central and Eastern Europe (CEE)	12,697.1	13,845.2
Other countries	3,977.8	4,230.7
Total	**17,807.2**	**19,289.0**

(20) Risk provisions on loans and advances and provisions for credit risk

EUR m

	As at 1.1.2014	Foreign-exchange-differences	Allocations	Releases	Use	Changes to the consolidated Group and due to IFRS 5	Un-winding	As at 30.6.2014
Specific risk provisions	-3,797.7	-16.1	-382.6	135.3	156.7	116.7	74.9	-3,712.8
Portfolio-based risk provisions	-76.9	-0.3	-11.1	16.2	0.0	1.1	0.0	-70.9
Subtotal risk provisions on loans and advances	**-3,874.6**	**-16.4**	**-393.7**	**151.5**	**156.7**	**117.8**	**74.9**	**-3,783.7**
Provisions for credit commitments and guarantees	-42.1	0.0	-7.9	14.7	7.4	-0.4	0.0	-28.3
Total	**-3,916.7**	**-16.4**	**-401.6**	**166.2**	**164.1**	**117.5**	**74.9**	**-3,812.0**

EUR m

	As at 1.1.2013	Foreign-exchange-differences	Allocations	Releases	Use	Changes to the consolidated Group and due to IFRS 5	Un-winding	As at 30.6.2013
Specific risk provisions	-2,930.3	2.2	-754.0	117.3	100.0	16.9	76.3	-3,371.6
Portfolio-based risk provisions	-153.4	0.7	-18.6	33.7	0.0	39.6	0.0	-98.0
Subtotal risk provisions on loans and advances	**-3,083.7**	**2.9**	**-772.6**	**151.0**	**100.0**	**56.4**	**76.3**	**-3,469.6**
Provisions for credit commitments and guarantees	-26.0	0.0	-7.0	8.4	0.0	5.1	0.0	-19.6
Total	**-3,109.7**	**2.9**	**-779.5**	**159.4**	**100.0**	**61.5**	**76.3**	**-3,489.3**

(21) Trading assets

EUR m

	30.6.2014	31.12.2013
Bonds and other fixed-interest securities	3.9	12.5
Shares and other non-fixed-interest securities	0.0	0.0
Total	**4.0**	**12.5**

(22) Derivative financial instruments

EUR m

	30.6.2014	31.12.2013
Positive market value of derivative financial instruments – trading	18.0	14.2
Positive market value of derivative financial instruments – banking book	1,077.8	1,055.8
Total	**1,095.8**	**1,070.1**

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

EUR m

	30.6.2014	31.12.2013
Loans and advances to customers and credit institutions	298.6	289.6
Bonds and other fixed-interest securities	201.4	197.1
Shares and other non-fixed-interest securities	18.2	18.4
Total	**518.2**	**505.2**

(24) Financial investments – available for sale

EUR m

	30.6.2014	31.12.2013
Bonds and other fixed-interest securities	2,205.5	2,338.9
Shares and other non-fixed-interest securities	33.3	31.3
Participations without intention for sale (< 20 %)	0.8	1.6
Other participations (associated companies 20 % -50 %)	1.5	1.3
Shares in affiliated, non-consolidated companies (> 50 %)	25.3	26.4
Loans and advances to customers/credit institutions	21.4	22.0
Total	**2,287.7**	**2,421.5**

(25) Investment properties

EUR m

	30.6.2014	31.12.2013
Investment properties	1,119.9	1,115.3
Total	**1,119.9**	**1,115.3**

(26) Assets classified as held for sale

EUR m

	30.6.2014	31.12.2013
Cash and balances at central banks	0.1	0.0
Loans and advances to credit institutions	0.0	1.2
Loans and advances to customers	279.2	29.7
Risk provisions on loans and advances to customers	-139.9	-25.9
Investment properties	0.0	1.0
Intangible assets	0.2	0.0
Tangible assets	49.6	46.9
Tax assets	0.0	0.3
Other assets	47.6	44.2
Total	**236.7**	**97.5**

As at 30 June 2014, the item labelled assets held for sale, which is to be reported separately under IFRS 5, includes the assets of the shares in GRAND HOTEL LAV d.o.o. and the Croatian Real Estate Project “Skiper”, as well as the assets and liabilities of IT company ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD. This item also includes non-performing retail and SME portfolios in Serbia, Croatia, Montenegro and Slovenia; a purchase agreement was signed for these in August 2014 (see note (64) Events after the balance sheet date).

(27) Other assets

EUR m

	30.6.2014	31.12.2013
Deferred income	31.0	38.1
Other assets	689.5	650.5
Total	**720.5**	**688.6**

(28) Liabilities to credit institutions – by region

EUR m

	30.6.2014	31.12.2013
Austria	80.4	74.2
Central and Eastern Europe (CEE)	411.9	493.1
Other countries	3,812.4	4,098.0
Total	**4,304.6**	**4,665.3**

(29) Liabilities to customers

29.1. Liabilities to customers – by type of customer

EUR m

	30.6.2014	31.12.2013
Saving deposits	**539.8**	**537.0**
Demand and time deposits	**5,180.0**	**5,583.9**
from public sector	386.3	348.2
from corporate clients	2,476.3	2,706.6
from retail clients	2,317.5	2,529.2
Total	**5,719.9**	**6,120.9**

29.2. Liabilities to customers – by region

EUR m

	30.6.2014	31.12.2013
Austria	58.7	63.7
Central and Eastern Europe (CEE)	3,692.2	3,997.3
Other countries	1,968.9	2,059.9
Total	**5,719.9**	**6,120.9**

(30) Liabilities evidenced by certificates

EUR m

	30.6.2014	31.12.2013
Issued bonds	8,276.0	9,183.0
Liabilities issued by the "Pfandbriefstelle"	1,200.0	1,196.2
Other liabilities evidenced by certificates	10.0	16.6
Total	**9,486.0**	**10,395.8**

(31) Derivative financial instruments

EUR m

	30.6.2014	31.12.2013
Negative market value of derivative financial instruments – trading	15.5	11.2
Negative market value of derivative financial instruments – banking book	812.6	766.0
Total	**828.2**	**777.3**

(32) Provisions

EUR m

	30.6.2014	31.12.2013
Pensions	6.1	7.0
Severance payments	8.0	8.6
Provisions for anniversary payments	1.0	1.0
Provisions for credit commitments and guarantees	28.3	42.1
Restructuring provisions as per IAS 37.70	13.2	14.2
Other provisions	1,530.0	118.6
Total	**1,586.6**	**191.5**

The position other provision contains provisions for losses from the planned carve out of SEE holding and the Italian subsidiary bank of EUR -1,440.7 million. The losses had to be recognised, as the legislative package resolved by the Council of Ministers in June had come into force on the date on which the interim consolidated financial statements were prepared and it is necessary to dispose of both companies within the scope of the transfer in order to comply with the requirements of the Federal Law establishing of a Wind-Down Unit (GSA). For further information please refer to Note (1) Important events and Note (5) Sales activities.

(33) Liabilities included in disposal groups classified as held for sale

EUR m

	30.6.2014	31.12.2013
Liabilities to credit institutions	1.8	2.2
Provisions	0.0	0.2
Tax liabilities	0.3	0.2
Other liabilities	5.5	3.0
Total	**7.6**	**5.6**

(34) Other liabilities

EUR m

	30.6.2014	31.12.2013
Deferred expenses	59.5	60.7
Accruals und other obligations	221.2	212.0
Total	**280.7**	**272.7**

(35) Subordinated capital

EUR m

	30.6.2014	31.12.2013
Subordinated liabilities	1,975.0	1,914.4
Supplementary capital	0.2	0.4
Total	**1,975.2**	**1,914.8**

(36) Hybrid capital

EUR m

	30.6.2014	31.12.2013
Hybrid capital	1.5	1.2
Total	**1.5**	**1.2**

Risk report

(37) Current portfolio developments

The overall exposure was reduced in the first half of 2014 by approximately EUR 1.3 bn to EUR 27.1 bn (1 January to 30 June 2013: EUR 33.3 bn). The largest decline resulted from the Corporate segment and was largely due to regular redemption payments coupled with the restriction of new business.

Non-performing loans (NPL) at Hypo Alpe Adria continued to decrease in the first half of 2014, falling to EUR 9.1 bn (1 January to 30 June 2013: EUR 9.5 bn). This equates to a decline of EUR 163.3 million against year-end.
When distributed among Hypo Alpe Adria's business segments, NPLs in the wind-down segment (not including Hypo Alpe-Adria-Bank International AG) fell (EUR 111.5 million). In the SEE portfolio (not including SEE-Holding), the share of NPLs increased by EUR 55.9 million, of which the majority was the result of the default of a major client in Slovenia and the activation of the WebFER tool (automated default recognition) in Bosnia and Herzegovina. The remaining decline of EUR 107.7 million was attributed to Hypo Alpe-Adria-Bank International AG.

The Austrian subsidiary HETA Real Estate GmbH recorded the largest increase in NPLs of EUR 78.3 million, which was largely the result of the loss of two major clients.

(38) Changes to risk reporting

Through the sale or rather deconsolidation of Hypo Alpe-Adria-Leasing TOV Ukraine, the refinancing of Hypo Alpe-Adria-Bank International AG was reported against the former subsidiary instead of the leasing agreements of Hypo Alpe-Adria-Leasing TOV Ukraine. This refinancing was derecognised with retrospective effect as at 30 June 2014. As a result, a remaining exposure of EUR 11.4 million is reported in the risk report for the former subsidiary. This receivable is almost fully impaired. In December 2013, an exposure of roughly EUR 29.7 million with an impairment of roughly EUR 19.3 million was reported by Hypo Alpe-Adria-Leasing TOV Ukraine.

Furthermore, the transfer of NPL customers from Hypo Alpe-Adria-Bank a.d. Beograd to HETA Real Estate d.o.o. Belgrade was completed in Serbia in two tranches. This resulted in a shift of roughly EUR 26 million into the wind-down segment.

In June 2014, a spin-off took place at Slovenia leasing company Hypo Leasing d.o.o. The continuing part reported an exposure of approximately EUR 179.2 million as at the end of June 2014. The remaining leasing exposure was placed in the wind-down part.

(39) Extraordinary events in the first half of 2014

In the first half of 2014, parts of Bosnia and Herzegovina as well as Serbia suffered major floods. The potential implications on real estate collaterals and all other special effects through potentially limited repayment ability of customers are being assessed. Based on initial analysis, we currently believe that there will be no material implications on impairment requirements for the first half of 2014. The affected loans and advances to customers and underlying collateral will be subjected to extensive monitoring.

(40) Joint Risk Assessment & Decision Process (JRAD)

Hypo Alpe Adria was informed about the JRAD decision in relation to the JRAD investigation (JRAD III) performed in 2013. For Hypo Alpe Adria on a consolidated basis, it was found that the FMA considers the capital resources as adequate due to the capital increases totalling EUR 1.05 bn carried out in November and December 2013. This means that the equity ratio of 12.40% (from JRAD II decision) as well as the coverage of the shortfall (risk provisions less expected loss (EL)) must be guaranteed.

(41) Risk provisioning

Risk provisions in Hypo Alpe Adria amounted to EUR -245.1 million in the first half of 2014, resulting in a credit risk provision stock of EUR 3,783.7 million as at 30 June 2014. Risk provisions in the SEE network totalled EUR -38.3 million in the first half of the year. This value is largely in line with expectations, although an unexpectedly high need for impairment arose in Slovenia due to the development of a large single case. Risk provisions in the wind-down units totalled approximately EUR -

209.1 million in the first half of 2014. Only some individual subsidiaries in Croatia and Montenegro had deviations from the expected risk provision amount due to current developments affecting particular projects.
EUR +2.2 million were reversed in the "Consolidation" segment. With regard to the consequences of the flooding in the affected regions (particularly Bosnia and Herzegovina, Serbia and Croatia), please refer to note (39) Extraordinary events in the first half of 2014.

(42) Refining the new rating procedures

Currently Hypo Alpe Adria uses the following rating tools: corporate, small and medium enterprises, retail behaviour rating, expert, support, start-up, project finance, commercial real estates, municipalities, countries, insurances, banks and scorecards for private customers.

The usage, development and validation of these tools is constantly monitored and documented. Considering the results of the validation procedure in 2013, Hypo Alpe Adria launched the small and medium enterprises rating tool in February 2014 after its new development toward the end of 2013. Currently, Hypo Alpe Adria is also developing the rating tool for corporate customers and the retail behaviour rating tool. Further enhancements are expected for both of these tools. It is anticipated that the new models will be launched at the end of 2014. In the second half of the year, the tools bank, insurance, country and municipality rating tools will be validated with external support.

(43) Adjusting risk parameters

In the first half of 2014, the estimates for portfolio risk provision parameters and the specific risk provisions for non-significant receivables (SRPci) were validated, recalculated and implemented into the provisioning calculation.

(44) Monitoring collateral

Group collateral management, which is in the responsibility of Group Credit Processing (GCP), is based on the data collection of all collateral by the system. GCP, as the overarching unit within the group, ensures and checks, by means of reports, compliance with all directives and time-related stipulations for all collateral. Checks are made to ensure that monitoring activities by category of collateral are in line with stipulations, that assessments are up to date, there is market liquidity and internal measurement approaches are compliant with guidelines.

Real Estate collaterals account for 71% of collateral internally reported as recoverable; the remaining collateral is split between Guarantees (16.9%), Rights/Receivables (6.5%) and Other (5.6%). As was the case at 31 December 2013, 96% of all collateral was up to date as at 30 June 2014.

All commercial real estate with a market value above EUR 1.0 million is assessed individually, and all real estate collateral with market values of less than EUR 1.0 million is evaluated with the help of a valuation tool. A group-wide "collateral workflow" has been implemented to ensure that the process is up to date.

(45) Retail Risk Management

In order to manage portfolio quality in a comprehensive manner, the existing guidelines (policies) were adapted and the local implementation of group policies was pursued systematically in the first half of 2014. Internal training sessions and workshops were held in the local units as additional measures. The introduction of a fraud prevention matrix in one of the core countries (Pilot) played a key role in the successes made in loan fraud prevention. The signing of a contract on the sale of a retail NPL portfolio (DINARA project) is one of the key achievements of the retail portfolio strategy.

(46) Operational risk and internal control system

The first half of 2014 was shaped by the Operational Risk and Internal Control System (ICS) initiative. This initiative is a status check on the operational risk management and functionality of the internal control systems at the individual subsidiaries. The status check is based on a portfolio analysis with regard to the quality of data supplied over a certain period of time. In the second phase, this data is reviewed against the files in a test. Discrepancies are determined, responsibilities for eliminating these discrepancies ascertained and time frames for rectification stipulated.

Moreover, the previous loss data tool was replaced by new software. The state-of-the-art tool SAS EGRC is now used to determine all cases of fraud, legal cases and loss data. Extensive data cleansing was carried out in advance.

Another focal point in the first half of 2014 was the preparation for the separation into two separate units of Hypo Alpe Adria. All reports, organisational factors and personnel plans were adjusted accordingly.

In the second quarter of 2014, there was a year-on-year increase in total loss from operational risk due to the flood disaster in large parts of South-Eastern Europe.

(47) ALM enhancement project

The group started to implement an advanced ALM system and the required infrastructure in January 2013 within the context of the ALM enhancement project to measure interest rate and liquidity risk. This system enables integrated risk measurement which – together with market and liquidity risk factors, among other things – facilitates the integration of credit risk parameters in ALM.

A corresponding IT structure was developed and implemented into the productive environment based on the precise specifications of the requirements for future asset liability management at Hypo Alpe Adria, taking into particular account the latest regulatory and internal requirements. Currently, periodic data provision is analysed and cross-checked against previous results and data quality improvements are initiated. Reporting has been established for fundamental interest risk analysis and is ready for productive implementation. The benefits of the project are not restricted to just professional risk measurement. Data provision and data quality is being updated in line with a new standard, resulting in the following measures:

- Adaptation of the existing interfaces in the form of a new Unified Group Interface (UGIF)
- Gradual increase in data provision frequency from monthly, to weekly, to daily provision
- Integration of a data compression tool and
- Integration of a data quality analysis system

The implementation will include a reference data system to ensure that reference data, such as interest rate indicators, are uniform. The exiting Group Data Warehouse will be adjusted in line with the new requirements as part of effective business intelligence management. Following intensive analysis of the provided data, an extensive, documented review of data quality was initiated together with a systematic, continuous data quality control process.

The technical developments being implemented create a resilient foundation for a largely integrated overall bank control system as part of the ALM enhancement project, in which

- a “single point of truth” and
- a “full look through” on an individual transaction level

will initially enable the centralised group-wide data warehouse to provide high-frequency, group-wide monitoring of interest rate and liquidity risk in the form of interest rate and liquidity development statements, value-at-risk and scenario analyses as well as stress tests. Subsequently, the data warehouse may also be in a position to implement quantitative requirements from future standards pursuant to IFRS 9 (Financial Instruments) and IFRS 13 (Fair Value Measurement) within a corresponding framework and by expanding the project.

(48) Basel III – liquidity risk and liquidity risk management

The greatest challenges in liquidity risk management in mid-2014 were the professional integration and group-wide implementation of the requirements of the Capital Requirements Regulation (CRR). Data requirements defined by the technical implementation standards of the European Banking Authority (EBA) for the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) were able to be complied with as a result of the recent expansion of the IT infrastructure, which ensures quality-assured, automated data supply. The liquidity modelling forecasts are subject to continual development and are validated and back-tested with the help of statistical methods.

The LCR and NSFR were successfully submitted on the basis of ITS (implementation technical standards) in the first half of 2014 within the given time frame. A forecast calculation system is to be established to ensure proactive liquidity risk management. Other goals include the implementation of requirements concerning the reporting of asset encumbrance and monitoring metrics. The project for implementing the Basel III liquidity requirements launched in 2011 was extended to mid-2015 for this purpose.

The milestones that have been achieved so far and ongoing initiatives mean that Hypo Alpe Adria meets both qualitative and quantitative requirements of the EBA and the OeNB / FMA.

(49) IFRS 13

In conjunction with renowned consulting companies, a specific implementation concept, including portfolio management system (PMS) integration, was developed to ensure comprehensive implementation and consideration of the quantitative aspects of IFRS 13. PMS implementation consists of the following:

- Implementation of overnight index swap (OIS) discounting
- Integration of basis swaps in market interest curves, both within a single currency as well as between two currencies
- Consideration in interest rate structure models
- Calculation of credit and debt value adjusted (CVA & DVA) using the American Monte Carlo method

In the second half of 2014, adjustments made under IFRS 13 will also be adapted in market risk measurement in the PMS to ensure consistent accounting and risk controlling.

(50) European Market Infrastructure Regulation (EMIR)

In order to implement the European Market Infrastructure Regulation, all regulatory requirements for all EU banking subsidiaries have been and are being implemented at Hypo Alpe Adria as part of the EMIR project. Specifically, this concerns:

- The implementation of electronic confirmation by means of MarkitWire or other electronic confirmation platforms
- Participation in the London Clearing House's (LCH) central clearing process via two clearing brokers (Commerzbank & Landesbank Baden-Württemberg)
- The selection of a licensed central register from European service provider REGIS-TR (Luxembourg) in relation to the reporting of the group-wide derivative portfolio within the scope of EMIR
- The implementation of a reconciliation tool for the purposes of portfolio comparison and dispute management – Tri-Resolve from market-leader TriOptima
- The adjustment of all framework agreements and International Swaps and Derivatives Association (ISDA) agreements with regard to EMIR with all active derivative counterparties
- The adaptation of the COPS Cash Collateral Management tool provided in line with the requirements of central clearing

Furthermore, clearing for the Plain Vanilla derivative, which is eligible for clearing, is to be accelerated in 2014 by means of "Backloading" in MarkitWire and "LateClearing" through the LCH via the selected clearing broker in order to reduce counterparty risks and optimise own capital funds. In mid-August 2014, EMIR reporting will be expanded to include the valuation update, as required by regulations. For Hypo-Alpe-Adria banks in Slovenia and Croatia, EMIR reporting is carried out by means of "delegated reporting" on the part of Hypo Alpe-Adria-Bank International AG.

(51) Risks in the portfolio relating to historic interest rate directives

An extensive group-wide survey on interest rate directives was conducted in the first half of 2013. This issue continues to be monitored at group level with particular attention. The results can be summarised under three main headings:

a) Intentional manipulation of the interest rate adjustment matrix at the expense of customers
This issue was uncovered in the Italian group units and is currently being investigated by Banca d'Italia and public prosecutors. This case is being cleared up according to criminal, civil and labour law as well as from a regulatory perspective. A plan to compensate all affected customers was developed and submitted to Banca d'Italia; the group also took extensive measures to prevent any future manipulation. Most of the excess interest amounts have already been compensated.

b) Interest rate adjustments contrary to agreement terms
The assessment revealed that leasing companies in some countries incorrectly applied interest rate adjustment clauses agreed with customers, especially between 2009 and 2012. Lawsuits have been filed in some cases, the final outcomes of

which cannot be predicted at present. The application of interest rate adjustment clauses is also being investigated further, especially with regard to whether the conduct is criminally relevant and whether customers are entitled to compensation. That would then also have to be settled.

c) Possible subsequent invalidity of agreed interest rate and interest rate adjustment clauses following judicial decisions or changes to statutory provisions

Particularly in the past ten years, a great many private clients took out foreign currency loans (especially CHF loans). Customers are increasingly complaining about the credit agreements in question; some of these complaints have even been taken to court, a course of action largely initiated by consumer organisations. The main allegation is that customers were not provided with sufficient information on the consequences of such agreements when they were concluded, and that the interest rate adjustment clauses applied ran contrary to the terms of the agreement. At the time of writing, a number of first- and second-instance verdicts have been issued on the subject in Serbia, Croatia, Bosnia and Herzegovina, and Montenegro; most of the verdicts went against the defendant subsidiary banks, but some cases were ruled in their favour. One positive sign is the first legally binding, second-instance ruling in Bosnia and Herzegovina, which went in favour of Hypo Alpe Adria Bank d.d. in Mostar. That being said, in Croatia, a verdict issued by the country's highest court, its Supreme Court, went in favour of the organisation representing the interests of bank customers that filed the suit. A total of eight banks are affected, including Hypo Alpe-Adria-Bank d.d. in Croatia. Looking at the current legal situation as a whole, it is clear that no reliable assessment can be made on the outcome of all other legal disputes at the moment and whether these cases will have any financial implications.

National legislators and respective national authorities have also taken actions regarding this issue. In Serbia, for example, the National Bank of Serbia issued binding recommendations to all banks stating that all customers who took out CHF loans must be granted certain easements (such as the option to repay certain CHF loans in smaller instalments over the next three years) or that the increase in interest as a result of interest rate adjustments must be reimbursed. In Croatia, a new consumer protection law came into force as at 1 January 2014. It specifically defines criteria which are to be considered when setting interest rates and determines methods according to which maximum interest rates are calculated.

(52) Legal risks

Please refer to note (59.3.2) Proceedings relating to loans and participations for comments from Hypo Alpe Adria on the ongoing proceedings related to foreign exchange transactions, higher margins and interest rate clauses at the subsidiary banks.

(53) Tax risks relating to tax audits

Tax audits have been carried or are being carried out by tax authorities both in Austria and other group countries. Provisions have already been recognised in the interim consolidated financial statements as at 30 June 2014 for quantifiable audit results that have already been communicated to Hypo Alpe Adria and where Hypo Alpe Adria generally agrees with the tax opinion of tax authority. A residual tax risk remains in cases where Hypo Alpe Adria and tax authorities are of differing legal opinions. This risk could in the future impact results to an extent that is not yet quantifiable.

Supplementary information

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

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

EUR m

	30.6.2014	31.12.2013
Contingent liabilities	**567.9**	**508.5**
from bills of exchange transferred for settlement	0.5	0.2
from credit guarantees	257.5	260.7
from letters of credit	29.4	31.2
from other guarantees	242.6	200.8
from other contingent liabilities	37.8	15.6
Other liabilities	**419.0**	**482.4**
from irrevocable credit commitments	415.7	472.8
from other liabilities	3.3	9.6
Total	**986.9**	**990.9**

(55) Loans and advances and financial liabilities designated at fair value

The following values for individual items included in the statement of financial position have resulted from applying the fair value option:

EUR m

	30.6.2014	31.12.2013
Loans and advances to customers and credit institutions	298.6	289.6
Bonds and other fixed-interest securities	201.4	197.1
Shares and other non-fixed-interest securities	18.2	18.4
Total	**518.2**	**505.2**
Liabilities to credit institutions	284.5	289.8
Liabilities to customers	8.8	9.2
Liabilities evidenced by certificates	364.0	371.9
Subordinated capital	9.5	28.2
Hybrid capital	1.5	1.2
Total	**668.3**	**700.3**

(56) Fair value of financial instruments and assets

Fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability in an ordinary transaction between market participants at the measurement date. The following fair value hierarchy is based on the origin of fair value:

Quoted prices in active markets (Level I)
The fair value of financial instruments which are traded on active markets can be best determined through quoted prices, as far as these represent market values/prices used in regularly occurring transactions. This applies above all to listed equity securities, debt instruments, which are traded on the interbank market, and listed 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. Observable input parameters include interest rate curves, observable volatilities and foreign currencies.

Value determined using non-observable parameters (Level III)
This category includes financial instruments for which there are no observable market rates or prices. 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.

The end of the period under review is considered the time of reclassification between various levels of the fair value hierarchy.

Equity instruments
Equity instruments are reported in Level I if these are quoted in an active market. If not, these are then reported in Level III. If the fair value of an equity instrument cannot be reliably measured, the equity instrument is measured at amortised cost. Equity instruments measured at cost are impaired if the carrying amount is higher than the recoverable amount, either by a significant amount or over a longer period of time.

Derivatives
The fair values of derivatives that are not options are determined by discounting the relevant cash flows. These are reported in Level II if they are measured on the basis of observable input factors. If non-observable significant input factors are used, then these derivatives are reported as Level III. The measurement of the fair values of structured financial products takes into account the type of embedded derivative; these are reported in Level II or Level III depending on whether input factors were used.

Fixed-interest receivables and liabilities
The method used to measure fixed-interest receivables, liabilities and securities depends on the liquidity on the relevant market. Liquid instruments measured on the basis of the relevant market value are reported in Level I. Fair value is determined on the basis of risk premium curves in the event that there is no active market. The proximity to the risk premium curve used determines whether these instruments are reported in Level II or Level III. They are reported in Level III in the event that a significant, non-observable risk premium is used. Provision of price data, either at a low frequency or only from one source, is reported in Level III.

56.1. 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.

EUR m

30.6.2014	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
Assets				
Trading assets	4.0	0.0	0.0	4.0
Derivative financial instruments	0.0	958.0	137.8	1,095.8
Financial investments – designated at fair value through profit or loss	0.0	1.9	516.3	518.2
Financial investments – available for sale	1,751.4	373.2	163.1	2,287.7
Total	**1,755.4**	**1,333.1**	**817.3**	**3,905.7**
Liabilities				
Liabilities to credit institutions	0.0	0.0	284.5	284.5
Liabilities to customers	0.0	0.0	8.8	8.8
Liabilities evidenced by certificates	0.0	111.7	252.3	364.0
Derivative financial instruments	0.0	786.1	42.1	828.2
Subordinated capital	0.0	0.0	9.5	9.5
Hybrid capital	1.5	0.0	0.0	1.5
Total	**1.5**	**897.8**	**597.1**	**1,496.5**

There were no reclassifications between Level I and Level II in the first half of 2014. As at 31 December 2013, financial assets available for sale in the amount of EUR 36.1 million were reclassified from Level I to Level II since the availability of third-party market price listings decreased.

EUR m

31.12.2013	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
Assets				
Trading assets	6.1	6.4	0.0	12.5
Derivative financial instruments	0.0	944.1	126.0	1,070.1
Financial investments – designated at fair value through profit or loss	0.0	1.9	503.3	505.2
Financial investments – available for sale	1,856.4	397.8	167.3	2,421.5
Total	**1,862.5**	**1,350.1**	**796.6**	**4,009.2**
Liabilities				
Liabilities to credit institutions	0.0	0.0	289.8	289.8
Liabilities to customers	0.0	0.0	9.2	9.2
Liabilities evidenced by certificates	0.0	111.7	260.3	371.9
Derivative financial instruments	0.0	740.9	36.4	777.3
Subordinated capital	0.0	0.0	28.2	28.2
Hybrid capital	1.2	0.0	0.0	1.2
Total	**1.2**	**852.6**	**623.8**	**1,477.6**

The reconciliation of the financial instruments in Level III is shown in the table below:

EUR m

30.6.2014	At start of reporting period	Total gains/ losses	Revaluation (only afs)	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	At end of reporting period
Assets									
Trading assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Derivative financial instruments	126.0	11.9	0.0	0.0	0.0	0.0	0.0	0.0	137.9
Financial investments – designated at fair value through profit or loss	503.3	13.0	0.0	0.1	-0.1	0.0	0.0	0.0	516.3
Financial investments – available for sale	167.3	0.3	1.1	51.9	-60.8	3.2	0.0	0.1	163.1
Total	**796.6**	**25.2**	**1.1**	**52.1**	**-61.0**	**3.2**	**0.0**	**0.1**	**817.3**
Liabilities									
Liabilities to credit institutions	289.8	-5.3	0.0	0.0	0.0	0.0	0.0	0.0	284.5
Liabilities to customers	9.2	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	8.8
Liabilities evidenced by certificates	260.3	-8.0	0.0	0.0	0.0	0.0	0.0	0.0	252.3
Derivative financial instruments	36.4	5.7	0.0	0.0	0.0	0.0	0.0	0.0	42.1
Subordinated capital	28.2	-18.6	0.0	0.0	0.0	0.0	0.0	0.0	9.5
Total	**623.8**	**-26.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**597.1**

The column "Total gains/losses" contains both income and expenses from financial instruments which were held as at 30 June 2014, as well as from financial instruments which are no longer part of the portfolio as at 30 June 2014.

Gains and losses for derivative financial instruments are reported in the result from financial investments designated at fair value through profit or loss, result from accounting, as well as in result from trading; depending on their categories, the remaining items are reported either in the income statement or in equity. A loss of EUR -16.5 million (31 December 2013: EUR -106.8 million) was incurred on the financial instruments held as at 30 June 2014. This is reported in the result of financial assets designated at fair value through profit and loss, the result of hedge accounting and the trading result.

There were no reclassifications from Level III to Level II in the first half of 2014 (31 December 2013: EUR 9.6 million). As a result of the limited availability of external market value data, a total of EUR 2.9 million was reclassified from Level I to Level III in the first half of 2014 (31 December 2013: EUR 8.1 million), and EUR 0.2 million was reclassified from Level II to Level III.

The reconciliation of the assets and liabilities reported in Level III as at 31 December 2013 was as follows:

in EUR m

31.12.2013	At start of reporting period	Total gains/ losses	Revaluation (only afs)	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	At end of reporting period
Assets									
Trading assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Derivative financial instruments	171.3	-48.2	0.0	0.0	0.0	0.0	0.0	2.8	126.0
Financial investments – designated at fair value through profit or loss	781.7	-34.3	0.0	0.0	-5.0	0.0	0.0	-239.0	503.3
Financial investments – available for sale	94.6	6.0	1.3	79.4	-8.9	8.1	-9.6	-3.5	167.3
Total	**1,047.6**	**-76.5**	**1.3**	**79.4**	**-13.9**	**8.1**	**-9.6**	**-239.7**	**796.6**
Liabilities									
Liabilities to credit institutions	318.2	-28.4	0.0	0.0	0.0	0.0	0.0	0.0	289.8
Liabilities to customers	139.3	-70.5	0.0	0.0	-60.0	0.0	0.0	0.4	9.2
Liabilities evidenced by certificates	308.5	-52.6	0.0	0.0	-4.5	0.0	0.0	9.0	260.3
Derivative financial instruments	42.0	0.6	0.0	0.0	0.0	0.0	0.0	-6.3	36.4
Subordinated capital	27.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	28.2
Total	**835.1**	**-149.8**	**0.0**	**0.0**	**-64.5**	**0.0**	**0.0**	**3.0**	**623.8**

The disposal of the assets and liabilities held by the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG, which was sold on 19 December 2013, is reported in the “Other” column.

56.1.1. VALUATION METHODS USED TO DETERMINE THE FAIR VALUE OF LEVEL II AND LEVEL III ITEMS

The generally accepted valuation techniques according to IFRS 13 are the market approach, the cost approach and the income approach. The valuation technique using the market approach is based on identical or comparable assets and liabilities. With the income approach, future cash flows or income and expenses are discounted on the valuation date. The fair value determined in this manner reflects current market expectations regarding these future amounts. It primarily includes present value models and also option price models used for the valuation of financial instruments or cash flows with the nature of options. The cost approach is not used. The fair value of financial instruments with short terms where the carrying amount is an adequate approximation of fair value was not separately determined. While market prices for some of the Level III items are provided externally, the market prices are either supplied with low frequency or from only one source. Where possible, the values are verified against third-party valuations on a recurring basis.

The valuation techniques used are regularly validated by evaluating counterparties and analysing alternative assessment tools. Such independent validations aim to minimise the inherent model risk. The following valuation techniques are applied to items that are valued internally based on models:

Present value of the future cash flows

Level II and III items that are not traded in active markets but where the date and amount of the cash flows are known are valued at the present value of the future cash flows. A risk premium is taken into account for discounting. All input factors are observable for Level II instruments while some parameters cannot be directly observed for Level III.

Option valuation models

The existing portfolio of Level III items includes cash flows with amounts tied to various market variables such as swap rates, stock market indexes and FX rates, or with dates that cannot be determined. Recognised interest and option valuation models calibrated daily with market data (market prices, swaption prices, FX rates) are used for the valuation of such cash flows.

56.1.2. NON-OBSERVABLE INPUT FACTORS FOR LEVEL III ITEMS

Volatilities and correlations

Volatilities are important input parameters for all option valuation models. The volatilities are derived from market data using recognised models. If a model incorporates more than one market variable, correlations also have to be estimated and taken into account.

Risk premiums

Credit risk premiums indicate the default risk of an issuer. They provide information about the expected loss if the issuer defaults and therefore reflect the loss given default and the probability of default. Risk premiums for some issuers can be observed directly in the market. When single-name CDS curves are not available for an issuer, the risk premiums have to be estimated based on similarities to other issuers or based on the issuer's county and sector. This applies to the risk premium of Hypo Alpe Adria.

Loss given default

The loss given default is a parameter that is never directly observable before a company defaults. Historical data is used to estimate the expected loss given default.

Probability of default

The risk premium and loss given default are used to estimate the probability of default, which is used for possible fair value adjustments.

The ranges for non-observable input factors were as follows as at 30 June 2014:

Financial Instruments	input parameter	range of
Derivatives	LGD	40%
	PD	0.15% -100%
Securities	credit spread	0bp -3.815bp
Derivatives and securities	volatility (volatility calibrated percentage)	15% -156%

56.1.3. FAIR VALUE ADJUSTMENTS

Credit valuation adjustment (CVA) and debt valuation adjustment (DVA)

The credit valuation adjustment (CVA) and debt valuation adjustment (DVA) are reported for all OTC derivatives. The calculation is based on a Monte-Carlo simulation of the future replacement value (exposure), taking into account the effects of CSA agreements (credit support annex, CSA) by path. This results in a distribution of replacement values for all future dates. To determine the CVA, the absolute expected values from the positive exposure paths are multiplied by the counterparty's marginal probabilities of default and discounted. The DVA, on the other hand, is determined by multiplying and discounting the absolute expected values from the negative exposure paths with the bank's own marginal probabilities of default.

For counterparties with a collateral contract, the CVA and DVA have to be calculated at the portfolio level. The calculation takes into account contractual parameters such as the minimum transfer amount, threshold, rounding and netting. The relative CVA approach is used to allocate the portfolio CVA to specific items. Here the portfolio CVA is distributed proportionately to the individual CVAs. The full CVA approach is applied to unsecured items. This approach calculates the CVA at the individual item level. A waterfall principle is applied to determine the probabilities of default. First the probabilities of default are derived from CDS curves. Synthetic curves are used if there are no single-name curves; these are comprised of country-specific curves and an internal rating.

OIS discounting

Hypo Alpe Adria values derivatives under consideration of base spread influences by using various interest curves. Various interests curves are used to calculate the forward rates and discount factors (multi-curve framework). Overnight-indexed swap rates (OIS interest rates) are used for discounting in the valuation of collateralised OTC derivatives according to current market standards. A cross-currency base spread is taken into account for foreign currency swaps, where the collateral and cash flows are in a different currency.

56.1.4. SENSITIVITY ANALYSIS WITH LEVEL III ITEMS

The values of Level III financial instruments are determined on the basis of non-observable input factors. The value of these non-observable factors can be derived from a range of alternatives and are subject to management assumptions and estimates. As at 31 December 2013, the value of factors from within the possible range were selected on the basis of the pricing transparency and complexity of the financial instrument so as to best reflect market conditions. In order to determine sensitivities within the measurement of fair values regarding the change of non-observable input factors, the factors were placed at the end of both ranges. Credit spread was identified as a material, unobservable input factor in the valuation of Level III items.

The following effects on the result arose from the rise and fall of input parameters as at 30 June 2014:

EUR m

30.6.2014	Fair value at credit spread -100 bp	Fair value at credit spread +100 bp
Assets		
Financial investments – designated at fair value through profit or loss	-10.7	10.3
Total	**-10.7**	**10.3**
Liabilities		
Liabilities to credit institutions	-7.1	6.8
Liabilities to customers	-0.6	0.5
Liabilities evidenced by certificates	-8.2	7.9
Subordinated capital	-0.5	0.4
Total	**-16.3**	**15.7**

The following effects on the result arose from the rise and fall of input parameters as at 31 December 2013:

EUR m

31.12.2013	Fair value at credit spread -100 bp	Fair value at credit spread +100 bp
Assets		
Financial investments – designated at fair value through profit or loss	-20.8	18.5
Total	**-20.8**	**18.5**
Liabilities		
Liabilities to credit institutions	-8.6	8.3
Liabilities to customers	-0.7	0.6
Liabilities evidenced by certificates	-8.8	9.1
Subordinated capital	-1.1	2.1
Total	**-19.2**	**20.0**

56.2. Fair value of financial instruments not measured at fair value in the statement of financial position

In the table below, the respective fair values are shown for the carrying amounts of financial instruments not measured at fair value in the statement of financial position:

EUR m

30.6.2014	Carrying amount	Carrying amount of short term financial instruments and assets	Carrying amount of long term financial instruments and assets	Fair value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions
Assets								
Loans and advances to credit institutions	1,770.2	1,341.5	428.7	427.6	1.0	0.0	0.0	427.6
Loans and advances to customers	14,069.8	4,120.2	9,949.6	9,773.7	175.9	0.0	39.2	9,734.5
Financial investments – held to maturity	82.7	1.2	81.5	90.6	-9.2	90.6	0.0	0.0
Investment properties	1,108.4	0.0	1,108.4	1,133.8	-25.4	0.0	0.0	1,133.8
Assets classified as held for sale	236.7	0.5	236.2	225.9	10.4	0.0	0.0	225.9
Miscellaneous receivables	99.6	62.4	37.2	33.5	3.8	0.0	0.0	33.5
Total	**17,367.4**	**5,525.8**	**11,841.6**	**11,685.1**	**156.5**	**90.6**	**39.2**	**11,555.3**
Liabilities								
Liabilities to credit institutions	4,020.1	3,307.4	712.7	704.2	8.4	0.0	50.6	653.6
Liabilities to customers	5,711.1	3,226.7	2,484.4	2,311.2	173.2	0.0	132.9	2,178.3
Liabilities evidenced by certificates	9,122.1	2,053.1	7,068.9	6,321.5	747.5	0.0	159.0	6,162.5
Subordinated capital	1,965.6	0.0	1,965.6	587.8	1,377.8	0.0	0.0	587.8
Miscellaneous liabilities	104.6	62.4	42.2	42.0	0.2	0.0	0.0	42.0
Total	**20,923.5**	**8,649.7**	**12,273.8**	**9,966.7**	**2,307.1**	**0.0**	**342.5**	**9,624.2**

EUR m

31.12.2013	Carrying amount	Carrying amount of short term financial instruments and assets	Carrying amount of long term financial instruments and assets	Fair value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions
Assets								
Loans and advances to credit institutions	2,079.1	1,719.9	359.2	359.6	-0.4	0.0	0.7	358.9
Loans and advances to customers	15,463.8	7,171.6	8,292.2	8,217.3	75.0	0.0	39.7	8,177.6
Financial investments – held to maturity	83.7	2.7	81.1	84.3	-3.2	84.3	0.0	0.0
Investment properties	1,106.7	0.0	1,106.6	1,074.4	32.3	0.0	0.0	1,074.4
Assets classified as held for sale	97.5	0.0	97.5	106.2	-8.7	0.0	0.0	106.2
Miscellaneous receivables	105.5	103.7	1.7	1.7	0.0	0.0	0.0	1.7
Total	**18,936.4**	**8,998.0**	**9,938.4**	**9,843.5**	**94.9**	**84.3**	**40.4**	**9,718.8**
Liabilities								
Liabilities to credit institutions	4,375.5	3,383.9	991.6	982.4	9.2	0.0	201.9	780.5
Liabilities to customers	6,111.8	3,516.6	2,595.2	2,467.2	128.0	0.0	52.7	2,414.6
Liabilities evidenced by certificates	10,023.8	42.7	9,981.2	9,215.2	766.0	0.0	8.5	9,206.7
Subordinated capital	1,886.6	249.8	1,636.9	1,460.4	176.4	0.0	0.0	1,460.4
Miscellaneous liabilities	95.8	94.4	1.4	1.0	0.3	0.0	0.0	1.0
Total	**22,493.5**	**7,287.4**	**15,206.1**	**14,126.3**	**1,079.9**	**0.0**	**263.1**	**13,863.2**

The fair value of loans and liabilities is determined according to the present value of future cash flows. The risk premium for loans depends on the internal or external rating of the borrower. For liabilities, the own credit spread is also taken into account in the discount factor. The inherent model risk and illiquidity of the items were taken into account with adjustment factors as well.

For financial assets held to maturity, fair value is determined on the basis of externally obtained prices.

The fair value of investment properties is determined by market-based estimates that are generally calculated by full-time experts. If market-based estimates are not available, fair value is estimated on the basis of the income approach.

For assets held for sale, fair value is calculated on the basis of existing purchase price offers.

(57) Related party disclosures

Business relations with related parties on the respective balance sheet dates were as follows:

EUR m

As at 30.6.2014	Parent	Affiliated companies	Joint Ventures	Key management personnel
Assets	69.2	115.5	44.2	1.3
Liabilities	28.1	14.3	0.8	2.5
Liabilities arising from guarantees	0.0	1.7	0.0	0.0

EUR m

As at 31.12.2013	Parent	Affiliated companies	Joint Ventures	Key management personnel
Assets	108.3	120.1	47.3	0.7
Liabilities	27.4	14.0	0.8	1.4
Liabilities arising from guarantees	0.0	1.8	0.0	0.0

(58) Statutory guarantee

The sums for which the State of Carinthia is liable as at 30 June 2014 are as follows:

EUR m

	30.6.2014	31.12.2013
Hypo Alpe-Adria-Bank International AG	11,350.0	12,195.5
Total	**11,350.0**	**12,195.5**

With regard to the possible consequences of the entry into force of the Austrian Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG), please refer to note (1) Important events and to note (64) Events after the balance sheet date.

(59) Important proceedings

59.1. EU proceeding

The European Commission concluded its state aid investigation into Hypo Alpe Adria in September 2013.

Following the capital measures implemented by the Republic at Hypo Alpe-Adria-Bank International AG at the end of the 2012 financial year (EUR 500.0 million capital increase and the issuing of a state-guaranteed bond in the amount of EUR 1.0 bn), the European Commission imposed conditions (Behavioural Measures) with preliminary approval dated 5 December 2012; these first came into force on 1 January 2013 and in a watered-down form following the European Commission’s final decision on 3 September 2013 and primarily relate to new business. The requirements fix, among other things, specific levels of creditworthiness, collateralisation ratios and terms, regulate the issue of foreign currency loans, and boost the level of self-funding by improving the loan-to-deposit ratio within a certain period of time. The group’s Executive Board, in consultation with the European Commission, has assigned a Monitoring Trustee, who is responsible for monitoring the requirements mentioned above, and will arrange for the immediate implementation of the “Behavioural Measures” and the resulting reporting obligations at Hypo Alpe-Adria-Bank International AG and the units concerned. The new business requirements must be complied with until the bank has been reprivatised, which has been set as mid-2015 for the SEE network banks.

59.2. Proceedings relating to BayernLB

BayernLB filed an application at the Regional Court in Munich for a declaratory judgement with regard to the equity-substituting financing of Bayerische Landesbank (BayernLB). Hypo Alpe-Adria-Bank International AG prepared a comprehensive response to this judgement and contested its claims. BayernLB has since converted the claim to one for payment. The final oral hearing was held on 30 June 2014 and the proceedings are expected to continue in the autumn of 2014. Hypo Alpe-Adria-Bank International AG is also required to ensure that the repayments already made on equity-substituting financing are asserted in court by means of counterclaims in the ongoing case against BayernLB in Munich. Hypo Alpe-Adria-Bank International AG is now calling for an amount totalling approximately EUR 3.368 bn.

BayernLB filed a claim in July 2011 against the HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS) calling for the reversal of share purchase agreements made in 2007 and concerning the acquisition of a total of 175,316 shares in Hypo Alpe-Adria-Bank International AG on the grounds of intent to mislead in conjunction with the eligibility to count as equity the preference shares that had been issued by Hypo Alpe-Adria-Leasing Holding AG (now HETA Asset Resolution GmbH). The sum in dispute, originally set at EUR 50.0 million, was reduced to EUR 10.0 million by BayernLB in a hearing on 14 March 2012. MAPS has served a third-party notice on Hypo Alpe-Adria-Bank International AG on the grounds that the actions of supporting the due diligence process and drawing up the consolidated financial statements as at 31 December 2006, in which the preference shares were shown as equity, could, as the actions of employees and executive bodies of Hypo Alpe-Adria-Bank International AG, be attributed to the same. Hypo Alpe-Adria-Bank International AG has joined these proceedings as a third-party intervener. Subsequently, Hypo Alpe-Adria-Bank International AG served third-party notices on potential recourse parties, so as not to rule out claims to recourse by Hypo Alpe-Adria-Bank International AG in the event that MAPS should make a claim. The court did not allow these and many of the other third-party interveners, who had also stated that they intend to intervene. The extensive taking of evidence has started with a significant number of hearings and expert reports and was concluded on 24 July 2014; a copy of the written judgement is still pending.

59.3. Other proceedings

59.3.1. PROCEEDINGS RELATING TO THE STATE OF CARINTHIA AND OTHER HOLDERS OF PARTICIPATION CAPITAL

In December 2011 an application for a declaratory judgement against the bank was made by the State of Carinthia as a participant in connection with the capital reduction resolution passed at the general shareholders’ meeting on 30 May 2011.

Essentially the plaintiff claims that the allocation of loss to the participation capital is invalid and the entitlement to future interest payments of the participant involved should be on the basis of the nominal value of the capital prior to the reduction. The claim submitted has no effect in terms of company law on the capital reduction which has already been registered and is legally valid; nor on the capital increase which took place on 30 June 2011. The application for a declaratory judgement was upheld in the first instance by the Commercial Court in Vienna in a judgement dated 16 July 2012. Hypo Alpe-Adria-Bank International AG appealed against this judgement of the first instance with due notice. The Higher Regional Court (OLG) of Vienna upheld the appeal launched by Hypo Alpe-Adria-Bank International AG with its judgement dated 29 January 2013, thereby annulling the judgement of the Commercial Court of Vienna. As a result, the State of Carinthia filed an appeal with the Supreme Court on 11 March 2013.

In a judgement by the Supreme Court dated 29 April 2014, it was ruled that the loss allocation to the participation capital was valid, but that it was unlawful as regards to the fact that the risk reserve should have been discounted down to the legal limit provided by section 183 of the Austrian Stock Corporation Act (AktG) before the nominal capital reduction. However, this has no bearing on the enforceability of the resolution passed at the general shareholders' meeting. On the contrary, the legal effects of this will remain upheld overall, meaning that this also applies to the participants. The Supreme Court only upheld the declaratory relief with regard to the unlawfulness because the State of Carinthia had claimed possible financial disadvantages in the event that Hypo Alpe-Adria-Bank International AG generates profits from the 2013 financial year onwards.

In June 2014, an application for a further declaratory judgement against the bank was made by Kärntner Landes- und Hypothekenbank-Holding as a participant in connection with the capital reduction resolution passed at the general shareholders' meeting on 30 May 2011. The claim is identical with that filed by the State of Carinthia in 2011. This claim has been filed with the Commercial Court of Vienna; preliminary hearings have been scheduled for October 2014.

59.3.2. PROCEEDINGS RELATING TO LOANS AND PARTICIPATIONS

In 2002, Hypo Alpe-Adria-Nekretnine d.o.o. acquired 100.0% of the shares in a Croatian company, which were sold on by the same in 2005 to a third party. In the same year, the original vendor claimed that the share sale agreement of 2002 was void. This claim was upheld in the first instance in March 2011; Hypo Alpe-Adria-Nekretnine d.o.o. then filed an appeal. The decision has been partially reversed by the court of appeal and returned for a new hearing. The plaintiff has subsequently withdrawn the claim that the agreement is void. This has not been contradicted by Hypo Alpe-Adria-Nekretnine d.o.o. Only the question of who is to bear the costs remained open. This was resolved by the decision of the court of January this year, that each party was to bear their own costs..

Since the end of 2012, intensive forensic investigations are underway in the group company Alpe Adria Privatbank Liechtenstein in liquidation (AAP). Investigations are being conducted, involving the authorities in Liechtenstein and Austria, into various facts and suspicions which show a connection to Liechtenstein, in order to make it possible for Hypo Alpe Adria to examine and pursue any further claims for damages. After consulting with the Liechtenstein FMA and the liquidator, an interface between Hypo Alpe-Adria-Bank International AG and AAP in liquidation was installed in mid-2013. These investigations have since resulted in 61 reports to the FIU/Liechtenstein public prosecutors, which will forward all facts relevant in Austria to the Austrian authorities. Investigations relating to the processing of cases in Liechtenstein are likely to last for the whole of 2014.

In Serbia, Croatia, Bosnia and Montenegro, bank customers and bodies representing bank customers have lodged claims against Hypo Alpe Adria group companies, or have threatened to do so. They allege that provisions in some lending agreements relating to interest are not in compliance with the law and/or that interest rate adjustments did not comply with contractual provisions. Some cases also allege that clauses contained in the agreements regarding linking with the CHF benchmark index rate ought to be changed, and that these should instead be linked to the EUR benchmark interest rate.

The first-instance commercial court in Zagreb, Croatia ruled in favour of the consumer protection association representing bank customers on 4 July 2013. A total of eight banks are affected, including Hypo Alpe-Adria-Bank d.d. in Croatia. All eight banks have launched appeals. The respective decision by the Croatian Supreme Court was reached on 16 July 2014. In the decision, the loan agreements with private persons with foreign exchange clauses were deemed to be in accordance with consumer protection laws, which means that the banks do not need to make any refunds with regard to potential foreign exchange losses of the HRK (Croatian cuna) versus the CHF (Swiss franc). Moreover, the court decided that the implemented interest adjustment provisions, which permit banks to unilaterally increase the contractual interest rate based on market interest rates, are not in accordance with consumer protection laws when the bank fails to provide a reason for such an adjustment in a transparent manner. In terms of the interest rate adjustment ruling, the subsidiary bank duly lodged an extraordinary appeal on 14 August 2014. The consumer protection association also lodged an appeal against this ruling in the second instance to the Supreme Court on 12 August 2014, although it is still unclear from a legal point of view whether the ruling on foreign exchange clauses can be amended. Based on this decision, the bank customers concerned will have to assert their claims against Hypo Alpe-Adria-Bank separately, or take legal action. The new consumer protection law which entered into effect as at 1 January 2014 also has an impact on the granting of future loans and the assessment of existing consumer loans. It specifically defines criteria which are to be considered when setting interest rates and determines methods according to which maximum interest rates are calculated. Hypo Alpe-Adria-Bank d.d. had already agreed to the regulations prior to their implementation and will apply them to new consumer loans, in particular CHF mortgage loans.

Proceedings are also pending against the Serbian subsidiary bank Hypo Alpe-Adria-Bank a.d. Beograd involving bank customers concerning interest rate increases based on intransparent contractual clauses, the unilateral right of the bank to change interest rates and the granting of foreign currency loans. As at 30 June 2014, in eight cases the first-instance courts ruled in favour of the customer, and three decisions were in favour of Hypo Alpe-Adria-Bank a.d. Beograd. The bank appealed against the first eight rulings. In total, almost 62 lawsuits were filed against the bank in connection with CHF mortgage loans and/or loans containing interest rate adjustment clauses. 31 other cases were settled out of court. One proceeding is a class action which also involves two other banks in Serbia. This was rejected in the first instance. Hypo Alpe-Adria-Bank a.d. Beograd has already implemented two binding recommendations issued to all banks by the National Bank of Serbia in May 2013, stating that all customers who took out CHF loans must be granted certain easements (such as the option to repay certain CHF loans in smaller instalments over the next three years) or be refunded the interest rate increase in connection with interest rate adjustments. There are also pending proceedings against the leasing subsidiary in Serbia relating to incorrectly conducted interest rate adjustments in leasing agreements.

A number of proceedings have also been initiated against subsidiary banks in Bosnia and Herzegovina in relation to similar cases of CHF loans and interest rate adjustments. In Bosnia and Herzegovina, 676 court cases against Hypo Alpe-Adria-Bank d.d. are currently underway in Mostar regarding claims relating to intransparent foreign exchange clauses and/or unilateral interest rate adjustment clauses. According to current information, an additional 1,500 such claims are expected. The claims relate to foreign currency loans granted between 2006 and 2010. At the current stage of procedures, 25 decisions in the first instance have been issued, one in favour of the bank and 19 in favour of the customers. Five other decisions were partly in favour of the bank. The bank has appealed against all 24 decisions and the outcome remains to be seen. There is currently only one ruling issued by the court of last resort, which ruled entirely in favour of the bank. In order to prevent potential convictions, the bank makes a concerted effort to reach out of court settlements. There are also numerous cases underway in Republika Srpska. In Banja Luka, Hypo Alpe-Adria-Bank a.d. is faced with 172 court cases in connection with CHF foreign currency loans. As in Bosnia and Herzegovina, the plaintiffs in Republika Srpska challenged the contractual unilateral right of the bank to change interest rates and contested the validity of foreign exchange clauses. To date, six decisions have been made against the bank regarding interest rate adjustment clauses (three in the first instance and three by the court of last resort). The decisions by the court of last resort were all against the bank. Of the first-instance decisions, only one was in favour of the bank. In terms of proceedings where both types of contract provisions were challenged, nine first-instance rulings have been made. Only one decision is partially in favour of the bank. In order to prevent the risk of further convictions, the bank is making a concerted effort to reach out of court settlements. If this does not succeed, court settlement is regarded as a viable method of preventing a negative outcome. No such court settlements have been made so far. The further course of the procedures remains to be seen.

Proceedings are also pending against Hypo Alpe-Adria-Bank a.d. in Montenegro, where the lawfulness of CHF mortgage loans and the contained calculation matrix for currency clauses (EUR/CHF) are being challenged. In concrete figures, the bank currently faces two proceedings in the first instance where this is the issue. It involves one class action suit comprising 232 borrowers (filed on 17 May 2013) and one individual lawsuit. As part of the first hearing, 78 additional plaintiffs were added to the class action, while four plaintiffs withdrew their claims, which means 306 plaintiffs are currently opposing Hypo Alpe-Adria-Bank a.d. in court. Moreover, one individual lawsuit (filed on 24 October 2013) is pending. The plaintiffs demand the partial annulment of loan agreements concluded between 2006 and 2008 and a reduction of the loan receivable. The bank has already answered to the court in both cases. In the event of the class action, the first hearing took place at the end of March 2014. At this hearing, Hypo Alpe-Adria-Bank a.d. objected to the expansion of the class action suit by additional plaintiffs. The objection was overruled. In the case of the individual lawsuit, the first hearing is scheduled for mid-September. The bank expects both decisions to be in its favour. For one, the contractual agreement of foreign currency clauses in loan agreements is permitted under the applicable regulations and secondly, for 199 of the plaintiffs, the bank can refer to signed confirmations that the customers were informed of the risks relating to the foreign currency clause when the contract was concluded. It should be pointed out that the class action suit does not only challenge the lawfulness of the agreement, but also states the change in the foundation of the business is the reason for its invalidity. Regardless of this, the bank is closely following the aforementioned cases. A negative outcome could not only lead to additional lawsuits by other borrowers, but could also sustainably damage public opinion.

In the last financial year, the subsidiary bank in Italy was confronted with the fact that long-running interest rate adjustment clauses in leasing agreements were applied incorrectly for the benefit of the lessee, resulting in higher obligations for customers. These cases only applied to corporate/SME leasing clients; retail customers were not affected. Hypo Alpe Adria initiated the requisite internal investigations to clarify the facts immediately on being informed of the matter; these investigations resulted in criminal charges being brought, investigations by the local financial police and the Italian regulatory authorities as well as HR and organisational consequences. The public prosecutors of Udine are currently investigating the case. The cases handled by the specially dedicated task force already led to the repayment of the majority of the incorrectly stated interest. By the end of 2013, external experts had revealed other minor cases of malversation during recent investigations; compensation of affected customers was immediately initiated. The repayment of all incorrectly retained amounts was largely completed in the first half of 2014.

Since the first quarter of 2013, a claim for damages by a Cypriot company against group company Hypo Rent d.o.o. for around EUR 22.5 million is pending in an arbitration court in Belgrade. The proceedings involve the non-fulfilment of contractual obligations arising from the shareholders' agreement between the parties concerning a Serbian special purpose entity. The Cypriot company contests that the business purpose of the special purpose entity – to establish a commercial object in Serbia or finance the establishment of an object and the subsequent profitable sale of the object – was not achieved due to delays of several years in the fulfilment of the obligations. The allegations made by the plaintiff are being refuted by Hypo Alpe Adria, which believes that the case will be decided in its favour. After initial negotiations in the first half of 2014, a final decision is expected in autumn 2014.

In a legal dispute between former small shareholders of Slavonska Banka d.d., Osijek, which was acquired by Hypo Alpe-Adria-Bank International AG at the end of the nineties and then merged with Hypo Alpe-Adria-Bank d.d., Zagreb, and Hypo Alpe-Adria-Bank International AG, the Croatian Supreme Court granted the appeals of six small shareholders in March 2014. The subject of the proceedings is the question of the lawfulness of the price difference between the share price which was paid to these shareholders by Hypo Alpe-Adria-Bank International AG and the price paid to the Republic of Croatia. The lower instance court decisions were annulled and referred back to the court of first instance for a new decision. The proceedings in question have been pending for more than ten years in some cases. The price difference between the purchase price paid to the small shareholders and that paid to the Republic of Croatia was lawful at the time of the acquisition. However, this law has since been declared unconstitutional. Following a preliminary hearing in June 2014 and once the solicitors have submitted their statements, the next hearing is scheduled for September 2014. Hypo Alpe-Adria-Bank International AG assumes with the exception of those shareholders whose appeals have been granted, the claims of the small shareholders in question are statute-barred. If the court grants the appeal of the six plaintiffs, Hypo Alpe-Adria-Bank International AG would have to reimburse the price difference including interest which amounts to around EUR 1.5 million.

A Croatian non-profit organisation (NGO) is of the opinion that a credit agreement concluded between Hypo Alpe-Adria-Bank International AG and a Croatian company is void and that the liens on property agreed as collateral for the claim, must be eliminated. This involves a claim of around EUR 6 million where it is alleged that the bank did not have a license to conduct banking activities in Croatia. The complaint lodged against Hypo Alpe-Adria-Bank International AG was not formerly submitted to the bank, but it has been aware of it since the first quarter of 2014. The bank has obtained an external legal opinion regarding the matter, which renders the applicant's arguments invalid.

59.3.3. PROCEEDINGS RELATING TO INVESTORS AND EXPERTS

Hypo Alpe-Adria-Bank International AG was successful at the first instance in the legal dispute with a former advisor in relation to unpaid fees of EUR 65 thousand. The appeal proceedings reversed the decision and returned it to the first instance for a new hearing. A joint notice that proceedings have been stayed was filed owing to settlement discussions in other proceedings. The second of the fees proceedings relating to EUR 576 thousand has been interrupted until a legally binding decision has been reached in the first case.

59.3.4. PROCEEDINGS REGARDING THE INVOLVEMENT OF FORMER SHAREHOLDERS

On 21 March 2012, Hypo Alpe-Adria-Bank International AG filed a suit against original shareholders HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS), HYPO-BANK BURGENLAND Aktiengesellschaft, Kärntner Landes- und HypothekenbankHolding and B & Co BeteiligungsgmbH as well as a total of nine former Executive and Supervisory Board members (so-called "consultants" civil suit). The sum in dispute totals EUR 50.1 million, of which EUR 50.0 million is for demands for performance of obligations and EUR 0.1 million for declaratory relief. The claims made relate to what Hypo Alpe-Adria-Bank International AG considers the undue distribution of a disproportionate special dividend to the abovementioned shareholders in 2008 for the 2007 financial year. In a submission dated November 2012, one of the joint defendants, B & Co BeteiligungsgmbH, filed a counterclaim during the proceedings for EUR 250.0 million due to assumed deception when acquiring shares relating to a Hypo Alpe-Adria-Bank International AG capital increase in 2006 to be offset against the claim (and up to that amount); the company also addressed this purported claim out of court. Hypo Alpe-Adria-Bank International AG does not believe this counterclaim to be valid. The preliminary hearings of the proceedings took place in the first quarter of 2014 and evidence taking started in spring 2014 and will be continued in autumn 2014. In July 2014, settlements of around EUR 19 million (around of 75% of the disputed sum) were agreed to Hypo Alpe-Adria-Bank International AG in connection with the first defendant and second defendant old shareholder and two former members of executive bodies. The proceedings will be continued against the remaining defendants with a limited claim of around EUR 27 million.

(60) Guarantee agreements

On 28 December 2010, a guarantee agreement was concluded between the Republic of Austria and Hypo Alpe-Adria-Bank International AG, with the Republic taking on liability as a statutory guarantor pursuant to section 1356 of the Austrian Civil Code (ABGB). The liability of the Republic relates to a precisely specified portion of receivables in the portfolio of Hypo Alpe-Adria-Bank International AG and is capped at a maximum of EUR 200.0 million ("maximum guaranteed sum"). Hypo Alpe-Adria-Bank International AG agreed to pay a commission to the Republic of Austria of 10% p.a. for the assumption of liability, based on the nominal value of the part of the receivables for which liability is assumed. An addendum was signed whereby the Republic's liability was extended until 30 June 2017, effective 30 June 2013.

Certain existing secured receivables were replaced in the context of the extension with other existing bank receivables, resulting in additional risk provisions for receivables that are no longer secured as well as reversals of newly-secured receivables portions. The maximum guarantee sum of EUR 200.0 million and the provisions for the commission payable to assume liability remained unchanged. The drawdown procedures were also adapted, resulting in the redesigning of the process to assess drawdown conditions in particular. The guarantee agreement continues to allow claims for receivables for which the guarantee can be utilised only in the event that certain financial key figures (including covering the guarantee fees with annual profit) are met. In the event that these receivables are utilised, the Republic of Austria is also entitled to a right of regress from Hypo Alpe-Adria-Bank International AG, dependent on certain key financial figures (including covering the distributable profit) and of the extension of the guarantee agreement that had been correctly reported to the European Commission. As part of the extension of the guarantee agreement, the option of drawdowns was amended so that this is only possible from May 2014.

The bank is currently in the process of preparing other such drawdowns, which are likely to happen in the third or fourth quarter of 2014. A decision is also pending regarding two cases from the original guarantee agreement concerning receivables of around EUR 18 million. The Republic of Austria has not yet made any payments regarding these cases as the relevant departments of the Federal Ministry of Finance (BMF) have requested additional information and deem that the conditions for utilisation of the guarantee were not fulfilled at the time of the drawdown. The bank is of the opinion that the drawdown conditions have been met at the time of drawdown and is in negotiations with the BMF regarding this matter.

(61) Own capital funds as defined by the BWG/CRR

The own capital funds of the group as defined by the BWG and by EU regulation 575/2013 (CRR) are shown in the table below.

EUR m

Basel III	30.6.2014 (BASEL III)	31.12.2013 (BASEL II)	Basel II
Core capital (T1 = CET 1)	**776.9**	**1,808.3**	**Core capital (Tier 1)**
Paid-in capital	3,545.8	2,808.6	Paid-in capital
Reserves and minority interests	-1,045.8	828.5	Reserves (incl. non-controlling interests in equity)
		0.7	Funds for general banking risks
Intangible assets	-4.4	-11.8	Intangible assets
Deduction net loss, material negative results	-1,673.0	-1,817.8	Deduction net loss, material negative results
Adjustments to core capital (prudential filters)	-45.6		
Tier 2 capital (T2)	**1,409.9**	**904.1**	**Supplementary elements (Tier 2)**
		-6.7	**Deductions pursuant to Section 23 -13 BWG**
		34.1	**Tier 3 (reclassified Tier 2 capital)**
Total regulatory capital (TC = T1 + T2)	**2,186.7**	**2,739.8**	**Total regulatory capital (TC = T1 + T2)**
Own capital funds requirement	**1,531.6**	**1,473.8**	**Own capital funds requirement**
Surplus capital/shortage - own capital funds	**655.1**	**1,266.0**	**Surplus capital/shortage - own capital funds**
Surplus capital/shortage - Tier 1	**-276.1**	**834.3**	**Surplus capital/shortage - Tier 1**

EUR m

	30.6.2014	31.12.2013
Tier 1 ratio*	4.1%	9.8%
Total capital ratio	11.4%	14.9%

* The minimum Tier 1 ratio as prescribed by the regulator for 2014 is 5.5%.

EUR m

	30.6.2014	31.12.2013
Credit risk pursuant to standardised approach	**16,595.4**	**16,643.6**
Position, foreign exchange and commodity risk	655.9	426.1
Operational risk	1,352.5	1,352.5
Risk position for credit value adjustments (CVA)	541.6	
Total risk-weighted assets	**19,145.4**	**18,422.2**

(62) Portfolio transfers in the SEE network

Since 2011, comprehensive portfolio transfers on wind-down segments remaining in Hypo Alpe Adria have been carried out in Slovenia, Bosnia and Herzegovina, Montenegro, Croatia, Austria and Italy in order to facilitate the reprivatisation of the marketable units. The portfolio transfer in Serbia, which started in 2013, was concluded in the first half of 2014; the portfolio in question was worth less than EUR 0.1 bn. Another portfolio adjustment of approximately EUR 0.15 bn is scheduled in Bosnia and Herzegovina for the second half of 2014; preparations for this are currently underway. Transactions that provide for the transfer of the underlying assets in the form of so-called "true sales" are currently being prepared in those countries in which "synthetic" portfolio transfers have been carried out (Bosnia and Herzegovina, Croatia, Slovenia). These are designed to simplify the processing of funding where the opportunities and risks of the underlying portfolio have already been synthetically transferred to the wind-down units.

The sales process relating to non-performing retail and SME portfolios in Serbia, Croatia, Montenegro and Slovenia initiated in the closing quarter of 2013 continued in the first half of 2014 and was concluded in August 2014 when the sales contract with a Norwegian investor was signed. The reduction in the number of NPL portfolios is designed to make it easier to sell the bank network in South-Eastern Europe.

(63) Employee data

	30.6.2014	31.12.2013
Employees at closing date (Full Time Equivalent – FTE)	6,082	6,008
Employees average (FTE)	6,061	6,574

The increase in the number of employees as at 30 June 2014 is largely due to the fully-consolidated tourism companies as these require more employees in the summer months.

(64) Events after the balance sheet date

On 7 July 2014, the Executive Board resolved to utilise the authorisation granted by the general shareholders' meeting to withdraw the participation capital. With the approval of the Supervisory Board of 8 July 2014, the issued participation capital of 2009, which was not subscribed in accordance with the Law on financial market stability (FinStaG), with a nominal value of EUR 64,428,867.95 (after reduction by resolution of the general shareholders' meeting of 30 May 2011), will be withdrawn for cash consideration of zero. Application for approval was submitted to the Financial Markets Authority (FMA) on 24 July 2014. A court withdrawal auditor was appointed by the court, who audited the withdrawal plan drawn up by the Executive Board and confirmed that the resolved cash consideration for zero was appropriate. After providing the necessary documentation for inspection by the shareholder and the holders of participation capital, and after receiving approval from the FMA, it is planned to withdraw the participation capital accordingly. The resolved authorisation to withdraw the capital should be viewed in relation to the difficult capital situation of Hypo Alpe-Adria-Bank International AG in 2014, as this measure will provide a positive effect on the regulatory, eligible core capital without the need for additional funds to be provided by the shareholder.

On 16 July 2014, the Croatian Supreme Court announced its decision regarding the CHF foreign exchange clauses. In the decision, the loan agreements with private persons with foreign exchange clauses were deemed to be in accordance with consumer protection laws, which means that the banks do not need to make any refunds with regard to potential foreign exchange losses of the HRK (Croatian cuna) versus the CHF. Moreover, the court decided that the implemented interest adjustment regulations, which permit banks to unilaterally increase the contractual interest rate based on market interest rates, are not in accordance with consumer protection laws when the bank fails to provide a reason for such an adjustment in a transparent manner. In terms of the interest rate adjustment ruling, the subsidiary bank duly lodged an extraordinary appeal on 14 August 2014. The Croatian consumers association duly lodged an extraordinary appeal against this Supreme Court ruling on 12 August 2012.

Hypo Alpe-Adria-Bank International AG and HYPO-BANK BURGENLAND Aktiengesellschaft (GRAWE Group), which were minority shareholders of Hypo Alpe-Adria-Bank International AG until it was put under emergency nationalism in 2009, reached a settlement on 18 July 2014 in the Regional Court Klagenfurt in the "consultants" civil suit. The settlement amount is EUR 17.5 million. A settlement was also reached in the proceedings between Hypo Alpe-Adria-Bank International AG and

HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS). Both parties agreed on a repayment of EUR 1.575 million. In total Hypo Alpe-Adria-Bank International AG will receive around EUR 19.0 million from the settlements.

On 1 August 2014, a legislative package for the wind-down of Hypo Alpe Adria entered into force, which was passed by the National Council on 8 July 2014 and by the Federal Council on 24 July 2014. This legal package is based on the Federal Law adopting the Federal Law on the Creation of a Wind-Down Unit (GSA), the Federal Law incorporating a federal wind-down holding company for HYPO ALPE-ADRIA-BANK S.P.A. (HBI-Bundesholdinggesetz), the Federal Law incorporating a federal wind-down (public limited) company (ABBAG-Gesetz) and the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG). The purpose of HaaSanG is the implementation of EU regulation 2001/24/EC of 4 April 2011 on the reorganisation and winding-up of credit institutions and foresees the involvement of previous owners, participants and certain subordinated creditors, whose rights are eliminated. For the restructuring of Hypo Alpe Adria, all supplementary capital issues, subordinated liabilities of third parties with guarantees by the State of Carinthia of around EUR 800 million and the participation capital subscribed by the Republic of Austria in December 2008 under the Law on financial market stability (FinStaG) will be considered. In addition, this law concerns some EUR 800 million in liabilities to the former major shareholder, Bayerische Landesbank (BayernLB), which were granted after the first FinStaG capital measure in December 2008. In accordance with section 3 HaaSanG, the subordinated liabilities as well as all collateral including security for such liabilities will be eliminated. Due to the fact that HaaSanG entered into effect after 30 June 2014, this has no impact on the interim consolidated financial statements.

On 12 August 2014, the signing of a contract was announced regarding the sale of non-performing retail and SME portfolios to an investor specialised in the collection of non-performing liabilities for around EUR 169 million. This transaction, which is expected to be concluded in September 2014, marks an important step in reduction the NPL portfolio in the affected countries Serbia, Croatia, Montenegro and Slovenia.

An agreement governing the provision of IT services for the subsidiary banks in South-Eastern Europe was signed with an external service provider on 21 August 2014. The outsourcing of the data centre, which had previously been operated by the group, serves to further prepare for the sale of the SEE network.

On 22 August 2014, Fitch rating agency confirmed its AAA rating for Hypo Alpe Adria’s guaranteed public sector bond with a nominal value of EUR 1.0 bn (term 2012 to 2022).

On 26 August 2014 the Supervisory Board of Hypo Alpe-Adria-Bank International AG announced the appointment of Rainer Jakubowski as Chief Risk Officer per 15 September 2014. The position has been vacant since the departure of Wolfgang Edelmüller at the end of February, and has been held on a temporary basis by Hypo Alpe Adria CEO Alexander Picker since then.

Klagenfurt am Wörthersee, 27 August 2014
Hypo Alpe-Adria-Bank International AG

Executive Board

Dr. Alexander Picker
(Chairman)

Johannes Proksch

Rainer Sichert

Statement of all legal representatives

We confirm to the best of our knowledge that the interim 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 interim group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the interim consolidated financial statements, of the principal risks and uncertainties for the remaining six months of the financial year and of the major related party transactions to be disclosed.

Klagenfurt am Wörthersee, 27 August 2014
Hypo Alpe-Adria-Bank International AG

Executive Board

Dr. Alexander Picker
(Chairman)

Johannes Proksch

Rainer Sichert

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Forward-looking statements and forecasts are based on information and data available at the time of going to press (27 August 2014). Changes after this date could influence the facts and forecasts given in the Interim Financial Report. We have drawn up this report with the greatest of care and the data upon which it is based has been checked. Rounding errors or mistakes in transmission, typesetting or printing cannot, however, be ruled out. The English version of the Interim Financial Report is a translation. Only the German is the authentic language version. All uses of the third person pronoun in the masculine form in this Interim Financial Report that were used in the interests of better legibility also cover the feminine form.
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