# Annual Financial Report 2013

In accordance with section 82(4)
Stock Exchange Act (BörseG)
of Hypo Alpe-Adria-Bank International AG

# Table of Contents

# Group Management Report

## 1. General economic conditions

In 2013 emerging economies were once again the biggest driving force behind global growth. In industrialised countries, austerity measures had a negative impact on economic performance last year. In the light of a further concentration of investment activity and the sustained – although more gradual – decline in consumer spending, GDP fell in the eurozone by 0.4% in 2013. Only net trade made a positive contribution to GDP last year. A degree of stabilisation of the pace of growth in Serbia, Bosnia and Herzegovina and Montenegro was offset by declining GDPs in Slovenia and Croatia, so that overall Hypo Alpe Adria's SEE countries dropped back. Altered financial conditions as part of the slowing of bond buying by the Fed ("tapering") and also unexpectedly low inflation rates played a key role in shaping the past year.

In Slovenia, GDP fell by around 2.2% in 2013. This was due in particular to the decline in consumer spending, which in turn was attributable to a rise in unemployment over the 11% mark, falling real net wages and the Government's tight budget policy. Investments also impacted on GDP development, since companies focussed on significant deleveraging in view of the ailing banking sector. It is expected that in 2014 GDP will fall by 1.4% as a result of a continued decline in consumption, austerity measures and the long-overdue restructuring of banks/businesses. Bank stress tests and asset quality reviews have furthermore revealed that the banking system has a manageable capital deficit. This means that the biggest cause of short-term uncertainty is eliminated.

Despite another solid tourist season and the brief improvement in mood after joining the EU, GDP in Croatia fell by 1.1% in 2013. This decline is attributable to the export slump after withdrawal from the CEFTA (Central European Free Trade Agreement), weak domestic demand, the weakness of industry and the debt equity ratio in the private economy. As a result of lack of budgetary discipline the Government did not adhere to three out of five Maastricht criteria, and hence the European Commission was forced to initiate proceedings against Croatia due to an excessive deficit. For 2014 a decline of 0.7% in GDP is forecast. One of the reasons for the decline will be sluggish consumption by private households. In addition dampened investment activity in the private sector, the CEFTA domino effect for SEE exports and the poor outlook for the most important trade partners are impacting on GDP development

Serbia's rise in GDP in 2013 (2.4% as against -1.5% in the previous year) owes much in particular to the positive contribution made by net trade due to automotive and energy exports. Private consumption remains the largest vulnerability and in combination with the debt equity ratio of businesses and the resulting decline in investment prevented a stronger upturn in GDP. In 2014 it is expected that a reduced contribution by net trade will be accompanied by a slowing of growth. GDP is anticipated to grow by 1.25%. The biggest positive contribution will be made by investment projects funded with public money in the energy and traffic infrastructure sectors. The Government is avoiding a more stringent tightening of fiscal policy, and hence it may be assumed that the country will still not make use of the relief fund.

Bosnia and Herzegovina achieved positive growth with the help of higher investments and higher industrial production. Private consumption depressed the GDP. This is due to high unemployment and the decline in real net wages. Stronger consumer demand and a rise in public investments in 2014 may result in a rise of 1.3% in GDP. Net trade will depress the result slightly, since investments give a strong impetus to imports. With regard to (re-)financing, the state continues to be largely dependent on finance from international financial institutions. In our view potential political conflict in the lead-up to the general election in the second half of 2014 could constitute a downwards risk. This is particularly the case if political differences have negative consequences for the support of international financial institutions, which would lead to a decline in investment.

Montenegro continues to be strongly dependent on tourism. The sector contributed crucially to the upturn (increase of 1.6% in GDP after -2.5% in the previous year). Looking at the economy as a whole, there are indications of a gradual structural shift from the metal industry towards services sectors. However fiscal risks remain. The additional use of guarantees is likely to lead to a further loosening of fiscal policy. Tourism will continue to be the biggest contributing force for GDP growth in 2014. We also expect greater investment in the areas of tourism and energy infrastructure. In view of uncertainties relating to financing, however, we also perceive downwards risks for public investment spending.

Overall we anticipate a broadly sideways trending GDP in the key markets of Hypo Alpe Adria with slowed inflation and a stabilisation of unemployment figures.

(Economic data for 2013 are interim values)
(Source: (Hypo Research Department)

## 2. Overview of Hypo Alpe Adria

Hypo Alpe Adria was founded in 1896 in Klagenfurt and remained a typical regional bank for almost 100 years. The strategic focus of Hypo Alpe Adria's business was centred on public-sector financing activities. In the 1990s Hypo Alpe Adria began its gradual expansion into the Alps-to-Adriatic region and developed from a Carinthian regional bank into an international finance group. Hypo Alpe-Adria-Bank International AG is the management holding company for all companies in the Hypo Alpe Adria group.

As a result of years of aggressive growth with no risk limitation, over-optimistic assessments and serious operating deficiencies in all major units of the bank, Hypo Alpe Adria experienced ever greater turmoil during the global financial crisis and had to be rescued by nationalisation at the end of 2009. The Republic of Austria has been the sole owner of the bank since December 2009.

Since emergency nationalisation, the bank has undergone restructuring. The EU state aid investigations in progress since 2009 were brought to a conclusion in the 2013 financial year. After several years of intense negotiations the Commission terminated the proceeding and approved the final restructuring plan of the bank.

The plan provides for the reprivatisation of the SEE network, consisting of the countries of Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro and also a holding company in Austria, and the winding down of the remaining segments of the bank in such a way as to preserve value. An important step towards implementing the plan was the sale which occurred during last financial year of the Austrian subsidiary Hypo Alpe-Adria-Bank AG Klagenfurt/Wörthersee to investor group Anadi Financial Holding Pte. Ltd., which emerged as the higher bidder in an extensive tendering process. The next important milestone on the path to restructuring is the swift reprivatisation of the SEE network. Hypo Alpe Adria is rated in the SEE countries as a reliable partner in the financial services sector, and focuses first and foremost on serving retail customers and also on small and medium sized businesses. Following comprehensive restructuring measures in recent years this network therefore represents an attractive asset for potential investors. In accordance with the EU's requirements, the reprivatisation of the network is scheduled by mid-2015.

As at the effective date of 31 December 2013 Hypo Alpe Adria was operating around 300 branches, primarily in Slovenia, Croatia, Bosnia and Herzegovina as well as Serbia and Montenegro, and served over 1.26 million customers in this extensive Alps-to-Adriatic network. The workforce numbered around 6,000 active employees (FTE) at year's end.

## 3. Significant events in the 2013 financial year

For Hypo Alpe Adria, the 2013 financial year was shaped by work in preparation for the privatisation of the marketable entities in the SEE countries and by the sale of the Austrian subsidiary despite the prevailing difficult climate for bank sales, and also by the final decision of the European Commission in the state aid investigations that had been pending since 2009, which also had direct consequences for the valuations of assets and loans. Moreover, the prolonged public discussion and – above all – speculation about various scenarios have had a further negative impact on the bank, with customers withdrawing their deposits, for example. These circumstances ultimately led to the owner of the Austrian bank holding company, the Republic of Austria, being forced to provide the company with a total of EUR 1.75 billion of additional capital.

In April 2014 a further capital requirement in the amount of EUR 0.75 billion was notified, which was needed for the finalisation of the 2013 financial statements and also to comply with the statutory capital adequacy ratio until the forthcoming deregulation of the bank in September 2014.

These measures are consistent with the restructuring plan revised by the Republic of Austria and submitted to the European Commission, which provides for further capital measures by the owner in the years ahead and formed the basis for the final decision of the European Commission in September 2013.

### 3.1. Clearly negative group result in 2013

In 2013 a combination of declining operating income, almost constant operating expenses and a significant increase in risk provisions on loans and advances compared to the previous year led to a group result after taxes of EUR -1,843.4 million (2012: adjusted EUR +8.3 million). This was largely a result of the ongoing tough economic environment in South East Europe as well as rising overdue payments and payment defaults from customers. The low number of real estate transactions and the failed customer restructuring measures led to a delay in the realisation of loan and leasing collaterals or a delay in the planned date of realisation.

### 3.2. Changes to the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG (HBInt.)

As at 30 April 2013 the Supervisory Board, which had previously consisted of four members (not including employee representatives), was expanded to six members with the appointment of Klaus Liebscher and Adolf Wala. After chairman of the Supervisory Board Johannes Ditz announced his resignation with immediate effect on 3 June, the general shareholders' meeting elected Ludwig Scharinger to the Supervisory Board on 21 June. In the Supervisory Board meeting held on the same day, Klaus Liebscher was appointed to the new chairman of the Supervisory Board.

On 2 July 2013 the then chairman of the Executive Board, Gottwald Kranebitter, announced that he would resign from his office with effect from the end of August. The duties of the chairman of the Executive Board were assumed by deputy chairman of the Executive Board, Wolfgang Edelmüller, pending further notice. 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. On 10 January 2014 Chief Risk Officer (CRO) Wolfgang Edelmüller announced that he would resign his membership of the Executive Board of Hypo Alpe-Adria-Bank International AG on 28 February 2014. The position of CRO which had become vacant was advertised in accordance with the Stellenbesetzungsgesetz (Austrian law on staff appointments) on 18 January 2014. Upon the departure of Wolfgang Edelmüller on 28 February 2014, chairman of the Executive Board Alexander Picker assumed the function of CRO in an interim capacity. The CRO position has not been filled to date.

On 4 February 2014 Ludwig Scharinger left the Supervisory Board. As at 21 February 2014 Karl Liebscher resigned from office as chairman of the Supervisory Board. In March 2014 Finance Minister Michael Spindelegger made a public announcement that an internationally renowned and experienced banking expert would assume the chairmanship of the Supervisory Board. The appointment is to take place within the second quarter of 2014.

## 3.3. 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 Commission.

Under the guidance of its sole owner, the Republic of Austria, following a request by the European Commission the previous EU restructuring plan was fundamentally revised and working-level meetings between Vienna and Brussels were re-organised. The meetings related to the specific final form of those anticipated obligations relating to the schedule of sale and market presence, the fulfilment of which was likely to be required as part of the implementation of the European Commission’s final decision, which were considered to be a prerequisite of a positive decision by the European Commission. In accordance with the Commission’s decision dated 3 September 2013, the acquisition of new customers in the credit and leasing business was ceased in Italy, and the Italian banking subsidiary was assigned to wind-down activities. Furthermore, in the operative divisions in the Balkans the “behavioural measures” imposed by the European Commission were given more specific form. Their implementation was part of in-depth consultation appointments and Governance requirements.

On 3 September 2013 the European Commission communicated the final ruling concerning the state aid investigations of Hypo Alpe Adria. It was based on the final restructuring plan submitted by the bank at the end of June 2013. Observance of the conditions contained therein for new business is required until the time of 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, which had been scheduled prior to mid-2014 according to the plan, was already completed in 2013. The version of the ruling drafted with the owner and the European Commission and adjusted for competition law data was published in October 2013. Observance of the restructuring plan and the “behavioural measures” imposed will continue to be monitored by an independent monitoring trustee.

## 3.4. Capital measures of the Republic of Austria in 2013

The immediate implications arising from the completion of the EU investigations for the valuation of assets and the increased need for credit risk provisions made a recapitalisation of the Austrian parent company, Hypo Alpe-Adria Bank International AG, in the total amount of EUR 1.75 billion necessary in 2013.

At the general shareholders' meeting on 23 July 2013, a capital increase in the amount of EUR 700 million was authorised by the Republic of Austria as the bank’s owner, which was effected in September 2013. Registration of the capital measure in the Commercial Register occurred on 27 September 2013.

On 29 November 2013 the deposit of a EUR 250 million shareholder contribution by the owner occurred. At the general shareholders' meeting on 13 December 2013 the Executive Board of the bank was authorised to issue participation capital up to a nominal value of EUR 800 million. The subscription of EUR 800 million in participation capital by the purchaser, the Republic of Austria, represented by the Federal Ministry of Finance, occurred on the same day. The purchase price was deposited into an account of the bank on 18 December 2013. In March 2014 the bank communicated that further capital measures would be required for the finalisation of the 2013 annual financial statements and also for the observance of the regulatory capital ratios until the planned deregulation of the bank in September 2014 (see also 3.6). On 3 April 2014 a capital increase in the amount of EUR 750 million was announced to be conducted by the sole owner. The capital measure was adopted in the course of the extraordinary general shareholders' meeting on 9 April called for this purpose, and the deposit was made on 11 April 2014.

## 3.5. The bank’s capital requirements, going concern

The EU restructuring plan of Hypo Alpe Adria reflects the ruling of the Commission on the wind-down status of the Italian banking subsidiary, the implementation of measures to assist the sale in the form of portfolio transfers and more conservative risk assessments of the SEE portfolio, and also the accelerated sale of the portfolio earmarked for wind-down. The resulting losses in the period from 2013 to 2017 relate first and foremost to expected losses on disposals arising from the sale of participations as well as increased provision for risk, and were estimated in the restructuring plan at EUR -3.58 billion (so-called “base case”) up to EUR -6.33 billion (so-called “stress pessimistic case”). The recapitalisation requirement resulting from this amounts between EUR 2.65 billion (base case) and EUR 5.40 billion (stress pessimistic case) and was authorised by the European Commission. Taking into account the additional capital measure that occurred in April 2014 in the amount of EUR 0.75 billion, since that time a total of EUR 2.50 billion has been allocated, whereby still a maximum amount of EUR 2.90 billion remains available as part of the state aid already approved by the European Commission.

In March 2014 the bank announced that further capital measures would be required for the finalisation of the 2013 annual financial statements and also in order to observe the regulatory capital ratios until the planned deregulation of the bank in September 2014. Following the exact quantification of the capital requirements, a further capital increase in the amount of EUR 750.0 million was undertaken in April 2014. This capital measure is intended to ensure the observance of regulatory requirements up to the implementation of a planned wind-down unit, which will no longer require a banking licence and will therefore not be subject to any regulatory requirements in relation to minimum capital according to the Austrian Banking Act (BWG). With respect to the assessment of the going concern principle of Hype Alpe Adria, the assumptions employed by the Executive Board were the same as those on which the approved restructuring plan for the group was based, and which also provide for additional capital measures in future to maintain the going concern premise and to cover the losses anticipated in the course of the wind-down of the portfolio.

### 3.6. Project on options for realisation of wind-down units

After it became possible to predict the completion of the state aid investigations of the European Commission in June 2013 and the task force appointed by the Federal Chancellor and Vice-Chancellor had pronounced a recommendation in this respect, various options for the structural implementation of the EU restructuring plan and for the optimal realisation of the assets of Hypo Alpe-Adria-Bank International AG as part of a wind-down unit were investigated in greater depth. For this purpose Hypo Alpe Adria and its owner launched the “Lux” project.

As a result of this project a document was sent out to the bank’s senior executives, which subsequently fed into a document of the task force and in which a prioritisation of the various proposed models, based on a legal and economic evaluation, was put forward.

It became apparent on 10 February 2014 that as a further consequence there would be no participation by Austrian banks in the wind-down unit and that therefore those models ought to be pursued in which the Republic remained the sole owner of the wind-down assets. In March 2014 the political decision-makers decided against the insolvency scenario which had also been examined, and stated their intention of quickly selling the SEE banking subsidiaries and implementing the winding-down of Hypo Alpe Adria via a deregulated private-sector unit by September 2014. The bank is currently engaged in implementing these requirements.

### 3.7. Forensic investigations into the past

Since its introduction as part of the line organisation, the Forensics department has been concerned with in-depth forensic investigations into the past – determination of the causes of the sudden loss of value. The Forensics department manages the task of investigating and working through the past both within Austria and abroad, reports directly to the Executive Board and works closely with the coordinator (BKO) appointed by the general saherholders' meeting for this purpose. It focuses on protecting, preparing and describing the results of forensic investigations. By 31 December 2013, a total of 86 cases (117 individual cases) in Austria and abroad had been reported to the relevant public prosecutors with total damages amounting to approximately EUR 1.2 billion. 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 EUR 109.0 million are being asserted.

In 2013, the Forensics department continued to focus on the following major sets of issues: “BayernLB equity”, “Consultants” and “Liechtenstein” as well as forensic investigations in the international subsidiaries, in particular Bulgaria and Italy. In addition progress was made on the issues of asset-tracing, network analysis and options for utilising forensic expertise. The world-wide search for and securing of assets from debtors of Hypo Alpe Adria constituted an additional focus in 2013. The active search for assets and their recovery will continue to be one of the central tasks of the Forensics department in the future. The ongoing forensic investigations into the Alpe-Adria Privatbank 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 binding judgements and 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 in the Forensics department includes around 6 million documents and is processed with specialised software and made available to the various stakeholders, public prosecutors, Federal Criminal Police Office, 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.

### 3.8. Italian banking subsidiary

The banking subsidiary in Italy is confronting the problem that for many years interest resetting clauses in leasing agreements had been incorrectly applied in favour of the bank, which led to excessive interest charges in many cases. The management of Hypo Alpe Adria and the current Administrative Board of the Italian subsidiary launched extensive internal investigations into these very skilfully concealed fraudulent activities immediately after first indications of the misconduct which began well before 2010. The forensic investigations that were launched and also the review by internal audit resulted in various criminal charges, investigations by the local financial police or the Italian banking regulators respectively and also in consequences for appointments and the organisational structure. The corresponding auditing activities of the Udine Public Prosecutor's office are under way.

The staffing and organisational conditions necessary to deal comprehensively with the individual cases involved were created immediately in order to expedite the repayment of the amounts incorrectly retained to the customers affected. A double-digit EUR million amount has already been disbursed. The Italian leasing subsidiary Hypo Alpe Adria Leasing S.r.l., which assumed NPL portfolios from its sister bank in the course of a portfolio transfer in January 2013, is affected to a minor extent. In a number of contracts taken over, manipulations relating to interest charges had occurred in the past. These wrongly retained amounts have already been repaid to the customers to a large extent.

In addition to the consequences of the fraudulent interest charges that were uncovered, the loss reported for Italy in 2013 is also a consequence of the wind-down status of the Italian banking subsidiary due to the EU decision, the poor economic situation in Italy and also the effects of a slower than expected sale of non-performing loans and financial securities. Recapitalisation requirements resulted for the group holding company as well as the issuance of letters of comfort to its Italian banking subsidiary and the leasing company. Both subsidiaries are now assigned to the wind-down segment of the group.

### 3.9. Equity substitution loan from BayernLB

After the major need for risk provisions became known, Hypo Alpe-Adria-Bank International AG has raised the question of whether the financial lines granted to Hypo Alpe Adria by its former shareholder BayernLB since 2008 constitute equity substituting shareholder capital. This issue was subject of comprehensive analysis, also by bringing in external experts. According to the results of this analysis, the conditions for classifying all these financing lines as equity substituting capital under the Austrian Equity Substituting Capital Act (Eigenkapitalersatz-Gesetz [EKEG]) are met. Hence, as specified by article 14 of the EKEG, a mandatory suspension of repayments to BayernLB applies with respect to these financings.

At the end of 2012, former majority shareholder of Hypo Alpe Adria, 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. In the meantime BayernLB has converted the order sought into an action for performance. The first oral hearing took place on 25 November 2013; at present the delivery of a court-ordered expert opinion on the Austrian EKEG is still awaited.

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 time-barring, 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 3.0 billion (including secondary accessory claims) is actively being sought at present.

### 3.10. Proceedings regarding the involvement of former shareholders

On 21 March 2012 Hypo Alpe-Adria-Bank International AG brought an action against former shareholders HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS), HYPO Bank BURGENLAND Aktiengesellschaft, Kärnter Landes- und Hypothekenbank-Holding and B & Co BeteiligungsgmbH, and also a total of nine former board members (Executive and Supervisory Board members) (so-called "Special Dividend/Consultants" civil action. The amount in dispute is EUR 50.1 million, with the performance order being sought for EUR 50.1 million and the action for a declaratory judgement for EUR 0.1 million. Claims are asserted in connection with the distribution of a non-linear special dividend in 2008 to the shareholders named for the 2007 financial year.

In a written pleading dated November 2012, the fourth respondent, B & Co BeteiligungsgmbH, objected with an asserted counter-claim of EUR 250.0 million for assumed deception when acquiring shares in the course of a capital increase of Hypo Alpe-Adria-Bank International AG in 2006 in the court case for setting off against the sum claimed (and up to the amount thereof) and also raised this asserted claim out of court. In the view of Hypo Alpe-Adria-Bank International AG, this counter-claim is not justified.

In the proceedings themselves, the preliminary hearing took place on several hearing dates between 24 February and 19 March 2014; evidentiary proceedings begin on 12 May 2014 and are anticipated to run at least until the end of 2014.

### 3.11. Rating

Hypo Alpe Adria withdrew its own 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.

During the year under review Moody's announced on 1 August 2013 that it was placing the Unguaranteed Public Sector Covered Bond rating of Hypo Alpe-Adria-Bank International AG on "review" direction "uncertain". This review initially remained in place unchanged until the year's end.

On 19 December 2013 due to countless reports in the media Moody's had occasion to publish an information on Hypo Alpe Adria, in which it confirmed the Guaranteed Senior Unsecured Debt Rating at A1 with a "negative" outlook. At that time Moody's did not see any cause for a ratings change, supporting this view amongst other reasons by the fact that a possible insolvency of the bank was extremely unlikely in the rating agency's view, since this would have grave consequences for the State of Carinthia and high reputational costs.

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 at the beginning of the 2014 financial year caused Moody's to downgrade the Guaranteed Debt Ratings on 14 February 2014. In the course of this ratings 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 "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."

In a further rating action Moody's altered the rating of bonds with a guarantee provided by 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.

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

### 3.12. 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. As yet, there has been no notification regarding the JRAD study ("JRAD III") conducted by the supervisory authorities in 2013, which implies that the requirements of JRAD II must have been met as at 31 December 2013. Based on actual own capital funds of EUR 2.7 billion and risk-weighted assets (RWA) of EUR 18.4 billion, the group's own capital funds ratio amounts to 14.87%. The first JRAD II requirement of maintaining an own capital funds ratio of 12.4% is thereby fulfilled. To meet the second JRAD II requirement of covering the shortfall with own capital funds, non-eligible Tier 2 capital (due to the cap imposed by Basel II) of EUR 0.6 billion can be used in addition to the regulatory actual own capital funds (EUR 2.7 billion). The coverage of own capital funds requirements and the short fall totalling EUR 2.62 billion is offset against the risk coverage capital of EUR 3.37 billion. This corresponds to surplus coverage of EUR 0.75 billion, which meets the second requirement.

### 3.13. Portfolio transfers in the SEE network

From 2011 selected credit portfolios (loans and finance leases) of the subsidiaries assigned to the SEE network segment in Bosnia and Herzegovina, Montenegro and Slovenia were transferred to local write-down units within the group. The volume of the transfers amounted to a total of around EUR 1.0 billion in 2011, and EUR 0.5 billion in 2012. The transfers were carried out in all countries except Montenegro by means of "synthetic" transfers. Only in Montenegro the transfer was carried out by way of a true sale.

These measures achieved the derecognition of the portfolios, which brought about a normalisation of the key financial figures in the affected units, in particular net income from interest, NPL ratios, (Non Performing Loans), eligibility for refinancing (loan/deposit ratio) and also the strengthening of the key capital figures.

In 2012 the banks in Austria and Italy underwent portfolio transfers, which were implemented by means of splits or transfers of assets and resulted in the transfer of assets in the amount of around EUR 2.0 billion or EUR 0.8 billion respectively.

At the beginning of 2013 an additional portfolio transfer of around EUR 0.7 billion (gross exposure) was carried out which affected the Slovenian leasing portfolio. This represented a further step towards focussing the Slovenian leasing company concerned towards the core business of movables.

The decision of the European Commission on 3 September 2013 demands measures that maximise the sales appeal of the SEE network for potential investors. Further portfolio adjustments were carried out on this basis, along the lines of the transactions already carried out in the countries of the SEE network. In the Slovenian subsidiary, a portfolio adjustment was undertaken on 31 October 2013 in the amount of around EUR 0.3 billion (gross exposure), in Croatia on 31 December 2013 a volume of EUR 0.2 billion (gross exposure) was transferred and in Montenegro a volume of around EUR 0.08 billion (gross exposure). The subsidiary in Serbia underwent a portfolio transfer in 2013 in the form of a true sale of around EUR 0.2 billion, the portfolio was transferred to a separate wind-down unit. In Bosnia and Herzegovina as well as Serbia further portfolio adjustments are planned by mid-2014, which will serve to improve the saleability of the SEE network and are currently in preparation.

### 3.14. Privatisation activities

In 2012 the splitting off of the non-strategic business portfolio of the subsidiary Hypo Alpe-Adria-Bank AG (Austria) into the parent company Hypo Alpe Adria International AG took place as one of the significant steps towards successful reprivatisation. Consequently, after a bidding process lasting several months and careful examination of the offers on 31 May 2013, a contract of sale was signed with the highest bidder, Anadi Financial Holdings Pte. Ltd. for 100% of the shares of Hypo Alpe Adria Bank AG (Austria). After fulfilment of all the closing conditions by the buyer and seller, in particular after Hypo Alpe-Adria-Bank International AG had obtained the approvals of the Austrian Financial Market Regulator (FMA) and Bayerische Landesbank (BayernLB), the transfer of shares (closing) took place on 19 December 2013. Thus a significant milestone towards the reprivatisation conditions imposed by the European Commission was achieved. The agreed purchase price was EUR 65.5 million, with a part being paid into an escrow account to secure various risks identified by the buyer. In so far as the risks defined in the purchase contract do not come into play, the disbursement of this part of the purchase price will occur by September 2017.

The bidding process for the SEE network, consisting of six subsidiaries in the Balkans as well as a holding company, which was commenced in the 4th quarter of 2012 was continued in 2013 according to plan. In order to increase the attractiveness of the object of the sale, in the second half year a transfer of non-performing portfolio segments into the respective local wind-down companies (brush transaction) was carried out by the local subsidiaries and the necessary preparations for the founding of the management holding company were carried out for that business segment. This restructuring step is necessary for a transparent separation of the SEE bank network to be privatised from the wind-down segments of the bank, and enables the sale of the SEE banks as a banking group with a holding company. After extensive preparation the data room was opened for selected interested parties in September 2013. These parties are now carrying out their due diligence audits.

Along with these major privatisation processes, further steps to reduce the portfolios of participations and thus the complexity of Hypo Alpe Adria were put in place and sales processes drawn up for the leasing companies and also major hotel participations, the completion of which is expected in 2014. In the case of a number of investment companies it was possible to complete liquidation in 2013.

### 3.15. Public Corporate Governance Codex

The Austrian Federal Public Corporate Governance Codex (B-PCGK0 includes measures and regulations that prescribe a high degree of corporate governance in state-owned and quasi-government businesses. Hypo Alpe-Adria-Bank International AG considers this Codex to be an important code of practice and therefore introduced the observance of the rules of the B-PGK into its articles of association in July 2013.

The first specific measure was to adapt the by-laws of the Supervisory Board and the Executive Board in strict accordance with the provisions of the B-PCGK. The by-laws now serve as the basis for the business practices of those bodies. In 2014 these strict requirements will also be extended to all group companies.

As a further consequence, Hypo Alpe-Adria-Bank International AG is committed to reporting annually on the observance of the Codex. Additionally the observance of the rules will be examined every five years by an internal specialist.

# 4. Economic development of the group

## 4.1. Development of results

In the 2013 financial year Hypo Alpe Adria focused on rapidly pursing its restructuring measures and creating the foundation for the group's new structure. After last year's positive result, the financial and risk parameters deteriorated again significantly in 2013 due to the effects of the EU restructuring plan and the deterioration of the customer portfolio. The capital requirements determined by the JRAD process were met as at 31 December 2013.

The overall economic environment in Hypo Alpe Adria's core markets continues to be problematic. This is reflected in the group's annual results: Net interest income declined due to the maturing wind-down portfolio and the modest level of new business. The low interest rates and the rise in non-interest-bearing assets are weighing down on net interest income. Newly required risk provisions on loans and advances have risen by over 30% following the year-on-year reduction. Operating expenses fell as sharply as operating income year-on-year. The group reported a negative result after taxes of EUR -1,843.4 million (adjusted comparable figure 2012: EUR +8.3 million), which is largely in line with what was expected as part of the EU restructuring plan. Divided by segments, it is evident that the largest negative effects in terms of value arise from the group's wind-down segments. The contributions from the SEE network segments and Italy were also negative in 2013.

The group's net interest result fell from EUR +597.9 million (adjusted) in the same period of the previous year to EUR +423.5 million, which corresponds to a decline of EUR -174.4 million or -29.2%. The decline in loans and advances to customers led to a decline in interest income as the maturing write-down portfolio cannot be compensated for by new business, which is largely limited as a result of restrictive EU requirements. The low interest rate level cannot be reflected straight away or to the same extent in interest expenses for customer deposits as the group continues to pursue its goal of strengthening the SEE core units' self-funding activities. In addition to the increase in non-interest-bearing assets, the high level of non-performing loans (NPL) – for which, in accordance with IFRS, interest may only be recognised based on the net present value of the net receivables (gross exposure less specific risk provisions, also known as unwinding) –impacted on the result for net interest income. Expenses from the guarantee commission of EUR -53.3 million for the state-guaranteed subordinated bond issued in December 2012 of EUR 1.0 billion are as well recognised in net interest income.

**Net interest result**
in EUR m


Net fee and commission income increased slightly in 2013 from EUR +47.9 million (adjusted 2012) to EUR +51.2 million, although the decline in fee and commission expense was lower compared to the decline in net fee and commission income. Fee and commission expenses also include commissions payable to the Republic of Austria for the guarantee in the amount of EUR -18.2 million (2012: EUR -19.6 million). In terms of segments, SEE banks made the largest contribution to net fee and commission income.

The result from financial assets, which are not designated at fair value through profit or loss, amounted to EUR +3.0 million compared to EUR +113.5 million in the previous year's period (adjusted). The previous year's result included effects from the measurement of outstanding hybrid and supplementary capital booked in profit and loss of EUR +99.9 million. The result in the current year was primarily generated from the measurement and sale of securities.

The positive trading result in the previous year, which includes the result from foreign currency translation, fell from EUR +17.0 million (adjusted 2012) to a normal level of EUR +0.2 million. The result from hedge accounting, which derives from hedge inefficiencies, is more or less unchanged at EUR -2.9 million compared to the previous-year figure (EUR -1.8 million; adjusted).

The result from financial investments designated at fair value through profit or loss (fair value option) was recognised with an overall effect of EUR +55.1 million in profit and loss; the corresponding figure for the previous year had been EUR -6.5 million (adjusted). The positive result is largely a result of the measurement of issues on the liabilities side and the ongoing public insolvency discussions, which account for the rise in the group's own credit spread and the related temporary positive effects. This led to a positive impact of +39.5 million (2012: EUR -36.1 million). This income position also includes EUR +15.6 million from the measurement of the portfolio of the investment company HBInt. Credit Management Limited, Jersey.

The operating result from investment properties, which was EUR +32.0 million (adjusted) in the previous year's period, was also positive in the reporting period with EUR +21.4 million. This was a result of the net rental income from operating leasing contracts and investment properties as well as depreciation and amortisation and other expenses from these assets.

Other operating income, which came to EUR +16.4 million (adjusted) during the same period the previous year, fell to EUR -244.6 million in the 2013 financial year. This position includes other tax expenses of EUR -31.6 million (2012: EUR -26.9 million), of which EUR -22.8 million (2012: EUR -22.1 million) is attributable to the banking tax to be paid in Austria. It also includes the result from assets classified as held for sale and disposal groups, which largely arise from the measurement of a hotel project in Croatia which is held for sale (EUR -37.2 million). The other result primarily includes other, non-bank-specific expenses from damage claims concerning incorrectly applied interest rates adjustments (EUR -135.2 million) in connection with a fraud incident discovered at an Italian subsidiary in 2013.

Newly required risk provisions on loans and advances increased compared to previous year from EUR -308.5 million (adjusted) to EUR 1,362.1 million. This is chiefly due to the ongoing problematic macroeconomic climate in Hypo Alpe Adria's core markets and the fact that problem portfolios were therefore not able to be reduced to the extent originally planned. Moreover, in accordance with the EU restructuring plan, additional provisions were recognised in order to reflect more conservative values of the SEE banking network and to assist in a quicker sale of the portfolio in the wind-down segment.

On the cost side, expenses declined slightly by EUR -2.0 million compared to the previous year. Personnel expenses fell by EUR 13.9 million from EUR -225.4 million (adjusted 2012) to EUR -211.6 million, which was mainly due to the decline in the group's average workforce. The decline reflects the effects of the employee efficiency measures implemented in Italy and the SEE network and are also related to expenses from a Croatian industrial group included in the previous year not accounted for anymore.

Administrative expenses increased slightly in 2013 from EUR -183.2 million (adjusted 2012) to EUR -192.5 million, but are at a lower level compared to previous years.

Depreciation on tangible and intangible assets amounted to EUR -35.7 million (2012: adjusted EUR -33.1 million). Key one-off effects in 2013 resulted from impairments on tangible and intangible assets in the SEE area.

Overall, risk provisions on loans and advances of EUR -1,362.1 million (2012: EUR -308.5 million) and operating expenses of EUR -439.7 million (2012: adjusted EUR -441.7 million) were recorded against operating income of EUR +307.0 million (2012: adjusted EUR +816.3 million). This resulted in an operating result of EUR -1,796.9 million (2012: adjusted EUR -13.9 million.)

After taking into account the result from investments accounted for at equity of EUR -1.4 million (2012: EUR 0.0 million), the annual result before tax from continued operations in 2013 amounted to EUR -1,798.3 million (2012: adjusted EUR -13.9 million).

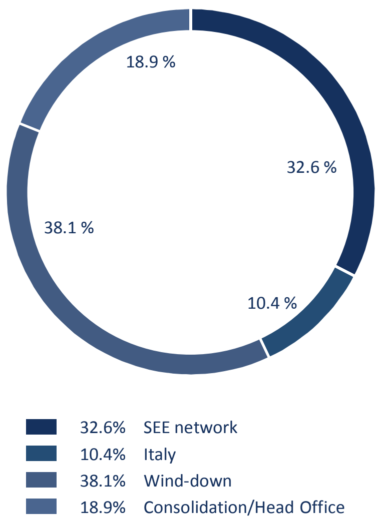
Income taxes amounted to EUR +51.7 million in 2013 (2012: adjusted EUR -28.8 million.) The positive change was largely attributable to the recognition of deferred taxes at the Italian subsidiaries of EUR +69.1 million. The recoverability does not depend on future taxable profits of the companies under local law as claims can be made from the financial authorities.

This amounts to a result after tax from continued operations of EUR -1.746.6 million (2012: EUR -42.7 million adjusted.) The annual result after tax from discontinued operations amounted to EUR -96.8 million (2012: adjusted EUR +50.9 million.) Overall, this results in a consolidated result after tax of EUR -1,843.4 million (2012: EUR +8.3 million), whereby Hypo Alpe Adria reported a loss after generating a positive result for two years.

## 4.2. Statement of financial position

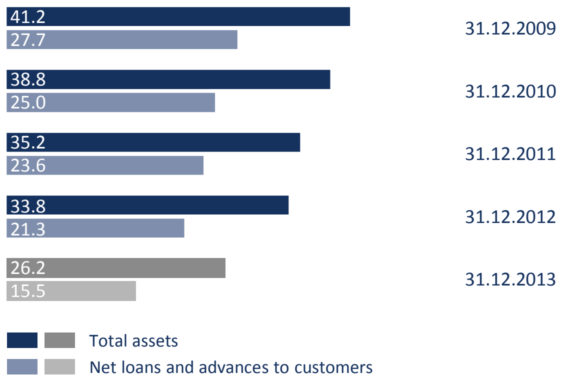
In 2013, total assets fell significantly by EUR 7.6 billion, from EUR 33.8 billion to EUR 26.2 billion. This is largely due to the declining financing volume in the credit and leasing business and the write-downs and risk provisions conducted in 2013. The disposal of subsidiary Hypo Alpe-Adria-Bank AG (Austria) in December 2013, which had group-relevant total assets of EUR 4.1 billion as at 31 December 2012, contributed significantly to the reduction of the total assets. The capital injection of EUR 1.75 billion provided by the Republic of Austria in 2013 was cash effective and subsequently increased cash and cash equivalents.

**Total assets per segment**
In percent



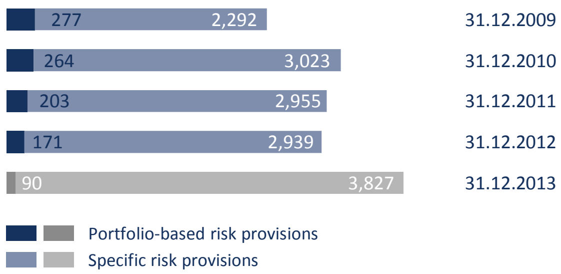

In total, net loans and advances to customers (loans and advances to customers less risk provisions on loans and advances) decreased from EUR 21.3 billion (adjusted 2012) to EUR 15.5 billion, a decrease of EUR -5.9 billion or some -27.2%. As a result of the absence of an economic recovery in South East Europe's core markets and the "Behavioural Measures" implemented by the European Commission, the granting of new loans continues to be highly restrictive in order to limit additional risk. Overall, (gross) loans and advances to customers decreased from EUR 24.4 billion (adjusted) to EUR 19.3 billion, which corresponds to a reduction of around 20.9%.

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




Loans and advances to credit institutions, which include the liquidity reserves, improved by EUR 0.09 billion from the level as at 31 December 2012, to EUR 2.1 billion. Cash and balances deteriorated and amounted to EUR 2.3 billion at the balance sheet date, EUR 0.6 billion less than the previous year (EUR 2.9 billion) and consists primarily of funds invested short-term at the Oesterreichische Nationalbank.

**Development of risk provisions on loans and advances**
in EUR m




The level of risk provisions on loans and advances reached a record level of EUR 3.9 billion as at 31 December 2013, thereby increasing EUR 0.8 billion compared to the previous year (2012: adjusted EUR 3.1 billion). The share of non-performing loans (NPL) grew in 2013. While the problem portfolio was considerably reduced, there was a migration of performing loans to the NPL portfolio. Besides the Austrian group holding company, SEE banks accounted for the majority of total risk provisions.

At EUR 12.5 million (2012: EUR 1.5 million), trading assets were negligible.

Derivative financial instruments – which, on the assets side, include positive fair values from derivatives and are reported collectively as a single balance sheet item – came in well below the previous year at EUR 1,070.1 million (2012: EUR 1,426.1 million) and reflect the reduced maturities of liabilities, which account for the majority of the underlying business.

Financial investments designated at fair value through profit or loss (FVO) fell in the reporting period by EUR 278.2 million to EUR 505.2 million. The total value of financial assets available for sale (AFS) declined in 2013 by EUR 266.9 million to EUR 2,421.5 million. This was primarily a result of the reduced holdings of debt instruments and fixed-income securities related to the disposal of the Austrian subsidiary.

Investment properties fell by EUR 163.9 million from EUR 1,279.2 million (adjusted 2012) to EUR 1,115.3 million, which was largely a result of impairments which totalled EUR -137.6 million in 2013.

The decline in tangible assets from EUR 392.0 million to EUR 260.8 million is also mostly due to impairments on real estate occupied by the group in Italy and Croatia (EUR -22.0 million). Two Croatian hotel projects with a value of EUR 46.9 million were classified as held for sale and disclosed separately, as the formal criteria of IFRS 5 were met.

On the liabilities side, the liabilities to credit institutions decreased from EUR 5.3 billion to EUR 4.7 billion in the reporting period. This reduction was mainly due to the servicing of maturing liabilities.

Liabilities to customers registered a EUR 2.3 billion decline to EUR 6.1 billion compared to 31 December 2012. The decline in deposits is attributable to the disposal of the Hypo Alpe-Adria-Bank AG (Austria) subsidiary from the group, which reported customer deposits totalling EUR 1.6 billion as at 31 December 2012, as well as external effects in the second half of 2013. The majority of the fund outflows stemmed from Austria and Italy, where extensive public debate on the future of Hypo Alpe Adria and the European Commission's ban on new business had a huge impact. The situation in the SEE network, which manages more than 95% of Hypo Alpe Adria's customers, is somewhat different. Following a stable development in the first nine months, outflows were increasingly registered in the fourth quarter in individual countries. This was supported by the restructuring of the conditions and income and also strategic measures.

Liabilities evidenced by certificates fell significantly in the 2013 financial year by EUR 4.4 billion or 29.9% to EUR 10.4 billion. This sharp reduction was a result of the disposal of the Austrian subsidiary Hypo Alpe-Adria-Bank AG and rescheduled repayment of liabilities.

Subordinated capital remained practically unchanged at EUR 2.0 billion in 2013.

Compared to 31 December 2012, equity barely changed from EUR 2.0 billion to EUR 1.9 billion, but the losses incurred in 2013 were offset from capital measures by the Republic of Austria totalling EUR 1.75 billion.

### 4.3. Own capital funds

In the 2013 financial year, Hypo Alpe-Adria-Bank International AG, as the ultimate holding company of Hypo Alpe Adria, did not continuously comply with the minimum own capital funds requirements as defined by the Austrian Banking Act as a single institution or within the group. At the closing of the months June, July and August the capital ratios in the single institution were 1.63%, 1.49% and 0.79% and in the group 7.62%, 7.94% and 7.36%, which were below the legally required 8.0%. The capital measures conducted by the shareholder in September 2013 of EUR 700.0 million reinstated the required level. Two additional capital measures involving EUR 250.0 million as a shareholder contribution in November and EUR 800.0 million in the form of participation capital in December ensured capital ratio requirements were met on a consolidated basis.

The own capital funds ratios have increased by 2 percentage points since 31 December 2012 despite shortages during the year compared to the previous year, which is also a result of the mentioned capital measures totalling EUR 1,750.0 million. The state-guaranteed subordinated bond issued in 2012 still did not fully impact own capital funds due to the delayed entry into effect of Basel III and the limited eligibility of 50% of Tier 1 capital in accordance with Basel II regulations.

The main driving force behind the increase in own capital funds ratios in 2013 was the sharp reduction in risk-weighted assets, the total of which declined considerably despite counteractive effects such as country rating downgrades. The disposal of Hypo Alpe-Adria-Bank AG (Austria) reduced RWA.

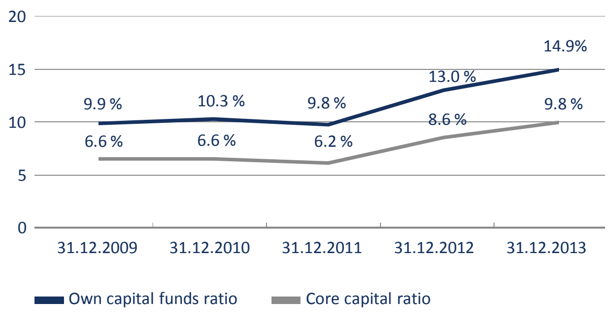
In relation to credit risk, the risk-weighted assets fell by EUR 4.7 billion to EUR 16.7 billion. Taking into account the market and operational risk, total risk-weighted assets declined from EUR 23.5 billion (31 December 2012) to EUR 18.4 billion (31 December 2013).

**Risk-weighted assets (RWA) related to total risk/credit risk**
in EUR bn


The total eligible own capital funds as defined in the Austrian Banking Act (BWG) amounted to EUR 2,739.8 million as at 31 December 2013 (31 December 2012: EUR 3,057.1 million), while the minimum legal requirement stood at EUR 1,473.8 million (31 December 2012: EUR 1,883.2 million). This represents a surplus coverage of EUR 1,266.0 million (31 December 2012: EUR 1,173.9 million) or a coverage ratio of some 185.9% (31 December 2012: 162.3%).

The own capital funds ratio (solvency ratio) in relation to the total capital assessment basis (including market and operational risk) came to 14.9% as at 31 December 2013 (13.0% as at 31 December 2012), which is well over the legally required minimum level of 8.0% in Austria.

**Development in own capital funds and core capital ratio**
in percent




With regard to the holding company, Hypo Alpe-Adria-Bank International AG, own capital funds amounted to EUR 231.0 million (2012: EUR 1.957,5 million), which amounted to a significant shortage of EUR -759.2 million (2012: EUR 652.2 million).

### 4.4. Key profit indicators

The cost/income ratio, which shows the ratio of operating expenses to operating income, came to 143.2% as at 31 December 2013 (2012: adjusted 54.1%). Owing to the fact that both 2012 (positive) and 2013 (negative) include one-off effects, a comparison is not meaningful.

Credit risk in relation to net interest income (the risk/earnings ratio) increased from 54.8% in the previous year to 324.8% in the 2013 financial year. The primary reasons for the decrease in this key profit indicator are decreased net interest income and increased risk provisions.

**Credit risk/net interest income (risk/earnings ratio)**
in percent


## 5. Analysis of non-financial key performance indicators

### 5.1. Market and operations development

**Clear separation of operating banks and wind-down business**

As part of the restructuring operating banks in the SEE segment were clearly separated from the remaining wind-down business. Overall, the disposal of the Hypo Alpe-Adria-Bank AG in Austria and the allocation of Hypo Alpe-Adria-Bank S.p.A. in Italy to the wind-down business plus the discontinuation of new business, led to a decline in the number of customers to 1.26 million at group level. The number of customers remained stable at 1.16 million in the SEE network despite the adverse macroeconomic market environment.

**SEE network – stable customer development, improved service quality and active performance management**

In the SEE network, stabilisation was the focus of the implementation measures with regard to the business model developed in the last few years. The customer concepts developed in retail, with an emphasis on affluent and small and medium-sized companies were pushed along with the servicing of corporate customers with a good to excellent rating. It successfully upheld its positioning as a reliable partner in public-sector business. Customer confidence in Hypo Alpe Adria was confirmed by the results of a SEE customer satisfaction survey 2013 conducted by market research institution “GfK Austria”.

The strategic focus towards a modern retail bank was advanced with the restructuring of the branch set-up and selective relocation of branches with self-service facilities to better locations. The almost constant number of customers was maintained through the introduction of several innovative products such as the business debit card in Serbia, Eurobasket prepaid card in Slovenia and the “24-hour loan” in Serbia. The innovative use of “Hypo Kiosk” also saw a positive development. It is a temporary sales point in highly frequented areas such as shopping centres, railway stations etc. which is technically connected to the bank’s core system. Through these sales points, customers can be approached directly, new business relationships can be initiated and the bank’s products can be directly sold. Following the successful implementation in Slovenia in 2013, the concept will be extended to Serbia and Croatia.

In terms of performance, Hypo Alpe Adria faced numerous challenges in 2013 which all had an impact on its market operations. On the one hand, the European Commission’s behavioural measures to generate new business initiated before the final state aid decision and the natural maturing of the portfolios led to a decline in interest-bearing loans. While on the other hand, the extremely low EURIBOR rate and continued difficult economic situation in southern

Europe had a negative impact on interest income. Active management of the deposit volume and pricing for deposits and loans combined with the notable improvement in commission income in the SEE network (retail as main driving force) and stronger servicing of the Corporate & Public Finance segments helped to reduce these negative effects to a minimum.

The awards received by several subsidiaries in the SEE network also demonstrate the successful strategy: Hypo Alpe Adria was awarded the "Dedication to Service Quality Award" as part of the "Mystery Shopping Days" held for the ninth time in Croatia. The group achieved another milestone with the mobile app introduced in Croatia in September 2012, which already has 10,000 users and now registers 700 new users per month. The subsidiary in Slovenia, the main sponsor of European basketball championships (EuroBasket 2013), received the special award "best sport sponsor" for its sales and advertising project.

**Recently improved credit quality despite difficult climate**

In total, a substantial improvement was seen in credit quality in new business at the SEE network while margins remained stable or even increased. For corporate clients and public sector clients, new business efforts were focused on customers with higher creditworthiness. More than 80% of new business (previous year 60%) was concluded as investment grade or upper non-investment grade business. At the same time, margins were increased and risk costs reduced. The substantial increase in the quality of new business and the strategy of consistent risk diversification and also the extensive application of the risk-adjusted price model resulted in a scheduled fall in total corporate lending volume in SEE. Proactive management of deposits and new business helped to reduce the loan-deposit ratio in the SEE network by 14 percentage points to 155%.

**Focus on cost management and efficient operation platform**

As in the previous year, total costs in the SEE banks were reduced through targeted cost management. This was achieved through cost savings in purchasing, cost optimisation programmes in the SEE branch network through relocation and branch closures as well as through staff reduction. Despite one-off unscheduled depreciation, this resulted in a slight reduction in costs of -2% compared to the previous year. The main cost savings were achieved in advisory costs (-34%), staff costs (-4%) and general administrative costs (-3%).

Implementation and use of effective cost management tools helped to mitigate the unscheduled depreciation effect and thereby compensate for part of the costs.

On the operating side, the upgraded operation platform was further expanded. The successful introduction of the new core banking system (TEMENOS T24 – 24-hour real time banking core system) by Hypo Alpe Adria Shared Service Centre (ZIS) in Serbia, Bosnia and Herzegovina and Montenegro is particularly noteworthy. This provides Hypo Alpe Adria with cutting-edge banking systems for all its subsidiaries.

**Asset Resolution/wind-down unit**

The wind-down of the portfolio in the Asset Resolution segment was swiftly implemented through a tailored organisational structure. The focus was on expanding and optimizing the organisation wind-down structure with the aim of establishing a stable and effective control and infrastructure. In addition, the Alpe-Adria-Asset Platform (www.aaaplatform.com), an Internet-based central market place in southern Europe and in the Alps-to-Adriatic area for vehicles, ships and other moveable goods went live.

In terms of costs, savings were achieved in various areas, while the overall picture is similar to that of the SEE segment: Extraordinary costs also exceeded achieved cost savings in the wind-down unit.

**Successful IT carve-out**

The disposal of Hypo Alpe-Adria-Bank AG (Austria) was completed in December 2013. The closing of the sale required the successful carve-out of the previously jointly used IT and systems and infrastructure.

### 5.2. Developing talent/staff

The year 2013 was marked by ongoing organisational changes, the disposal of individual companies and subsequent changes in staff numbers as well as the European Commission's requirements for banks.

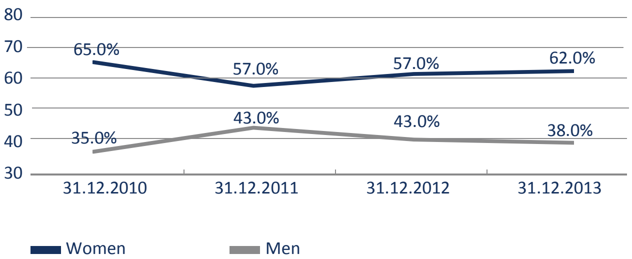
The number of active employees fell from 6,576 FTEs (full time equivalents) as at 31 December 2012 to 6,008 FTEs as at 31 December 2013. This amounts to a staff reduction of 8.6% and is largely due to the disposal of the Austrian subsidiary Hypo Alpe-Adria-Bank AG and the subsequent staff reduction of 386.5 FTEs.

Despite the ongoing public debate regarding the group's future and the constant changes, the average fluctuation rate in employees in 2013 at group level was reduced a further 2% from 9.5% to an adjusted 7.6% thanks to relevant measures.

**Active employees in finance and finance-related areas**
**Figures from 2010 to 2013**


There was no significant change in the proportion of men and women. The share of women rose slightly from 61.0% to 62.0%.

**Employees by age group**
**Figures from 2010 to 2013**
in percent




There were also no significant changes in terms of the age distribution of the workforce. In the 2013 financial year, a clear majority of 48.2% of employees were between the ages of 31 and 40.

**Employees by age group**
**as of 31.12.2013**


### Future focus of HR Management

In financial year 2013 the following focal points emerged in Human Resources Management which will continue to implemented in 2014.

- Preparations for reprivatisation of SEE network (project "Adria")
- Concept and implementation of wind-down unit (project "Alpe")

The focus of project "Adria" is on supporting due diligence through analyses and the processing of staff-relevant data.

Project "Alpe" on the other hand focused on meeting the human resource requirements for the newly created local wind-down units while taking internal and external benchmarks into consideration.

### Targets & requirements of the European Commission

In order to meet the requirements of the European Commission in terms of correct conduct of loan and customer advisors, various measures were initiated and implemented including a monthly monitoring, professional training in an internal Hypo Risk Academy as well as other qualification and staff activities.

### Learning & development

Various learning & development activities to qualify and retain existing employees were continued in 2013. More than 100 managers at line and middle management level have participated in programmes at the already established Management Academy in cooperation with IEDC – Bled School of Management. The network meeting of the Executive Boards of the group was held in October 2013 in Bled/Slovenia. The issues discussed were the preparing the members of the SEE network for the sales process as well as establishing the identity of participants suitable for the wind-down unit.

Another focus was the implementation of the Risk Academy established in spring in cooperation with several international partners.

In the period from February to December, some 1,300 participants attended seminars tailored exclusively to Hypo Alpe Adria. Successful completion of the seminars was evaluated through exam modules.

Key steps were also taken in the development of new programmes such as the "Principles of Banking" and the "Hypo Retail Academy".

### Employee survey (Hypo Navigator)

As in 2011 and 2012, a comprehensive employee satisfaction survey was also carried out among all bank and leasing units in 2013. Despite the ongoing restructuring process, more than 2,700 employees participated in the survey. The results of the survey and the action plans developed as a result were presented to the Supervisory Boards of the relevant institutions. The progress of the implemented measures is regularly monitored by human resources management.

## 5.3. Corporate social responsibility

All activities relating to society, education, culture and environment are comprised under "Hypo Pro Futuro". The focus of the group's efforts in terms of social responsibility is contributing towards providing children with a better future, improving education, improving general education and supporting social and charitable institutions.

In Croatia Hypo Alpe Adria received the "Johan Kohlhoffer philanthropist of the year" award. This award is presented to companies who provide material and financial assistance to social projects, thereby setting the bar for corporate responsibility in the country.

In Bosnia and Herzegovina, Hypo Alpe Adria is involved in a pilot project to integrate disabled children into the regular education system. The bank also supported the newborn intensive care unit of a children's hospital in Sarajevo in acquiring desperately needed incubators for newborns.

The "Employer of the Year for Disabled Persons in Republika" award presented to Hypo Alpe-Adria-Bank in Banja Luka last year is also noteworthy.

In Serbia, Hypo Alpe Adria runs the Hypo Podrška programme ("Hypo Help"), which includes a cooperation with the association of women with breast cancer "Budimo zajedno", set up in 2012. The bank also continued its cooperation in the project "Let´s go to Europe" in 2013. As part of these pro-European assistance programmes, the seventy best Serbian students received grants to travel to European cities.

These projects represent a part of Hypo Alpe Adria's annual social responsibility efforts. Hypo Alpe Adria will continue to make contributions towards social responsibility under the umbrella of the "Hypo Pro Futuro" project.

## 6. Internal control system (ICS)

Hypo Alpe Adria has an internal control system (ICS) for accounting procedures in which appropriate structures and procedures are defined and implemented.

Hypo Alpe Adria's ICS is based on the COSO framework (Committee of the Sponsoring Organisations of the Treadway Commission), although the Executive Board has independently determined the scope and direction of the ICS on the basis of the specific requirements of the organisation.

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

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

The particular objectives with regard to the group accounting procedures are that the ICS ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. It ensures that accounting procedures and standards regulated in the group IFRS handbook and the internal group policy on IFRS and accounting reporting in accordance with the Austrian Commercial Code (UGB) and the Austrian Banking Act (BWG), which are mandatory for all companies consolidated in the group financial statements, are upheld. The aforementioned group policy specifies the organisation and process of financial reporting as regards accounting procedures.
The ICS is based on:

- The complete documentation of all relevant processes in group accounting and reporting
- Working instructions and documentation on individual workflows
- The complete presentation of all relevant risks and their respective control mechanisms as part of process documentation
- Independently operating control mechanisms and measures in the formal organisational structure and workflow management (programmed controls in the IT system)
- Observance of the principles of separation of functions and dual control
- Internal audit – as a separate organisational unit – which is concerned with monitoring all group business areas

The internal audit department periodically assesses the reliability, propriety and lawfulness of the accounting process and the financial reporting. The last regular audit was conducted in 2012.

- Assessment of the appropriateness of the organisational structure and workflow management at the level of the individual institution HBInt. and at HAA group level in accordance with section 39 (2) of the BWG
- Assessment of the adequacy of the internal control system
- Assessment of generally accepted accounting principles

In this way, the internal control system of Hypo Alpe-Adria-Bank International AG ensures that:

- The chart of accounts and structure of financial reporting conforms to national and international standards and to the requirements of Hypo Alpe-Adria-Bank International AG
- The business activities of Hypo Alpe-Adria-Bank International AG are correctly and appropriately documented and reported
- All relevant records are systematically submitted in a traceable manner
- All data required for financial reporting is documented in a traceable manner
- The accounting processes prevent the assets of Hypo-Alpe-Adria Bank International AG from being used, sold or acquired without the appropriate approval
- All subsidiaries and group units involved in producing financial reports are capable of fulfilling this function in terms of both levels of training and staff capacity
- Responsibilities related to the group accounting processes are clearly and unambiguously regulated
- Access to the IT systems which are crucial to the accounting process (VB91, Lotus Notes financial accounting database, SAP) is restricted in order to avoid misuse
- All relevant legal provisions, particularly those of the Austrian Banking Act, are adhered to

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

The group subsidiaries draw up their accounts at a local level on the basis of local accounting regulations and transmit their data – stated in conformity with the rest of the group in accordance with IFRS – using a standard, group-wide reporting tool (package). They are responsible for complying with the group policies valid throughout the group and for the proper and timely execution of the processes and systems related to accounting. Throughout the financial reporting process the local subsidiaries are supported by central points of contact in Group Accounting & Reporting.

The management of the subsidiaries is responsible for implementing and supervising the local ICS and confirms compliance with it on every quarterly reporting date.

The data transmitted by the subsidiaries are reviewed for plausibility in Group Accounting & Reporting and entered in the consolidation software Cognos Controller. The consolidation steps (which include consolidation of expenses and earnings, consolidation of capital and consolidation of debt) are carried out directly in the system, followed by the elimination of any intra-group profits. This process includes the related coordination work, the supervision of required timeframes, processes and contents and the performance of system controls and manual reviews. The notes to the consolidated financial statements are then prepared together with the group management report on the reporting dates 30 June and 31 December.

Throughout the year, internal financial reporting is produced on a consolidated basis by Group Accounting & Reporting and submitted to the Executive and Supervisory Boards on a quarterly basis. Financial reports by Group Financial Controlling are produced once a month. Detailed reports and analyses, as well as periodic target/actual comparisons and forecasts, are also produced. The budgeting process includes producing a business plan (at group level) that covers a five-year period.

In accordance with the Stock Exchange Act, an interim financial report on the first six months is produced; this report conforms to the requirements of IAS 34.

### 6.1. ICS-related activities in the 2013 financial year

Developments seen in the previous years were also continued consistently in 2013 – particularly with regard to ICS-relevant interfaces with compliance, the credit process and its sub-processes (e.g. processes for the creation/adjustment/reversal of impairments).

In addition, the process of interest adjustments within the Group was documented and critically reviewed. Unanswered points were highlighted and worked through on the basis of a catalogue of measures.

At Hypo Alpe-Adria-Bank International AG level, reporting- and treasury-relevant processes were subjected to a routine trial run. In the context of the ongoing restructuring, changes were made to the financial accounting-relevant processes of Group Balance Sheet Management & Treasury, which are currently being mapped. Other necessary adjustments have already been incorporated into the systems. Test scenarios were developed and carried out jointly with the process owners.

The IT programme necessary for the tests was implemented, and the persons responsible for the ICS were trained in how to use it.

A group-wide e-learning tool was established that addresses the content of the ICS in combination with the topic of operational risk in order to create additional awareness. Various events and training courses were held throughout the year for the Executive Board members, management staff and employees.

### 6.2. Activities planned for the 2014 financial year

ICS and operational risk management continue to be major topics in 2014. A project will ensure and further improve the sustainability of both systems for 2014 as well. The integration of ICS with the Operational Risk Department will continue so as to be able to exploit the possible synergies from both areas of activity in the best possible way and to create an optimal structure in order to avoid potential losses.

## 7. Other disclosures

Disclosures in accordance with section 267 of the Austrian Commercial Code (UGB) on events after the reporting date, as well as the risk report and information on the use of financial instruments, are presented in the notes to the consolidated financial statements, since it is obligatory to provide this information in the notes as per IFRS.

## 8. Research and development

Hypo Alpe-Adria-Bank International AG does not conduct any R&D activities of its own.

## 9. Forecast report

The forecast for the year 2014 is based on the framework defined by the decision of the European Commission and the course set by the owner towards the establishment of an independent wind-down unit.

At the turn of the year 2013/2014, the process of privatising the South East Europe (SEE) network, which was launched in May 2012, entered a stage that makes the closing of the sale of the network to strategic financial investors appear realistic in the course of the financial year – and comfortably before the mid-2015 deadline set by the European Commission. This process involves finally clearing out the portfolios of the SEE banks by transferring non-performing loans to wind-down units in order to further reduce risk and further optimise the loan-to-deposit ratio. At the same time, a holding and management company will be developed for the SEE network in 2014 which will act as a regulated holding company for these bank participations.

For 2014 as well, it is not yet clear whether the economies in the countries of the Balkans will generate any positive momentum that may provide significant support for this commercial capacity. For the current financial year we generally expect GDP in the SEE countries to move sideways, with inflation slowing down and unemployment figures stabilising. On the basis of these conditions, we expect a slightly positive result for the SEE network in 2014, supported by factors that include selective conclusion of new business with low risk and optimised earnings (risk-adjusted pricing) and further targeted cost reduction measures. Given this overall situation, it cannot be ruled out that the proceeds from a sale will ultimately be lower than the current carrying amount despite significant restructuring and resolution measures.

If reprivatisation of the SEE network should succeed as early as 2014, it can be assumed that the book value of the equity of these banks totalling EUR 1.3 billion cannot be recovered on the market. Such losses are to be recognised if corresponding sales contracts are signed or a short-term disposal of the investment can be conducted according to the conditions set out in IFRS 5 (“assets classified as held for sale”).

With respect to the activities in Italy, where Hypo Alpe Adria is represented with a bank and a leasing company, we expect a very difficult market environment in 2014 as well, even if current forecasts for the Italian economy predict growth rates of 0.5% to 1.0%. The real estate market in particular, which is of special relevance to both subsidiaries because of the high volume of loans extended, recently exhibited an ongoing very weak performance and is not expected to see a sustainable recovery in 2014 either. Against this background, both companies are expected to incur a loss in 2014 and 2015, which has already been accounted for in the valuation in the forecast amount.

With respect to the largest portion of the portfolio of Hypo Alpe Adria, the winding-down activities, the sales are to continue to proceed at a fast pace in 2014, ranging from realisations of individual loan collaterals to already initiated processes of selling subsidiaries. In accordance with the planning, this portfolio is to be reduced substantially over the coming years.

From today's perspective, however, this reduction will be associated with losses because the current income generated from the portfolio will not be sufficient to cover the costs incurred. For this reason we expect negative total income in any case for Hypo Alpe Adria in 2014 under the restructuring plan approved by the European Commission.

The definitive amount will crucially depend on the decisions to be taken and implemented throughout the year with regard to creating a legally independent deregulated wind-down unit for the liquidation and realisation of the operating units not slated for privatisation – which will not require a banking licence anymore and thus will not be subject to prescribed regulatory minimum requirements. An intensive discussion is currently underway as to the specific design of the restructuring unit. The result of this decision-making process, which is the ultimate responsibility of the owner, and the exact impacts of such a fundamental restructuring on the central income parameters of the company cannot reliably be presented until the deliberations have been concluded.

The installation of this unit for around two thirds of the total assets of Hypo Alpe Adria in the form of a corporation is planned – depending on the legal basis to be created, among other factors – for the end of the third quarter of 2014, which was partly anticipated already in the equity amount of EUR 0.75 billion provided in April 2014.

# Consolidated Financial Statements

as at 31 December 2013

# I. Group statement of comprehensive income

## Income statement

EUR m

| | Note | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|---|
| Interest and similar income | (40) | 1,131.9 | 1,392.2 |
| Interest and similar expenses | (41) | –708.4 | –794.4 |
| **Net interest income** | | **423.5** | **597.9** |
| Fee and commission income | (42) | 93.3 | 99.4 |
| Fee and commission expenses | (43) | –42.1 | –51.5 |
| **Net fee and commission income** | | **51.2** | **47.9** |
| Gains and losses from financial instruments not measured at fair value through profit and loss | (44) | 3.0 | 113.5 |
| Result from trading | (45) | 0.2 | 17.0 |
| Result from hedge accounting | (46) | –2.9 | –1.8 |
| Result from fin. investments – designated at fair value through profit or loss | (47) | 55.1 | –6.5 |
| Operating income from investment properties | (48) | 21.4 | 32.0 |
| Other operating result | (49) | –244.6 | 16.4 |
| **Operating income** | | **307.0** | **816.3** |
| Impairment of financial assets | (50) | –1,375.6 | –327.9 |
| thereof financial assets – at costs (risk provision) | | –1,362.1 | –308.5 |
| thereof financial assets– available for sale | | –10.9 | –19.4 |
| thereof financial assets – held to maturity | | –2.6 | 0.0 |
| Impairment of non financial assets | (51) | –288.6 | –60.6 |
| **Operating income after impairment** | | **–1,357.2** | **427.8** |
| Personnel expenses | (52) | –211.6 | –225.4 |
| Other administrative expenses | (53) | –192.5 | –183.2 |
| Depreciation and amortization on tangible and intangible assets | (54) | –35.7 | –33.1 |
| **Operating expenses** | | **–439.7** | **–441.7** |
| **Operating result** | | **–1,796.9** | **–13.9** |
| Result from companies accounted for at equity | (55) | –1.4 | 0.0 |
| **Result before tax from continued operations** | | **–1,798.3** | **–13.9** |
| Taxes on income | (56) | 51.7 | –28.8 |
| **Result after tax from continued operations** | | **–1,746.6** | **–42.7** |
| **Result after tax from discontinued operations** | (6) | **–96.8** | **50.9** |
| **Result after tax** | | **–1,843.4** | **8.3** |
| thereof attributable to non-controlling interests | (57) | 20.3 | 31.1 |
| thereof from continued operations | | 20.3 | 31.1 |
| thereof from discontinued operations | | 0.0 | 0.0 |
| thereof attributable to equity holders of parent (consolidated result after tax and non-controlling interest) | | –1,863.7 | –22.9 |
| thereof from continued operations | | –1,766.9 | –73.8 |
| thereof from discontinued operations | | –96.8 | 50.9 |

*Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

## Other comprehensive income

EUR m

| | | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|---|
| **Result after tax** | | **–1,843.4** | **8.3** |
| Remeasurement of the net defined benefit liability | | 0.1 | –1.6 |
| Remeasurement of the net defined benefit liability from discontinued operations | | –0.1 | –3.6 |
| 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** | | **0.0** | **–5.2** |
| Available-for-sale-reserve | | 14.2 | 87.4 |
| Gains/losses on available-for sale evaluation | | 11.0 | 79.3 |
| Effects of deferred taxes | | –0.6 | –2.0 |
| Gains/losses on available-for sale disposal (reclassification) | | –1.4 | –14.4 |
| Effects of deferred taxes | | 0.1 | 0.0 |
| Gains/losses on available-for sale impairment (reclassification) | | 10.9 | 19.4 |
| Effects of deferred taxes | | 0.0 | –1.0 |
| Gains/losses from discontinued operations | (6) | –7.8 | 7.0 |
| Effects of deferred taxes from discontinued operations | | 1.9 | –0.9 |
| Foreign exchange differences (change in foreign currency reserve) | | –8.6 | –28.6 |
| **Total items that will be reclassified to profit or loss** | | **5.6** | **58.8** |
| **Total other comprehensive income** | | **5.6** | **53.5** |
| **Total comprehensive income** | | **–1,837.8** | **61.8** |
| thereof attributable to non-controlling interests | | 18.7 | 39.5 |
| thereof from continued operations | | 18.7 | 39.5 |
| thereof from discontinued operations | | 0.0 | 0.0 |
| thereof attributable to equity holders of parent | | –1,856.5 | 22.3 |
| thereof from continued operations | | –1,753.8 | –31.1 |
| thereof from discontinued operations | | –102.7 | 53.4 |

# II. Consolidated statement of financial position

EUR m

| | Note | 31.12.2013 | 31.12.2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances at central banks | (58) | 2,312.7 | 2,873.2 |
| Loans and advances to credit institutions | (59) | 2,087.4 | 1,993.1 |
| Risk provisions on loans and advances to credit institutions | (61) | –8.3 | –3.0 |
| Loans and advances to customers | (60) | 19,289.0 | 24,401.5 |
| Risk provisions on loans and advances to customers | (61) | –3,825.1 | –3,070.2 |
| Trading assets | (62) | 12.5 | 1.5 |
| Derivative financial instruments | (63) | 1,070.1 | 1,426.1 |
| Financial investments – designated at fair value through profit or loss | (64) | 505.2 | 783.4 |
| Financial investments – available for sale | (65)(69) | 2,421.5 | 2,688.3 |
| Financial investments – held to maturity | (66)(69) | 83.7 | 90.5 |
| Investments in companies accounted for at equity | (67)(69) | 5.9 | 7.4 |
| Investment properties | (68)(72) | 1,115.3 | 1,279.2 |
| Intangible assets | (70)(72) | 16.3 | 44.6 |
| Tangible assets | (71)(72) | 260.8 | 392.0 |
| Tax assets | | 126.7 | 77.0 |
| thereof current tax assets | | 29.0 | 18.4 |
| thereof deferred tax assets | (56) | 97.7 | 58.6 |
| Assets classified as held for sale | (73) | 97.5 | 0.0 |
| Other assets | (74) | 688.6 | 829.7 |
| Risk provisions on loans and advances on other assets | (61) | –41.2 | –10.5 |
| **Total assets** | | **26,218.6** | **33,803.7** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| Liabilities to credit institutions | (75) | 4,665.3 | 5,252.5 |
| Liabilities to customers | (76) | 6,120.9 | 8,405.9 |
| Liabilities evidenced by certificates | (77) | 10,395.8 | 14,835.8 |
| Derivative financial instruments | (78) | 777.3 | 781.9 |
| Provisions | (79) | 191.5 | 128.1 |
| Tax liabilities | | 14.8 | 40.1 |
| thereof current tax liabilities | | 2.3 | 18.1 |
| thereof deferred tax liabilities | (56) | 12.4 | 22.0 |
| Liabilities included in disposal groups classified as held for sale | (80) | 5.6 | 0.0 |
| Other liabilities | (81) | 272.7 | 427.6 |
| Subordinated capital | (82) | 1,914.8 | 1,957.3 |
| Hybrid capital | (83) | 1.2 | 6.0 |
| Equity | (84) | 1,858.8 | 1,968.4 |
| thereof attributable to equity holders of parent | | 1,341.1 | 1,447.6 |
| thereof attributable to non-controlling interests | | 517.7 | 520.9 |
| **Total equity and liabilities** | | **26,218.6** | **33,803.7** |

# III. Group statement of changes in equity

EUR m

| | Issued capital* | Partici-pation capital | Additional paid-in capital | Available-for-sale-reserve | Foreign currency translation | Cumulative results | Owners of the parent | Non-controlling 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 | 700.0 | 800.0 | 250.0 | 0.0 | 0.0 | 0.0 | 1,750.0 | 0.0 | 1,750.0 |
| Dividends paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | –22.4 | –22.4 |
| Total comprehensive income | 0.0 | 0.0 | 0.0 | 15.8 | –8.6 | –1,863.8 | –1,856.5 | 18.7 | –1,837.9 |
| Result after tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | –1,863.7 | –1,863.7 | 20.3 | –1,843.4 |
| Other comprehensive income | 0.0 | 0.0 | 0.0 | 15.8 | –8.6 | –0.1 | 7.2 | –1.6 | 5.6 |
| Other changes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.5 | 0.6 |
| **Equity as at 31.12.2013** | **1,669.1** | **1,139.5** | **250.0** | **–27.3** | **–104.2** | **–1,586.0** | **1,341.1** | **517.7** | **1,858.8** |

* To improve the presentation of the information, participation capital is reported separately as at 2013. Prior-year figures have been adjusted accordingly.

EUR m

| | Issued capital* | Partici-pation capital | Additional paid-in capital | Available-for-sale-reserve | Foreign currency translation | Cumulative results** | Owners of the parent | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Equity as at 1.1.2012** | **469.1** | **339.5** | **0.0** | **–121.4** | **–67.4** | **305.8** | **925.6** | **487.7** | **1,413.3** |
| Capital increases | 500.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 500.0 | 0.0 | 500.0 |
| Dividends paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | –18.2 | –18.2 |
| Total comprehensive income | 0.0 | 0.0 | 0.0 | 79.0 | –28.6 | –28.1 | 22.3 | 39.5 | 61.8 |
| Result after tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | –22.9 | –22.9 | 31.1 | 8.3 |
| Other comprehensive income | 0.0 | 0.0 | 0.0 | 79.0 | –28.6 | –5.2 | 45.1 | 8.4 | 53.5 |
| Other changes | 0.0 | 0.0 | 0.0 | –0.6 | 0.3 | 0.0 | –0.3 | 11.8 | 11.5 |
| **Equity as at 31.12.2012** | **969.1** | **339.5** | **0.0** | **–43.1** | **–95.7** | **277.7** | **1,447.6** | **520.9** | **1,968.4** |

* To improve the presentation of the information, participation capital is reported separately as at 2013. Prior-year figures have been adjusted accordingly.
**Previous year's adjustments due to the retrospective application of IAS 19.

For further information on equity, please refer to notes (84) Equity and (127) Participation capital.

# IV. Group statement of cash flows

| | 2013 | 2012 |
|---|---|---|
| **Result after tax from continued operations** | **–1,746.6** | **–42.7** |
| **Result after tax from discontinued operations** | **–96.8** | **50.9** |
| **Result after tax** | **–1,843.4** | **8.3** |
| **Non-cash items included in profit and reconciliation to cash flows from operating activities:** | | |
| Gains/losses from the sale of Hypo Alpe-Adria-Bank AG | 96.7 | 0,0 |
| Depreciation and amortisation of tangible fixed assets and financial investments | 328.7 | 131.0 |
| thereof financial investments | 9.0 | 3.3 |
| thereof intangible and tangible assets | 319.8 | 127.7 |
| Change in risk provisions | 1,184.8 | 165.5 |
| Change in provision | 199.6 | –10.0 |
| Gains (losses) from disposals of tangible fixed assets and financial investments | –5.5 | –18.4 |
| Financial investments | –2.4 | –15.5 |
| Intangible and tangible assets | –3.1 | –2.8 |
| **Subtotal** | **–39.1** | **276.5** |
| **Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:** | | |
| Loans and advances to credit institutions and customers | 2,045.4 | 3,110.5 |
| Financial investments | –37.8 | 35.2 |
| Trading assets | –11.4 | 10.6 |
| Other assets | 244.0 | 162.4 |
| Liabilities to credit institutions and customers | –1,245.7 | –248.0 |
| Liabilities evidenced by certificates | –3,015.7 | –2,311.5 |
| Provisions | –110.7 | –45.9 |
| Other liabilities from operating activities | –43.8 | –76.2 |
| **Cash flows from operating activities** | **–2,214.8** | **913.6** |
| Proceeds from the sale of: | 70.6 | 183.8 |
| Financial investments and participations | 10.2 | 18.8 |
| Tangible assets, investment properties, operate lease assets and intangible assets | 60.4 | 165.0 |
| Payments for purchases of: | –275.4 | –171.2 |
| Financial investments and participations | –8.1 | –53.3 |
| Tangible assets, investment properties, operate lease assets and intangible assets | –267.3 | –117.9 |
| Payments for sale of subsidiaries | 11.8 | 0.0 |
| Payments for acquisitions of subsidiaries | –1.8 | –2.4 |
| Other changes | 151.8 | –66.9 |
| **Cash flows from investing activities** | **–43.0** | **–56.7** |
| Capital contributions/disbursements | 1,750.0 | 500.0 |
| Subordinated capital and other financing activities | –26.7 | 802.4 |
| Dividends paid | –22.4 | –18.2 |
| thereof dividends paid to owners of the parent | 0.0 | 0.0 |
| thereof dividends paid to non controlling interest | –22.4 | –18.2 |
| **Cash flows from financing activities** | **1,701.0** | **1,284.2** |

| | 2013 | 2012 |
|---|---|---|
| **Cash flows for taxes, dividends and interests** | **25.0** | **134.2** |
| Payments for taxes on income | –10.2 | –1.2 |
| Payments for interests | –592.1 | –782.3 |
| Dividends received | 0.0 | 3.5 |
| Interests received | 627.3 | 914.2 |

| | 2013 | 2012 |
|---|---|---|
| **Cash and cash equivalents at end of previous period (1.1.)** | **2,873.2** | **757.5** |
| Cash flows from operating activities | –2,214.8 | 913.6 |
| Cash flows from investing activities | –43.0 | –56.7 |
| Cash flows from financing activities | 1,701.0 | 1,284.2 |
| Effect of exchange rate changes | –3.6 | –25.3 |
| **Cash and cash equivalents at end of period (31.12.)** | **2,312.7** | **2,873.2** |

For further information on the statement of cash flows, please refer to note (85) Statement of cash flows.

# V. Notes to the consolidated financial statements

## Accounting policies and basis of consolidation

### (1) The company

#### 1.1. Hypo Alpe Adria

Hypo Alpe-Adria-Bank International AG was founded in 1896 as Landes- und Hypothekenbankanstalt, and operates as the parent company of Hypo Alpe Adria. It has been wholly owned by the Republic of Austria since 30 December 2009. It is registered in the commercial register (Firmenbuch) of the Commercial Court of Klagenfurt under company registration number FN 108415i. The registered office and headquarters of the group are located at Alpen-Adria-Platz 1, 9020 Klagenfurt am Wörthersee, Austria.

Hypo Alpe Adria is a leading banking group in the Alps-to-Adriatic region and is represented by eight banks and twelve leasing companies across the region. Hypo Alpe Adria operates in the retail banking, small and medium-sized enterprises (SME), corporate and public sectors, offering classical banking products such as financing, payment transaction, documentation and investment services, savings and deposits, as well as finance lease transactions.

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

#### 1.2. Important events

On 3 September 2013, the European Commission delivered a final ruling on the state aid investigation into Hypo Alpe Adria, which began in May 2009. The basis for the ruling was the final bank restructuring plan submitted 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. Furthermore, it is intended that the bank's SEE network be reprivatised by mid-2015. The closing of the sale of the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG, which was planned for mid-2014, was actually finalised in 2013. Furthermore, the Italian subsidiary bank was forced to close down its lending operations in 2013 and has therefore been allocated for winding down. Compliance with the restructuring plan and the behavioural measures that have been imposed will continue to be monitored by an independent monitoring trustee appointed by the European Commission. In accordance with the provisions of the final European Commission ruling, the subsidiary bank Hypo Alpe-Adria-Bank AG (Austria) was sold on 19 December 2013 (closing) following a bidding process lasting several months and careful consideration of submitted offers. This signified the completion of a major milestone in the European Commission's reprivatisation requirements. In order to prepare for the sale of the SEE network that is earmarked for reprivatisation, further portfolio transfers were carried out in wind-down companies in Slovenia, Croatia, Serbia, Bosnia and Herzegovina and Montenegro, leading to a normalisation of the key financial figures of the units concerned, particularly net interest income, NPL ratios (non-performing loans) and refinancing capacity (loan/deposit ratio) and a strengthening of key capital figures. These measures were requested in the European Commission ruling on 3 September 2013 in order to increase the attractiveness of the SEE network for potential investors. Further preparatory activities for this sale include the establishment of a legal separate structure for the SEE network and the banking licensing of the planned SEE management holding company for the next few months. When it comes to the remaining wind-down portfolios, the European Commission ruling provides for a swift, intensive wind-down of these units and portfolios.

The Hypo Alpe Adria restructuring plan reflects the European Commission's requirements concerning the wind-down of the Italian subsidiary bank, the implementation of measures to aid sale in the form of portfolio transfers, more conservative risk assessments of the SEE portfolio as well as the accelerated sale of the portfolio allocated for wind-down. The resulting losses in the period between 2013 and 2017 mainly concern anticipated disposal losses from the sale of participations and increased risk provisions; these losses were estimated at between EUR -3.58 billion (best case scenario) and EUR -6.33 billion (pessimistic stress case scenario) in the restructuring plan. The corresponding recapitalisation requirements stand at between EUR 2.65 billion (base case scenario) and EUR 5.40 billion (pessimistic stress case scenario) and were approved by the European Commission. The Republic of Austria injected a total of EUR 1.75 billion of capital into the bank in 2013 over the course of three recapitalisation measures. Together with another capital measure in April 2014 totalling EUR 0.75 billion, a total of EUR 2.50 billion was injected into the bank, leaving a remaining EUR 2.90 billion in capital measures still available under the state aid framework approved by the European Commission.

Once it became evident in mid-2013 that the European Commission's state aid investigation would soon be completed, the Austrian Chancellor and Vice Chancellor formed an expert task force in May 2013 as part of the "Lux" project to investigate the various options available in relation to the implementation of the EU restructuring plan and the best possible liquidation of Hypo Alpe-Adria-Bank International AG's assets within the scope of a wind-down unit. The task force was headed up by then Chairman of the Supervisory Board Klaus Liebscher until February 2014. Following Mr Liebscher's departure, Austrian central bank governor Ewald Nowotny took over leadership of the task force. On 18 March 2014, following a request by the Federal Minister of Finance, the Austrian government ruled in favour of the implementation of the task force's proposal and the conversion of Hypo Alpe-Adria-Bank International AG into a deregulated wind-down company under private law without any general state guarantee until September 2014. The bank is currently focusing on putting these requirements in place.

Within the context of the Joint Risk Assessment & Decision Process ("JRAD") issued by regulatory authorities that was started in 2011, Hypo Alpe Adria was required to achieve a defined 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 from the date of implementation onwards. At the current time, there has been no new ruling on the JRAD investigation performed by regulatory authorities in 2013 (JRAD III), meaning that the requirements of JRAD II must be complied with as at 31 December 2013. Given current capital funds of EUR 2.7 billion and risk-weighted assets (RWA) of EUR 18.4 billion, the group's own capital funds ratio is 14.87%. As a result, the first requirement under JRAD II of maintaining an own funds ratio of 12.4% has been met. Current regulatory own capital funds (EUR 2.7 billion) as well as ineligible Tier 2 components (ineligible due to the cap defined by Basel II) of EUR 0.6 billion can be applied in terms of compliance with the second requirement of JRAD II, namely the coverage of the shortfall through own capital funds. This means that the funds necessary to cover the own capital funds requirement and the shortfall of a total of EUR 2.62 billion are offset by risk capital of EUR 3.37 billion. This equates to a surplus of EUR 0.75 billion, meaning that the second requirement has also been met. Should the SEE network be reprivatised in the near future, it must be expected that the value of the book equity of these banks, approximately EUR 1.3 billion, will not be able to be obtained on the market. Should there be a material loss before the implementation of the deregulated wind-down unit planned by the government, non-compliance with JRAD capital requirements cannot be ruled out.

Owing to the continued problematic macroeconomic environment and as a result of the obligations that must be met under the EU's group restructuring plan, the Hypo Alpe Adria group's holding company, Hypo Alpe-Adria-Bank International AG, had to take into consideration all material losses on participations as well as on intragroup lending and third-party customer lending in its 2013 separate annual financial statements (at the level of the single institution UGB/BWG). Even in consideration of the three recapitalisation measures implemented in 2013 totalling EUR 1.75 billion, the remaining core capital of the bank was unable to be prevented from falling to roughly EUR 0.18 billion. The own capital funds ratio of the parent company, which is determined pursuant to regulatory requirements, amounted to 1.87% as at 31 December 2013, and therefore did not meet the statutory minimum of 8.0% defined under Basel II. The core capital gap for meeting the regulatory requirements amounts to EUR 0.50 billion. The bank fulfilled its statutory obligations and informed the regulatory authorities immediately of these circumstances. The group's consolidated equity, in which impairment write-downs from lower-than-expected disposal proceeds were not to be considered, came to 14.87% as at 31 December 2013 and met legal requirements (see above).

In the general shareholders' meeting of Hypo Alpe-Adria-Bank International AG held on 9 April 2014, the Republic of Austria, as the owner of the bank, agreed a capital injection in the form of a share capital increase of EUR 0.75 billion, which was carried out on 11 April 2014. This capital measure was aimed at guaranteeing compliance with regulatory requirements until the implementation of a wind-down unit planned for September that, in future, will not require a banking licence and will therefore not be subject to any regulatory minimum capital requirements as defined by the Austrian Banking Act (BWG). The Executive Board based its assessment of Hypo Alpe Adria's continuation as a going concern on the assumptions underlying the group's restructuring plan approved by the European Commission and which provides for further capital measures to maintain the going concern assumption and cover anticipated losses over the course of the portfolio wind-down.

Please note that, as in the past, future economic development is uncertain due to the current volatility on the financial markets.

Back in 2010, the bank, together with the Federal Republic, committed itself to forensic investigations on the past in the context of a "post-acquisition due diligence" exercise. In 2013, the exercise continued to centre on the major issues of "BayernLB/equity substitution", "consultants" and "Liechtenstein" as well as on forensic investigations into subsidiaries in country markets, particularly Bulgaria and Italy.

## (2) Significant accounting policies

The consolidated financial statements of Hypo Alpe Adria as at December 31, 2013 were drawn up in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU and include comparative figures for 2012 which were drawn up according to the same accounting principles. Please refer to note (4) Use of estimates and assumptions/uncertainties in connection with estimates with regard to estimates and assumptions in accordance with IAS 8. The consolidated financial statements of Hypo Alpe Adria as at 31 December 2013 were prepared in conformity with section 245a of the Austrian Commercial Code (UGB) and section 59a of the Austrian Banking Act (BWG) in accordance with Regulation (EC) No. 1606/2002 (the IAS Directive) of the European Parliament and the Council of 19 July 2002, on the basis of the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) as well as their interpretations by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretation Committee (IFRIC).

The consolidated financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes, which also include segment reporting. The statement of financial position is structured by decreasing liquidity. Amounts due or realisable within twelve or more than twelve months after the balance sheet date are described in note (105) Remaining maturity. The consolidated financial statements are based on the reporting packages of all fully consolidated subsidiaries prepared in accordance with group standards and IFRS. All fully consolidated subsidiaries have drawn up their financial statements for the period ended 31 December. As required by IFRS 10, Hypo Alpe Adria applies uniform accounting principles throughout the group. The consolidated financial statements are prepared on a going concern basis. With regard to the possible consequences of the EU state aid proceeding and the Joint Risk Assessment & Decision process, and any uncertainties relating to the group's business activities which may result from these, please refer to notes (1) The company, (129) Important proceedings and (90.11) Joint Risk Assessment Decision ("JRAD").

The consolidated financial statements are generally prepared in line with the cost principle. The exceptions to this are derivative financial instruments and financial investments held for sale, as well as financial investments and liabilities which have been designated for measurement under the fair value principle. The carrying amounts of assets and liabilities shown in the statement of financial position, which are underlying transactions related to fair value hedges and would otherwise be recognised at amortised cost, are adjusted for changes in fair value which arise from hedged risks for effective hedging relationships.

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

The Executive Board of Hypo Alpe Adria approved the consolidated financial statements as at 31 December 2013 for publication on 14 April by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the consolidated financial statements and announcing whether it ratifies the consolidated financial statements as at 31 December 2013.

## (3) Application of new and amended standards

The following new or amended IFRS/IAS standards and interpretations, which were issued by the IASB and adopted by the EU, were applied by Hypo Alpe Adria for the first time in 2013:

| Standard | Description | | Compulsory for annual period |
|---|---|---|---|
| IAS 1 | Presentation of Financial Statements | Presenting Comprehensive income | 2013 |
| IAS 19 | Employee Benefits | revised 2011 | 2013 |
| IFRS 13 | Fair Value Measurement | 2011 | 2013 |
| IFRS 7 | Financial instruments: Disclosures | Offsetting Financial Assets and Financial Liabilities 2011) | 2013 |

The standards that affect the consolidated financial statements of Hypo Alpe Adria are explained below.

The amended **IAS 1** requires the items in other comprehensive income to be split into items which are reclassified to the income statement at a later date (so-called recycling) and those which are not. The disclosures in the statement of comprehensive income were expanded accordingly.

The changes to **IAS 19** require an amendment to the accounting policy regarding the recognition of actuarial gains and losses. The revision requires the immediate recognition under other comprehensive income within equity (OCI); recognition in profit or loss, as previously applied by Hypo Alpe Adria, is no longer applied. Hypo Alpe Adria did not use the previously permitted corridor method. Previous year figures in the statement of comprehensive income and the statement of changes in equity have therefore been adjusted pursuant to the required retrospective application of IAS 19. The retrospective adjustment due to the initial adoption of the amended IAS 19 resulted in a EUR 5.2 million reduction in personnel expenses, which also led to a rise in the profit for the year. At the same time, this amount in the statement of changes in equity as at 31 December 2012 is no longer reported under profit for the year after taxes but under other comprehensive income.

**IFRS 13** provides uniform benchmarks for the recognition of fair value which apply to all standards and comprises both financial and non-financial items. As at 31 December 2013, derivatives are measured taking into account the counterparty's default risk; by considering the Credit Valuation Adjustments (CVA) and the Debit Valuation Adjustments when measuring market value. This adjustment impacted profit or loss by EUR -1.8 million. Please see note (123) Fair value disclosures for more details. The previous allocation of levels was reviewed in conjunction with an external advisor as part of the process of implementing IFRS 13 and resulted in a change in the levels allocated to assets and liabilities held as at 31 December 2012 (see also note (123) Fair value disclosures). The detail disclosures required pursuant to IFRS 13 were expanded accordingly.

The amendments to **IFRS 7** require the disclosure of information on set-off rights for financial instruments and related arrangements in an enforceable offsetting arrangement and/or a corresponding arrangement. The disclosures required pursuant to these amendments are to made retrospectively and also apply to financial instruments recognised in the statement of financial position that are subject to an enforceable master offsetting agreement or a similar arrangement, irrespective of whether offsetting is conducted pursuant to IAS 32. At Hypo Alpe Adria, these disclosures extend to the positive and negative market values of derivatives that are subject to an enforceable master offsetting agreement or a similar arrangement but not offset on the balance sheet.

The following new or amended IFRS/IAS standards and interpretations, which were issued by the IASB and adopted by the EU, were not yet compulsory. With the exception of the consolidation package (IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28) and the corresponding transitional guidelines, the group also did not apply these standards prematurely; Hypo Alpe Adria applies them on the obligatory dates.

| Standard | Description | | Compulsory for annual period |
|---|---|---|---|
| IAS 27 (2011) | Separate Financial Statements | Supersedes IAS 27 Consolidated and Separate Financial Statements | 2014 |
| IAS 27 (2011) | Separate Financial Statements | Amended by Investment Entities (October 2012) | 2014 |
| IAS 28 (2011) | Investments in Associates and Joint ventures | Supersedes IAS 28 –2003 Investments in Associates | 2014 |
| IAS 32 | Financial instruments : Presentation | Offsetting Financial Assets and Financial Liabilities (December 2011) | 2014 |
| IAS 36 | Impairment of assets | Amended by recoverable amount disclosures for non-financial assets | 2014 |
| IAS 39 | Financial Instruments | Amended by Novation of Derivatives and Continuation of Hedge Accounting | 2014 |
| IFRS 10 | Consolidated Financial Statements | 2011 | 2014 |
| IFRS 10 | Consolidated Financial Statements | Transition Guidance (June 2012) | 2014 |
| IFRS 10 | Consolidated Financial Statements | Amended by Investment Entities (October 2012) | 2014 |
| IFRS 11 | Joint Arrangements | 2011 | 2014 |
| IFRS 11 | Joint Arrangements | Transition Guidance (June 2012) | 2014 |
| IFRS 12 | Disclosure of Interests in Other Entities | 2011 | 2014 |
| IFRS 12 | Disclosure of Interests in Other Entities | Transition Guidance (June 2012) | 2014 |
| IFRS 12 | Disclosure of Interests in Other Entities | Amended by Investment Entities (October 2012) | 2014 |

The group elected to apply the so-called **"consolidation package"** prematurely in 2013. This set comprises the following standards: **IFRS 10** "Consolidated Financial Statements", **IFRS 11** "Joint Arrangements", **IFRS 12** "Disclosure of Interests in Other Entities", as well as **IAS 27** "Separate Financial Statements" and **IAS 28** "Investments in Associates and Joint Ventures", which were adjusted accordingly due to the publication of IFRS 10 and IFRS 11. The corresponding transitional guidelines were also applied prematurely; retrospective application is limited to the financial year preceding the initial adoption. **IFRS 10** replaces the rules hitherto contained in IAS 27 and SIC 12 and includes a uniform definition of "control". According to IFRS 10, control requires the parent company to have power over an associated or affiliated company, to participate in the variable returns of the associated or affiliated company and has the ability to affect those returns through its power over the associated or affiliated company. Based on this new definition of control, Hypo Alpe Adria has assessed whether this would result in a change in the scope of consolidation, especially as to whether contractual arrangements exist that justify compulsory consolidation. However, the premature adoption of IFRS 10 has not led to a change in Hypo Alpe Adria's scope of consolidation. **IFRS 11** replaces the previous IAS 31 "Interest in Joint Ventures" and SIC-13 "Jointly Controlled Entities" and introduces a modified terminology and classification of companies as joint arrangements. It describes accounting for companies that have joint control over an arrangement. Joint control includes the contractually agreed sharing of control. Arrangements subject to joint control are classified either as joint ventures or as joint business activity. The previous option to apply pro rata consolidation for joint ventures was abolished and the application of the equity method is now compulsory. As Hypo Alpe Adria does not use pro rata consolidation, this standard does not have any effect on the consolidated financial statements. **IFRS 12** sets out required disclosures which make it possible for those studying the financial statements to judge the type, risk and financial implications of the company's interests in subsidiaries, associated companies, joint arrangements and unconsolidated structured entities (special purpose entities). The disclosures required under IFRS 12 are much more extensive than those of the standards currently in force and are presented accordingly in the notes. The modifications to **IAS 27** contain rules on the presentation in the accounts and disclosures in the notes about subsidiaries, joint ventures and associated companies that are only relevant for separate financial statements drawn up under IFRS; The modified **IAS 28** deals with accounting for shares in associated companies and the requirements for applying the equity method when accounting for shares in associated companies and joint ventures.

**IAS 32** was expanded with respect to an exact explanation of the criteria that must be met to offset financial assets and liabilities. The amendments relate to the clarifying the criteria: "currently has a legally enforceable right to set off the recognised amounts" and "intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously". The amendment will likely not impact the consolidated financial statements of Hypo Alpe Adria.

The amendment to **IAS 36** "Impairment of Assets" relates to the disclosure obligations when determining the recoverable amount of impaired non-financial assets in the event that this amount is based on the fair value less costs to sell. This amendment is likely not to impact Hypo Alpe Adria, as these are associated with determining the recoverable amount of cash-generating units that include goodwill or intangible assets with indefinite useful lives.

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 will apply in the event of future novations.

The following new standards and interpretations, which were issued by the IASB, have not yet been adopted by the EU and were therefore not applied prematurely. The table also includes the date from which application will be compulsory:

| Standard | Description | | Compulsory for annual period |
|---|---|---|---|
| IAS 19 | Employee Benefits | Employee contributions | 2014 |
| IFRS 7 und IFRS 9 | Financial Instruments: Disclosures | Mandatory Effective Date and Transition Disclosures | 2018 |
| IFRS 9 | Financial Instruments | 2009 | 2018 |
| IFRS 9 | Financial Instruments | 2010 | 2018 |
| IFRS 9, IFRS 7 and IAS 39 | Financial Instruments | Hedge Accounting | 2018 |
| Collective Standard | IFRS December 2013 (Improvements 2010–2012) | Annual Improvements IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 7, IAS 16/IAS 38, IAS 24 | 2014 |
| Collective Standard | IFRS December 2013 (Improvements 2011–2013) | Annual Improvements IFRS 1, IFRS 3, IFRS 13, IAS 40 | 2014 |
| IFRIC 21 | Levies | | 2014 |

**IAS 19** "Employee Benefits" clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be allocated. In addition, it provides relief if the amount of the contributions is independent of the number of years of service.

The new standard **IFRS 9** "Financial Instruments: Classification and Measurement" is expected to lead to material adjustments for Hypo Alpe Adria in relation to the classification and measurement of financial instruments. In future, instead of the previous four measurement categories of IAS 39 (see note (13) Financial Instruments: Recognition and Measurement (IAS 39)), there will only be two measurement categories under IFRS 9, for which classification will be determined based either on the business model or the characteristics of the financial asset. The measurement of these assets is primarily carried out at amortised cost if the objective of the business model is to hold the financial asset to collect the contractual cash flows or if the contractual terms of the financial asset stipulate interest payments or principal payments on specified dates. Should it not be possible to define these two factors, the financial instruments must in general be measured at fair value through profit or loss. All equity investments within the scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognised in profit or loss. The only possible exception is for those equity investments measured at fair value for which the entity has elected to report value changes in "other comprehensive income" (at fair value through other comprehensive income, FVTOCI). If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income (FVTOCI) and present the changes in other comprehensive income with only dividend income recognised in profit or loss. Furthermore, it will no longer be compulsory to account separately for embedded derivatives; instead these will be measured as an entire financial instrument at fair value through profit or loss. In July 2013, the IASB provisionally decided to postpone the date on which IFRS 9 comes into force until it is finally defined when the complete version of the standard will be published. In February 2014, the IASB announced its provisional decision to set the date of initial application as 1 January 2018. At the time of writing, IFRS 9 has not yet been adopted in European law as part of the Endorsement Process. As IFRS 9 had not yet been fully published, final quantification of the effects is not possible at present. Hypo Alpe Adria has already launched an implementation project.

In December 2013, the IASB published an **omnibus standard** with amendment to the following standards (**IFRS December 2013 – Improvements 2010-2012)**: IFRS 2 "Share-based payment" clarifies the definition of "vesting conditions", IFRS 3 "Business Combinations" clarifies the accounting of contingent purchaser price payments for company acquisitions, IFRS 8

"Operating Segments" refers to the disclosures in the notes on the aggregation of operating segments and the reconciliation from segment assets to group assets, the amendment to IFRS 13 "Fair Value Measurement" relates to the end to the discounting of short term loans and advances as well as liabilities, IAS 16 "Property, Plant and Equipment" clarifies the proportional adjustment of the cumulative depreciation when using the revaluation method, IAS 24 "Related Party Disclosures" includes a definition of related parties and their influence on the interpretation of "key management personnel" and IAS 38 "Intangible Assets" clarifies the proportional adjustment of the cumulative depreciation when using the revaluation method.

In addition, the IASB published a second **omnibus standard** (**IFRS December 2013 – Improvement 2011-2013)** in December 2013, which comprised the following standards: IFRS 1 "First-time Adoption of the International Financial Reporting Standards" includes the definition of IFRS 1.7 "all IFRS effective at the end of the reporting period", IFRS 3 "Business Combinations" is expanded by the definition of the exception from the scope of application for joint arrangements, IFRS 13 "Fair Value Measurement" comprises the clarification of scope of application of the portfolio exception, and the amendment to IAS 40 "Investment Property" includes the clarification key to answering the question as to whether the acquisition of investment properties is a business combination within the scope of IFRS 3.

Interpretation **IFRIC 21** "Levies" deals with the accounting of obligations to the public sector; these guidelines include when a liability is to be recognised for levies imposed by the government.

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

The consolidated financial statements contain values based on discretionary decisions and which have been calculated using estimates and assumptions. Important uncertainties relate in particular to the going concern principle, establishing risk provisions for loans and advances, assessing fair values, measurement of equity investments, the recognition of deferred taxes on tax loss carry-forwards, the treatment of deferred tax risks, performance-related insurance schemes and leasing relationships.

Uncertainties related to the estimates and assumptions may lead to results that will make it necessary to adjust the carrying amounts of the affected assets or liabilities in future periods.

With regard to the assessment of the continuance of the Hypo Alpe Adria group as a going concern, please refer to note (1.2) Important events and (90.11) Joint Risk Assessment and Decision Process ("JRAD").

Hypo Alpe Adria continuously assesses the recoverability of its problem loans and leasing receivables and allows for impairment by accruing risk provisions for loans and advances should there be indications to suggest impairment. To assess the recoverability, the amount, the time period, and probability of payment is measured. This measurement is based on a detailed analysis of carefully ascertained assumptions which are subject to uncertainties. When making estimates it was assumed that economic growth will remain subdued in the relevant markets in 2014. By implementing active restructuring and targeted wind-down management, Hypo Alpe Adria expects to optimally utilise securities as well as payments from other commercial papers in this respect. The market is expected to enjoy moderate recovery in the years beyond 2014, especially for quality real estate in good locations. A different assessment of these assumptions may result in significantly different valuations of risk provisions on loans and advances. The actual loan defaults can therefore differ from the risk provisions on loans and advances reported in these consolidated financial statements. In 2013, the unchanged, problematic market situation and associated delays and strategy adjustments in individual sale processes were taken into consideration through the formation of additional risk provisions. Considering the current weakness in the economy, the possibility cannot be excluded that it will be necessary to make further provisions for the existing loan portfolio in 2014 and in subsequent years.

For further information on the methodology employed in making risk provisions for loans and advances, please see note (22) Risk provisions for loans and advances.

The fair value of financial instruments for which there are no active markets is established by means of various valuation models. The input parameters used are based – whenever available – on observable market data. If this is not possible, fair value is established on the basis of estimates. In Hypo Alpe Adria fair value is calculated through comparison with the fair value of another financial instrument that is essentially identical and analysis of discounted cash flows and option pricing models. Further details on measuring financial instruments are given in note (13) Financial Instruments: Recognition and Measurement (IAS 39).

The measurement of equity investments in non-consolidated entities relates primarily to special purpose entities (SPEs). The intrinsic value of these companies is verified annually through expert appraisals, whereby these valuations are based on cash flow forecasts on the basis of time periods specific to projects and markets as well as on discounted interest rates.

Deferred tax assets from loss carry-forwards are only recorded when it is probable that future taxable profits will be made which will enable these tax losses to be offset. The basis for these estimates is the respective business plans which essentially have a time horizon of five years. However, due to the EU ruling, expected taxable profits for SEE banks were only considered in the accounts as at 31 December 2013 until the planned date of sale. Given the history of losses and the uncertainties arising from the restructuring of the group, there was no capitalisation of loss carry-forwards for the members of the

Hypo Alpe-Adria-Bank International AG Austrian tax group as well as for the majority of companies defined as wind-down companies.

The recognition of tax risks has been carried out in accordance with the recognition criteria in IAS 37. There is no recognition of deferred tax risks viewed as unlikely to materialise or the extent of which cannot be reliably estimated, either as a provision or as a contingent liability.

The valuation of subsidiaries classified as held for sale under IFRS 5 is carried out on the basis of the lower of carrying amount and fair value less costs to sell. The fair value is determined using existing quotations, and deviations from the actual sale price are not out of the question.

The costs of the performance-based pension plan are calculated using an actuarial process. The actuarial valuation is based on assumptions relating to discount rates, expected returns and asset values, future salary levels, mortality and future rises in pension rates. Such estimates are subject to significant uncertainties due to the long-term nature of these plans. The assumptions and estimates made for the calculation of long-term employee obligations are described in note (31) Provisions for pensions and similar provisions. Quantitative data on long-term employee benefit provisions is given in note (79) Provisions.

Hypo Alpe Adria takes the view that it must make discretionary decisions as a lessor – in particular with regard to classification between finance leases and operate leases – and uses as its criterion whether all principal risks and opportunities are transferred from the lessor to the lessee. In addition the measurement of leasing contracts can be significally influenced by the assumption regardsing the unguaranteed residual value.

## (5) Scope of consolidation

These consolidated financial statements comprise 16 Austrian companies (2012: 21) – including Hypo Alpe-Adria-Bank International AG – and 70 (2012: 85) foreign subsidiaries. For further information, refer to note (139) Scope of consolidation:

| | 31.12.2013 Fully consolidated | 31.12.2013 Equity method | 31.12.2012 Fully consolidated | 31.12.2012 Equity method |
|---|---|---|---|---|
| **Start of period (1.1.)** | **102** | **4** | **101** | **4** |
| Newly included in period under review | 6 | 0 | 9 | 0 |
| Merged in period under review | –3 | 0 | –1 | 0 |
| Excluded in period under review | –21 | –2 | –7 | 0 |
| Reclassified | 0 | 0 | 0 | 0 |
| **End of period (31.12.)** | **84** | **2** | **102** | **4** |
| thereof Austrian companies | 14 | 2 | 19 | 2 |
| thereof foreign companies | 70 | 0 | 83 | 2 |

The following six companies were included in the consolidation for the first time in the 2013 financial year:

| Company | Registered office | Ownership interest in % | Method of consolidation | Reason |
|---|---|---|---|---|
| HETA REAL ESTATE D.O.O. BELGRAD | Belgrade | 100.0% | Fully consolidated | Materiality |
| Victor Retail I d.o.o. | Sarajevo | 100.0% | Fully consolidated | Foundation |
| BLOK 67 GmbH | Klagenfurt am Wörthersee | 100.0% | Fully consolidated | Acquisition |
| BLOK 67 ASSOCIATES DOO BEOGRAD | Belgrade - Novi Beograd | 100.0% | Fully consolidated | Acquisition |
| Hypo SEE Holding AG | Klagenfurt am Wörthersee | 100.0% | Fully consolidated | Materiality |
| TERME SPA ROGASKA D.D. | Rogaska Slatina | 100.0% | Fully consolidated | Acquisition |

HETA REAL ESTATE D.O.O. BELGRAD was founded at the end of 2012 to bundle Serbian real estate retrieved as part of an emergency acquisition. This company was consolidated in the first half of 2013 on grounds of materiality.

Furthermore, assets taken over in the course of emergency acquisitions in Bosnia are being transferred to the company Victor Retail I d.o.o., which was newly founded for this purpose in 2013.

The remaining 50% of the shares in BLOK 67 GmbH previously owned by a third party were acquired at the end of June 2013. It is the parent company of BLOK 67 ASSOCIATES DOO BEOGRAD, a housing construction and property development company, which was also consolidated in the first half of 2013. BLOK 67 ASSOCIATES DOO BEOGRAD was sold to another subsidiary in the second half of 2013. Therefore, BLOK 67 GmbH became immaterial to the group and was eliminated from the scope of consolidation.

Hypo Phoenix Absicherungs GmbH, which was previously not included in the scope of consolidation due to immateriality, was transformed into Hypo SEE Holding AG at the end of June 2013 and shall operate as the holding company of the investments in the group banks in the SEE countries held by Hypo Alpe-Adria-Bank International AG going forward.

TERME SPA ROGASKA D.D. is a Slovenian operating company that manages hotel operations in Slovenia and was financed by Hypo Alpe Adria in the past. In the course of credit restructuring, the properties that were financed (tourism facilities) were transferred to the ownership of Hypo Alpe Adria and therefore the company was added to the scope of consolidation.

The following nine companies were included in the consolidation for the first time in the 2012 financial year:

| Company | Registered office | Ownership interest in % | Method of consolidation | Reason |
|---|---|---|---|---|
| DOHEL d.o.o. | Sesvete | 100.0% | Fully consolidated | Acquisition |
| ALUFLEXPACK NOVI d.o.o. | Zadar | 100.0% | Fully consolidated | Division |
| Hypo-Alpe-Adria-Zastupnik d.o.o. (ehem. Globus) | Sarajevo | 100.0% | Fully consolidated | Materiality |
| Malpensa Gestioni Srl | Tavagnacco (Udine) | 100.0% | Fully consolidated | Foundation |
| Alpe-Adria nekretnine d.o.o. | Zagreb | 100.0% | Fully consolidated | Materiality |
| LOMA CENTER d.o.o. | Ljubljana | 100.0% | Fully consolidated | Materiality |
| BRODARICA POSLOVNI CENTAR d.o.o. | Zagreb | 100.0% | Fully consolidated | Materiality |
| GRAND HOTEL LAV d.o.o. | Podstrana | 100.0% | Fully consolidated | Acquisition |
| H-ABDUCO d.o.o. | Zagreb | 100.0% | Fully consolidated | Foundation |

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. The following 24 fully consolidated subsidiaries and two companies valued at equity were excluded from the scope of consolidation in the course of the 2013 financial year:

| Company | Registered office | Ownership interest in % | Method of consolidation | Reason |
|---|---|---|---|---|
| ALFA CAR PROJEKT d.o.o. | Zagreb | 100.0% | Fully consolidated | Materiality |
| ALFA NEKRETNINE d.o.o. | Zagreb | 100.0% | Fully consolidated | Materiality |
| ALPE ADRIA BETEILIGUNGS GMBH | Klagenfurt am Wörthersee | 100.0% | Fully consolidated | Materiality |
| Alpe Adria Venture Fund GmbH & Co KG | Klagenfurt am Wörthersee | 100.0% | Fully consolidated | Materiality |
| Ananke Handels- und Beteiligungs GmbH | Klagenfurt am Wörthersee | 100.0% | Fully consolidated | Materiality |
| BETA NEKRETNINE d.o.o. | Zagreb | 100.0% | Fully consolidated | Materiality |
| BLOK 67 GmbH | Klagenfurt am Wörthersee | 100.0% | Fully consolidated | Materiality |
| D.S. Car d.o.o. | Zagreb | 100.0% | Fully consolidated | Materiality |
| DOSOR d.o.o. | Radenci | 50.0% | Equity method | Materiality |
| ERCS 2008 Kft. | Budapest | 100.0% | Fully consolidated | Sale |
| Grundstücksgesellschaft HLG Achilles mbH & Co. KG | Munich | 6.0% | Fully consolidated | Loss of control |
| Grundstücksgesellschaft Kleine Seilerstrasse 1 GmbH & Co KG | Munich | 100.0% | Fully consolidated | Merger |
| HILLTOP Holding Anstalt | Vaduz | 100.0% | Fully consolidated | Materiality |
| Hypo Alpe Adria IT Holding GmbH | Klagenfurt am Wörthersee | 100.0% | Fully consolidated | Materiality |
| HYPO ALPE-ADRIA-BANK AG | Klagenfurt am Wörthersee | 100.0% | Fully consolidated | Sale |
| HYPO Consultants Holding GmbH | Klagenfurt am Wörthersee | 100.0% | Fully consolidated | Materiality |
| Hypo Group Netherland Holding B.V. in liquidatie | Amsterdam Zuidoost | 100.0% | Fully consolidated | Materiality |
| Hypo Group Netherlands Corporate Finance B.V. in liquidatie | Amsterdam Zuidoost | 100.0% | Fully consolidated | Materiality |
| HYPO PC d.o.o. | Ljubljana | 100.0% | Fully consolidated | Materiality |
| HYPO ULAGANJA d.o.o., Zagreb | Zagreb | 100.0% | Fully consolidated | Materiality |
| PIPER d.o.o. | Zagreb | 100.0% | Fully consolidated | Materiality |
| QLANDIA MARKETING d.o.o. | Ljubljana | 100.0% | Fully consolidated | Materiality |
| SINGULUS d.o.o. | Zagreb | 100.0% | Fully consolidated | Materiality |
| URBANA PRENOVA IZOLA d.o.o. | Izola | 40.0% | Equity method | Materiality |
| Verwaltungsgesellschaft HLG Achilles mbH | Munich | 100.0% | Fully consolidated | Merger |
| Verwaltungsgesellschaft Kleine Seilerstrasse 1 GmbH | Munich | 100.0% | Fully consolidated | Merger |

With the exception of the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG, the exclusion of these companies has no material effect on the results of Hypo Alpe Adria.

The following eight fully-consolidated subsidiaries were excluded from the scope of consolidation in the course of the 2012 financial year:

| Company | Registered office | Ownership interest in % | Method of consolidation | Reason |
|---|---|---|---|---|
| HYPO Facility Services GmbH in Liqu. | Klagenfurt am Wörthersee | 100.0% | Fully consolidated | Liquidation |
| ORGOVÁNYI IMMO Ingatlanforgalmazó Kft. | Budapest | 100.0% | Fully consolidated | Materiality |
| KÄRNTNER HOLDING BETEILIGUNGS GmbH in Liqu. | Velden am Wörthersee | 100.0% | Fully consolidated | Liquidation |
| HYPO ALPE-ADRIA-Insurance Services GmbH | Klagenfurt am Wörthersee | 100.0% | Fully consolidated | Sale |
| HYPO ALPE-ADRIA-Objektverwaltung GmbH | Munich | 100.0% | Fully consolidated | Merger |
| ALUFLEXPACK d.o.o. | Zadar | 100.0% | Fully consolidated | Sale |
| TLM-TVP d.o.o. | Sibenik | 100.0% | Fully consolidated | Sale |
| ALUFLEXPACK NOVI d.o.o. | Zadar | 100.0% | Fully consolidated | Sale |

In the federation of Bosnia and Herzegovina, the group is subject to significant restrictions imposed by the local regulatory authority. The return of deposits (financing) in the amount of EUR 0.1 billion, which was approved by the parent company Hypo Alpe-Adria-Bank International AG, is subject to the prior approval of the regulatory authority. Profits (dividends) can only be distributed if the subsidiary bank based in Mostar maintains an overall equity ratio of 14.5% even after the distribution.

**a) Subsidiaries with material non-controlling interests**

Two companies with material non-controlling interests are included in the scope of consolidation of Hypo Alpe Adria. The material non-controlling interests for Hypo Alpe Adria are as follows:

| Company | Registered office | 2013 | 2012 |
|---|---|---|---|
| HBInt Credit Management Limited | St. Helier - Jersey | 49.0 | 49.0 |
| Norica Investments Limited | St. Helier - Jersey | 49.0 | 49.0 |

HBInt Credit Management Limited holds investments in the two investment companies Carinthia I Limited and Carinthia II Limited, also based in St. Helier - Jersey.

In the 2013 financial year, the following gains/losses are allocated to the subsidiary's before the elimination of intercompany revenues and expenses:

EUR m

| | HBInt Credit Management Limited | Norica Investments Limited |
|---|---|---|
| **Net interest income** | **5.8** | **16.9** |
| Result from trading | 0.0 | –2.6 |
| Result from fin. investments – designated at fair value through profit or loss | 12.0 | 0.0 |
| Other operating result | 0.0 | 0.0 |
| **Operating income** | **17.8** | **14.3** |
| Impairment of financial assets | 0.6 | 0.0 |
| **Operating income after impairment** | **18.4** | **14.3** |
| Other administrative expenses | –0.4 | –0.3 |
| **Operating expenses** | **–0.4** | **–0.3** |
| **Operating result** | **18.0** | **14.0** |
| **Result before tax from continued operations** | **18.0** | **14.0** |
| **Result after tax from continued operations** | **18.0** | **14.0** |

The following gains/losses are allocated in 2012:

EUR m

| | HBInt Credit Management Limited | Norica Investments Limited |
|---|---|---|
| **Net interest income** | **9.2** | **20.7** |
| Result from trading | 0.0 | 4.0 |
| Result from fin. investments – designated at fair value through profit or loss | 25.1 | 0.0 |
| Other operating result | 0.0 | –2.9 |
| **Operating income** | **34.4** | **21.8** |
| Impairment of financial assets | –0.8 | 0.0 |
| **Operating income after impairment** | **33.6** | **21.8** |
| Other administrative expenses | –0.4 | –0.4 |
| **Operating expenses** | **–0.4** | **–0.4** |
| **Operating result** | **33.2** | **21.4** |
| **Result before tax from continued operations** | **33.2** | **21.4** |
| **Result after tax from continued operations** | **33.2** | **21.4** |

Regarding the non-controlling interest of HBInt Credit Management Limited, Jersey, the share of consolidated profits allocated as at 31 December 2013 was EUR +9.0 million (2012: EUR +16.5 million) since the non-controlling shareholder does not participate in the administrative costs. Due to a special dividend allocated to the non-controlling interests, the annual profit of Norica Investments Limited, Jersey that is allocated to the non-controlling interests is EUR +11.5 million (2012: EUR +15.2 million).

The dividend paid to non-controlling interests for HBInt Credit Management Limited is EUR 3.0 million (2012: EUR 5.0 million) and, for Norica Investments Limited – under consideration of the special dividend – EUR 19.3 million (2012: EUR 13.2 million).

The balance sheets of HBInt Credit Management Limited and Norica Investments Limited at 31 December 2013 are as follows:

EUR m

| | HBInt Credit Management Limited | Norica Investments Limited |
|---|---|---|
| Loans and advances to credit institutions | 147.4 | 183.3 |
| Risk provisions on loans and advances to credit institutions | 0.0 | 0.0 |
| Loans and advances to customers | 137.0 | 0.0 |
| Risk provisions on loans and advances to customers | –6.7 | 0.0 |
| Derivative financial instruments | 0.0 | 1.2 |
| Financial investments – designated at fair value through profit or loss | 189.9 | 0.0 |
| Financial investments – available for sale | 67.8 | 326.7 |
| Other liabilities | –0.2 | 0.0 |
| **Equity** | **535.1** | **511.2** |

As at 31 December 2012 the balance sheets were as follows:

EUR m

| | HBInt Credit Management Limited | Norica Investments Limited |
|---|---|---|
| Loans and advances to credit institutions | 142.8 | 139.2 |
| Risk provisions on loans and advances to credit institutions | 0.0 | 0.0 |
| Loans and advances to customers | 141.7 | 0.0 |
| Risk provisions on loans and advances to customers | –7.3 | 0.0 |
| Derivative financial instruments | 0.0 | 3.9 |
| Financial investments – designated at fair value through profit or loss | 177.9 | 0.0 |
| Financial investments – available for sale | 68.5 | 386.8 |
| Other liabilities | –0.2 | 0.0 |
| **Total equity** | **523.4** | **530.0** |

Under consideration of the special dividend, an amount of EUR 255.1 million (2012: EUR 264.3 million) of consolidated equity is allocated to the non-controlling interests of Norica Investments Limited as at 31 December 2013. For HBInt Credit Management Limited, the amount of consolidated equity assigned to the non-controlling interests is EUR 262.4 million (2012: EUR 256.6 million).

The cash flow statement of HBInt Credit Management Limited and Norica Investments Limited for the financial year ending on 31 December 2013 is as follows:

EUR m

| | HBInt Credit Management Limited | Norica Investments Limited |
|---|---|---|
| **Cash and cash equivalents at end of previous period (1.1.)** | **0.0** | **0.0** |
| Cash flows from operating activities | 5.7 | 29.9 |
| Cash flows from investing activities | 0.0 | 0.0 |
| Cash flows from financing activities | –5.7 | –29.9 |
| **Cash and cash equivalents at end of period (31.12.)** | **0.0** | **0.0** |

As at 31 December 2012, the cash flow statement was as follows:

EUR m

| | HBInt Credit Management Limited | Norica Investments Limited |
|---|---|---|
| **Cash and cash equivalents at end of previous period (1.1.)** | **0.0** | **0.0** |
| Cash flows from operating activities | 9.8 | 17.4 |
| Cash flows from investing activities | 0.0 | 0.0 |
| Cash flows from financing activities | –9.8 | –17.4 |
| **Cash and cash equivalents at end of period (31.12.)** | **0.0** | **0.0** |

**b) Investments in joint ventures**

Hypo Alpe Adria holds a 50% interest in Hypo-BA Leasing Süd GmbH, which is classified as a joint venture according to IFRS 11. This company is purely a holding company with subsidiaries located in Croatia and Slovenia that process real estate lease agreements. The group's investment in Hypo-BA Leasing Süd GmbH is included in the consolidated financial statements using equity consolidation.

The reconciliation of the financial information with the carrying amount of the investment in Hypo-BA Leasing Süd GmbH as at 31 December 2013 is as follows:

EUR m

| | 2013 | 2012 |
|---|---|---|
| Current asset | 0.8 | 0.5 |
| Non-current assets | 2.0 | 2.0 |
| Provisions | 0.0 | 0.0 |
| **Equity** | **2.8** | **2.6** |
| Percentage interest | 50.0% | 50.0% |
| **Book value of the investment** | **1.4** | **1.3** |

The income statement of Hypo-BA Leasing Süd GmbH as at 31 December 2013 is as follows:

EUR m

| | 2013 | 2012 |
|---|---|---|
| Other operating expenses | 0.0 | 0.0 |
| Financial expenses | 0.3 | 0.0 |
| **Profit from ordinary activities** | **0.2** | **0.0** |
| Taxes on income | 0.0 | 0.0 |
| **Net income/loss** | **0.2** | **0.0** |
| Attributable to equity holders of parent | 0.1 | 0.0 |

**c) Shares in an associated company**

Bergbahnen Nassfeld Pramollo AG operates ski lifts in Carinthia and is included in the consolidated financial statements at 29.5% using equity consolidation. Since the financial statements are prepared for 30 April, the reporting date differs from that of the group.

The reconciliation of the financial information with the carrying amount of the investment in Bergbahnen Nassfeld Pramollo AG is as follows:

EUR m

| | 30.4.2013 | 30.4.2012 |
|---|---|---|
| Current asset | 1.5 | 1.5 |
| Non-current assets | 35.6 | 37.1 |
| Current liability | –4.9 | –6.6 |
| Non-current liability | –11.6 | –11.5 |
| Provisions | –0.1 | –0.2 |
| **Equity** | **20.4** | **20.3** |
| Percentage interest | 29.5% | 29.5% |
| **Book value of the investment** | **6.0** | **6.0** |

The income statement of Bergbahnen Nassfeld Pramollo AG is as follows:

EUR m

| | 1.5.2012 - 30.4.2013 | 1.5.2011 - 30.4.2012 |
|---|---|---|
| Revenues | 12.5 | 11.2 |
| Own work capitalized | 0.2 | 0.1 |
| Other income | 1.3 | 1.2 |
| Cost of materials | –4.8 | –4.4 |
| Personnel expenses | –0.2 | –0.1 |
| Depreciation and amortization | –3.5 | –3.5 |
| Other operating expenses | –4.1 | –4.2 |
| Financial expenses | –0.7 | –0.7 |
| **Profit from ordinary activities** | **0.8** | **–0.4** |
| Taxes on income | 0.0 | 0.0 |
| **Net income/loss** | **0.8** | **–0.5** |
| Attributable to equity holders of parent | 0.2 | –0.1 |

## (6) Discontinued operations

**a) Disposal of the Austrian subsidiary bank**

The results of discontinued operations include the results of the Austrian subsidiary bank Hypo Alpe-Adria- Bank AG, Klagenfurt/Wörthersee. The share purchase agreement was signed on 31 May 2013 with the highest bidder, Anadi Financial Holdings Pte. Ltd., transferring 100% of the shares in Hypo Alpe-Adria-Bank AG held by Hypo Alpe-Adria-Bank International AG (signing). After all applicable requirements were met by the buyer and the seller, in particular obtaining the approval of the Austrian financial market supervisory authority (FMA) and the Bayerische Landesbank (BayernLB), the transfer of shares (closing) took place on 19 December 2013. The agreed purchase price is EUR 65.5 million. An amount of EUR 40.8 million has already been received, and the remaining EUR 24.7 million was paid to an escrow account as security to protect against various risks identified by the buyer. In the consolidated financial statements, the remaining purchase price receivable is recognised at fair value. Insofar as the risks identified in the purchase contract do not materialise, this portion of the purchase price will be paid no later than in September of 2017.

The presentation of comparative figures from the previous year in the income statement was adjusted in accordance with IFRS 5.

The income statement of the Austrian subsidiary bank for 2013 is presented in the following table. In the 2012 financial year, the result was largely defined by the redemption of Tier 2 capital, which took place at zero due to the allocated losses and led to the corresponding derecognition of the liabilities through profit or loss.

EUR m

| | 1.1. - 19.12.2013 | 1.1.-31.12.2012 |
|---|---|---|
| Interest and similar income | 135.7 | 163.9 |
| Interest and similar expenses | –100.9 | –124.6 |
| **Net interest income** | **34.8** | **39.3** |
| Fee and commission income | 16.6 | 16.6 |
| Fee and commission expenses | –1.9 | –1.7 |
| **Net fee and commission income** | **14.7** | **14.9** |
| Gains and losses from fin. instruments not measured at fair value through profit and loss | 9.6 | 44.5 |
| Result from trading | 0.0 | 1.7 |
| Result from hedge accounting | –1.8 | 0.1 |
| Result from fin. investments – designated at fair value through profit or loss | 3.3 | –0.5 |
| Other operating result | 1.6 | 2.5 |
| **Operating income** | **62.2** | **102.4** |
| Impairment of financial assets | –2.7 | –1.4 |
| thereof financial assets – at costs | –2.7 | –1.4 |
| Impairment of non financial assets | 0.0 | 0.0 |
| **Operating income after impairment** | **59.4** | **101.0** |
| Personnel expenses | –35.7 | –28.6 |
| Other administrative expenses | –12.9 | –16.7 |
| Depreciation and amortization on tangible and intangible assets | –1.7 | –1.3 |
| **Operating expenses** | **–50.3** | **–46.6** |
| **Operating result** | **9.1** | **54.4** |
| Impairment to portfolios that have been transferred in the course of the sale | –13.4 | 0.0 |
| Reclassification available for sale | 5.9 | 0.0 |
| Deconsolidation | –96.7 | 0.0 |
| **Result before tax from discontinued operations** | **–95.1** | **54.4** |
| Taxes on income | –1.7 | –3.4 |
| thereof with respect to current income | –0.2 | –3.4 |
| thereof with respect to effects from the deconsolidation | –1.5 | 0.0 |
| **Result after tax from discontinued operations** | **–96.8** | **50.9** |

Next to the current profit before taxes according to IFRS of EUR +9.1 million (+ EUR 4.8 million according to the Austrian accounting standards UGB/BWG), the consolidated statement of comprehensive income includes the deconsolidation result of Hypo Alpe-Adria-Bank AG in the amount of EUR -96.7 million in the item of annual profit after taxes from discontinued operations. This item also includes the impairment of portfolios (EUR -13.4 million) transferred to the parent company in the course of selling Hypo Alpe-Adria-Bank AG. The effects of reclassifying the available-for-sale reserve of EUR 5.9 million and income taxes of EUR -1.7 million were included in the item of annual result after taxes from discontinued operations as well.

The assets of Hypo Alpe-Adria-Bank AG (Austria) are as follows:

EUR m

| | 19.12.2013 |
|---|---|
| **ASSETS** | |
| Cash and balances at central banks | 27.7 |
| Loans and advances to credit institutions | 90.8 |
| Loans and advances to customers | 2,521.5 |
| Risk provisions for loans and advances | –50.6 |
| Trading assets | 0.4 |
| Derivative financial instruments | 151.8 |
| Financial investments – designated at fair value through profit or loss | 221.8 |
| Financial investments – available for sale | 387.9 |
| Intangible assets | 0.7 |
| Tangible assets | 24.3 |
| Tax assets | 0.4 |
| Other assets | 6.4 |
| **Total assets** | **3,383.1** |
| | |
| **LIABILITIES** | |
| Liabilities to credit institutions | 430.2 |
| Liabilities to customers | 1,194.0 |
| Liabilities evidenced by certificates | 1,424.4 |
| Derivative financial instruments | 99.7 |
| Provisions | 25.3 |
| Tax liabilities | 6.3 |
| Other liabilities | 33.0 |
| Subordinated capital | 20.3 |
| **Total liabilities** | **3,233.3** |

The cash flow statement of Hypo Alpe-Adria-Bank AG (Austria) is composed as follows:

EUR m

| | 2013 | 2012 |
|---|---|---|
| **Cash and cash equivalents at end of previous period (1.1.)** | **29.4** | **41.4** |
| Cash flows from operating activities | 61.9 | 143.1 |
| Cash flows from investing activities | –15.0 | 5.9 |
| Cash flows from financing activities | –48.7 | –161.1 |
| **Cash and cash equivalents at end of period (19.12./31.12.)** | **27.6** | **29.4** |

The development of the available-for-sale reserve of Hypo Alpe-Adria-Bank AG is as follows:

EUR m

| | 1.1. - 19.12.2013 | 1.1.-31.12.2012 |
|---|---|---|
| **Gains/losses from discontinued operations** | **–1.4** | **6.1** |
| Gains/losses on available-for sale evaluation | –0.2 | 7.4 |
| Effects of deferred taxes | 0.1 | –1.9 |
| Gains/losses on available-for sale disposal (reclassification) | –1.6 | –0.4 |
| Effects of deferred taxes | 0.4 | 0.0 |
| Gains/losses on available-for sale impairment (reclassification) | 0.0 | 0.0 |
| Effects of deferred taxes | 0.0 | 1.0 |

**b) 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 southern European countries (SEE) of Slovenia, Croatia, Serbia, Bosnia and Herzegovina as well as Montenegro by mid-2015. With the decision of 3 September 2013, the restructuring plan was approved by the commission.

In accordance with IFRS 5, the assets and liabilities of a disposal group must be reported separately in the financial statements and measured in accordance with the relevant requirements if the following conditions pursuant to IFRS 5.7 and IFRS 5.8 are all met:

- Immediate availability, i.e. the asset must be available for immediate sale in its current condition at terms that are commonly accepted for the sale of such assets
- Concrete intention to sell, active search for a buyer
- High probability of sale
- Sale within twelve months

As at 31 December 2013, several of the required criteria are not met, so that the assets and liabilities of the SEE bank group are not recognised according to the provisions of IFRS 5 but included in the consolidated financial statements as before. In the concrete case, the SEE network (SEE banks including management holding company) is not in saleable condition on the reporting date 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 parameters, concluding the contribution of the bank subsidiaries in the SEE management holding company, 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 business portfolio (in particular portfolio administration).

The impairment of SEE bank group assets, which may arise from the future requirement of measurement according to IFRS 5, as well as losses that may be incurred in the course of a future disposal, are therefore not contained in the 2013 consolidated financial statements.

If the IFRS 5 conditions are met in the future, these shall be recognised in the consolidated financial statements of Hypo Alpe Adria at the lower of carrying amount and fair value less costs to sell; negative effects on the consolidated financial statements resulting from economic conditions and/or a change in the defined overall disposal strategy cannot be ruled out.

Hypo Alpe Adria expects a significant additional need for impairment in the course of the process to sell the SEE network, and/or significant additional losses in the course of the subsequent disposal of the SEE bank group that are not taken into account in the 2013 consolidated financial statements. The banks that are for sale (including the management holding company) have assets of EUR 1.3 billion as at 31 December 2013. A possible difference compared to the actual purchase price will affect future consolidated profits as an additional need for impairment and/or loss on disposal. 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 -132.8 million as at 31 December 2013) have to be recognised through profit or loss at the time of disposal according to the applicable accounting standards.

**c) Sales activities in the wind-down business portfolio**

Further steps were taken in 2013 to reduce the investment portfolio and therefore the complexity of Hypo Alpe Adria, and the sales process was started for the leasing companies as well as larger hotel holdings with closings expected in 2014. Since the criteria imposed by IFRS 5 for the available-for-sale investments GRAND HOTEL LAV d.o.o. for the Croatian real estate project "Skiper" and for a leasing unit in Eastern Europe are met as at 31 December 2013, the assets and liabilities of these three companies are reported separately in the 2013 consolidated financial statements. For further information, refer to Note (73) Assets held for disposal.

## (7) Business combinations and acquisitions

With the acquisition of a majority holding in BLOK 67 GmbH, both BLOK 67 GmbH and its wholly-owned subsidiary BLOK 67 ASSOCIATES DOO BEOGRAD were included in the consolidated financial statements of Hypo Alpe Adria as at 30 June 2013. This consolidation requirement continues to apply, notwithstanding the disposal of BLOK 67 ASSOCIATES DOO BEOGRAD to another group company in the second half of 2013.

The effects from the first-time consolidation on the consolidated financial statements of Hypo Alpe Adria are as follows:

EUR m

| | BLOK 67 ASSOCIATES DOO |
|---|---|
| Date of acquisition | 30.6.2013 |
| Acquired share (direct in %) | 100.0% |
| **Revalued assets** | **63.8** |
| **Revalued liabilities** | **63.8** |
| **Net assets** | **0.0** |
| Acquisition costs | 0.0 |
| **Remaining goodwill/badwill** | **0.0** |

EUR m

| Assets | BLOK 67 ASSOCIATES DOO | Purchase Price Allocation Adjustments | BLOK 67 ASSOCIATES DOO after Purchase Price Allocation Adjustments |
|---|---|---|---|
| Cash and balances at central banks | 5.1 | 0.0 | 5.1 |
| Investment Properties | 25.6 | –3.8 | 21.8 |
| Other assets | 34.1 | 2.9 | 37.0 |
| **Total assets** | **64.7** | **–0.9** | **63.8** |

Other assets primarily include real estate projects intended to be sold in the medium term.

EUR m

| Liabilities | BLOK 67 ASSOCIATES DOO | Purchase Price Allocation Adjustments | BLOK 67 ASSOCIATES DOO after Purchase Price Allocation Adjustments |
|---|---|---|---|
| Liabilities to affiliated companies | 75.1 | –13.3 | 61.8 |
| Provisions | 0.0 | 0.8 | 0.8 |
| Other liabilities | 1.2 | 0.0 | 1.2 |
| Equity | –11.6 | 11.6 | 0.0 |
| **Total equity and liabilities** | **64.7** | **–0.9** | **63.8** |

As part of the purchase price allocation, a provision in the amount of EUR 0.8 million was recognised on the acquisition date for an ongoing legal dispute. The 2013 consolidated net income includes a loss of EUR -1.5 million generated by the company since it was included in the scope of consolidation. This loss mainly stems from ongoing expenditures, write-offs and impairments related to investment properties.

As BLOK 67 GmbH, the parent holding company of the Serbian company BLOK 67 ASSOCIATES DOO BEOGRAD, does not have any operations of its own, IFRS 3 regarding initial consolidation of the company is not applied.

The disclosures according to IFRS 3 are also not required for the company TERME SPA ROGASKA D.D.l, since it primarily provides services within the group.

### (8) Consolidation methods

Business combinations are accounted for in accordance with IFRS 3 (Business Combinations) using the acquisition method. All identifiable assets and liabilities of the respective subsidiary are recognised at their acquisition-date fair values. The cost of a company acquisition is calculated from the total consideration transferred measured at fair value at the date of acquisition plus the non-controlling interests in the acquired company. At initial recognition, goodwill is measured at cost, which is the excess of total consideration transferred plus the amount of non-controlling interest in the acquired identifiable assets and transferred liabilities of the group. If the difference is negative after another check, the amount is recognised immediately in profit or loss. The carrying amount of goodwill is subjected to an impairment test at least once a year

The date of first-time consolidation is the date when control is obtained. Subsidiaries acquired during the year are included in the statement of comprehensive income as from the date of acquisition. The results of subsidiaries sold during the year are included in the statement of comprehensive income until the date of disposal.

For reporting shares in joint ventures the equity method has been used for consolidation and the carrying amount determined by the equity method is shown separately in the statement of financial position. There are in total two companies included in the consolidation which have been accounted for using the equity method.

If a further interest is acquired in a company in which there was an interest of less than 100.0% but which is already fully consolidated, any differences in value are recognised as transactions with non-controlling shareholders in equity, without impact on profit or loss.

In the course of eliminating intragroup balances, loans and receivables between consolidated subsidiaries are eliminated in full. In the same way, intragroup income and expenses are eliminated within the framework of expense and income consolidation.

Interests in equity attributable to non-group shareholders and the non-group share in profit or loss of consolidated subsidiaries are recognised separately in equity and in the income statement under the item non-controlling interest. A subsidiary's comprehensive income is recognised in non-controlling interests even if this results in a loss.

### (9) Foreign currency translation

Hypo Alpe Adria applies IAS 21 to foreign currency translation. All foreign currency monetary assets and liabilities are translated applying closing rates. Resulting exchange differences are generally recognised in profit and loss in the item result from trading, unless they refer to net investment in a foreign entity.

Open forward transactions are translated at forward rates at the closing date.

The assets and liabilities of foreign operations are translated into euros at the closing rates. Income and expense is translated at the average rates for the period, as long as these do not differ significantly from the actual exchange rates. The resulting exchange differences are reported in other comprehensive income (OCI) under foreign currency reserve. The entry for a foreign operation in other comprehensive income (OCI) is to be reclassified in the income statement in the event of the sale of the foreign operation.

Exchange differences attributable to non-controlling interest are shown under non-controlling interest.

The functional currency of the two leasing subsidiaries in Serbia and the first-time consolidation of BLOK 67 ASSOCIATES DOO BEOGRAD is the euro rather than the local currency (RSD) and conversion of monetary items therefore takes into account exchange rate fluctuation between the euro and the respective currency. Non-monetary items are recognised as EUR assets. For all other companies, the local currency is the functional currency.

IAS 29 "Financial Reporting in Hyperinflationary Economies" is not relevant to Hypo Alpe Adria and has therefore not been applied.

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

| Foreign currency translation<br>Rates in units per EUR | closing date<br>31.12.2013 | Average 2013 | closing date<br>31.12.2012 | Average 2012 |
|---|---|---|---|---|
| Bosnian mark (BAM) | 1.95580 | 1.95580 | 1.95580 | 1.95580 |
| Croatian kuna (HRK) | 7.62650 | 7.57690 | 7.55750 | 7.52690 |
| Swiss franc (CHF) | 1.22760 | 1.22740 | 1.20720 | 1.20520 |
| Serbian dinar (RSD) | 114.64210 | 113.12670 | 113.71830 | 112.87990 |
| Hungarian forint (HUF) | 297.04000 | 297.50000 | 292.30000 | 290.24230 |
| Bulgarian lev (BGN) | 1.95580 | 1.95580 | 1.95580 | 1.95580 |
| Ukrainian hrywnja (UAH) | 11.04150 | 10.63410 | 10.53720 | 10.30680 |
| Macedonian denar (MKD) | 61.51130 | 61.56090 | 61.50000 | 61.52140 |

### (10) Adjustment of previous-year values

Reclassifications were performed in the income statement as at 31 December 2013 in order to improve the information value of individual items on the income statement. Prior-year figures have been adjusted accordingly.

A material change was made to the presentation of impairments: all impairments of financial assets and all impairments of non-financial assets are reported respectively in a separate item of the income statement after the profit from operations. Accordingly the risk provisions are reported under impairments of financial assets.

The results of real estate leased under operating leases (real estate held as financial investments – investment properties) and other lease objects are also reported separately. With the exception of impairments, all effects of investment properties that affect income are reported under the new item operating result of investment properties, while the results of other operating leases are reported under the other operating result. The rental income and/or ongoing lease payments as well as regular depreciation have been reclassified from interest and similar income to the items listed above.

Furthermore, ongoing proceeds from dividends of other investments and non-consolidated companies as well as ongoing proceeds from shares and other variable-interest securities, depending on the intended purpose of the underlying financial instrument, are reported under results of financial assets available for sale or results of financial assets designated at fair value through profit or loss.

Gains and losses on the disposal of financial assets available for sale, financial assets held to maturity and financial assets in the loans and receivables category, which were previously reported in the result of other financial investments, have been reclassified to the new item gains and losses from financial instruments not measured at fair value through profit or loss.

However, none of the changes discussed above have any effect on consolidated profits, the consolidated balance sheet, the consolidated statement of changes in equity and the consolidated cash flow statement.

The application of the amended IAS 19 Employee Benefits on the other hand affects the 2012 consolidated profit and the consolidated statement of changes in equity as at 31 December 2012. Actuarial gains and losses are no longer included on the income statement but in equity under other comprehensive income without affecting profit or loss. Since this change applies retroactively, the 2012 consolidated profit increases by EUR +5.2 million.

Based on the provisions of IFRS 5, the income statement for the previous year has been adjusted accordingly and the result before taxes from discontinued operations is reported on a separate line.

The changes to the 2012 consolidated financial statements described above are shown in the following table. Corresponding to the income statement adjustments, the respective note disclosures have been adapted as well.

EUR m

| | Published consolidated financial statements 1.1. - 31.12.2012 | Reclassification | IAS 19 | IFRS 5 | Adjusted consolidated financial statements 1.1. - 31.12.2012 |
|---|---|---|---|---|---|
| Interest and similar income | 1,494.8 | -42.6 | | -60.0 | 1,392.2 |
| Interest and similar expenses | -816.5 | 0.0 | | 22.1 | -794.4 |
| **Net interest income** | **678.4** | **-42.6** | **0.0** | **-37.9** | **597.9** |
| Fee and commission income | 115.1 | 0.0 | | -15.7 | 99.4 |
| Fee and commission expenses | -52.4 | 0.0 | | 0.9 | -51.5 |
| **Net fee and commission income** | **62.7** | **0.0** | **0.0** | **-14.8** | **47.9** |
| Gains and losses on fin. instr. that are not measured at fair value through p&l | -8.3 | 123.7 | 0.0 | -1.9 | 113.5 |
| Result from fin. inv. – availabelfor sale | -8.2 | 21.2 | | -1.9 | 11.2 |
| Result from fin. inv. – held to maturity | -0.1 | 0.0 | | 0.0 | -0.1 |
| Result from fin. inv. – at cost | | 102.5 | | 0.0 | 102.5 |
| Result from trading | 25.8 | 0.0 | | -8.8 | 17.0 |
| Result from hedge accounting | -2.3 | 0.0 | | 0.5 | -1.8 |
| Result from fin. inv. – at fair vlaue throug p&l | -7.0 | 0.1 | | 0.4 | -6.5 |
| Operating inc. from inv. Prop. | 0.0 | 32.0 | | 0.0 | 32.0 |
| Result from other fin. inv. | 122.9 | -84.2 | | -38.7 | 0.0 |
| Other operating result | -22.8 | 30.2 | | 9.0 | 16.4 |
| **Operating income** | **849.4** | **59.2** | **0.0** | **-92.3** | **816.3** |
| Impairment of fin. assets | -309.9 | -19.4 | | 1.4 | -327.9 |
| Impairment of non-fin. assets | 0.0 | -60.6 | | 0.0 | -60.6 |
| **Operating income after impairment** | **539.5** | **-20.8** | **0.0** | **-90.9** | **427.8** |
| Personnel expenses | -259.3 | 0.0 | 1.6 | 32.2 | -225.4 |
| Other administrative expenses | -189.8 | 0.0 | | 6.6 | -183.2 |
| Depreciation and amortization on tang. and intang. assets | -55.2 | 20.8 | | 1.3 | -33.1 |
| **Operating expenses** | **-504.2** | **20.8** | **1.6** | **40.1** | **-441.7** |
| **Operating result** | **35.3** | **0.0** | **1.6** | **-50.8** | **-13.9** |
| Result from companies acc. for at equity | 0.0 | 0.0 | | 0.0 | 0.0 |
| **Result bef. tax from continued operations** | **35.3** | **0.0** | **1.6** | **-50.8** | **-13.9** |
| Taxes on income | -32.2 | 0.0 | | 3.4 | -28.8 |
| **Result after tax from continued operations** | **3.0** | **0.0** | **1.6** | **-47.3** | **-42.7** |
| **Result after tax from discontinued operations** | **0.0** | 0.0 | 3.6 | 47.3 | 50.9 |
| **Result after tax** | **3.0** | 0.0 | **5.2** | 0.0 | **8.3** |

## (11) Income/expenses

In accordance with IAS 18, income is recognised when it is probable that the group will derive an economic benefit from it and the amount can be reliably determined, regardless of the point in time in which payment is made. Income is measured at the fair value of consideration received or to be claimed, taking into account contractually stipulated payment terms and conditions, but without taking into account taxes or other fees. Income from dividends are recognised at the time that a legal right to payment arises. The interest income and interest expense on financial instruments recognised at amortised cost and those financial investments available for sale on which interest is to be paid are recognised using the effective interest method: the effective interest rate is the rate that exactly discounts as estimated future cash payments or receipts through the expected life of the financial instruments or, if appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

### (12) Securitisation

In the context of the asset-based-funding strategy of Hypo Alpe Adria, the securitisation of loan portfolios is an established instrument used by Hypo Alpe Adria to gain access to additional sources of liquidity through placing asset-backed securities (ABS) with investors or as part of a repurchase agreement in the international capital market and the ECB. In compliance with the stricter criteria imposed by both the rating agencies and the ECB, Hypo Alpe Adria primarily utilises the option of entering into repurchase agreements with the ECB. Hypo Alpe Adria acts both as the originator as well as the investor and co-arranger in the securitisation of its loan portfolios.

According to IAS 39.17, a financial asset may only be derecognised when either the contractual right to receive cash flows from a financial asset expires or the financial asset is transferred and that proportion of the risks and rewards of ownership which is transferred is derecognised. In accordance with IFRS, all securitisation transactions continue to be recognised unchanged in the consolidated statement of financial position; there is no derecognition.

There were two securitisation transactions in 2013 which were concluded in 2011 and 2012. At the end of 2011, the bank concluded a securitisation transaction where the portfolio includes property receivables of Bank Italy. The original volume amounted to EUR 260.3 million and the securities were issued via the special purpose vehicle "Dolomiti Mortgage S.r.L." domiciled in Italy. Two rating agencies rated the securitisation exposures as part of the securitisation activities. Hypo Alpe Adria, the originator, retained the notes but deposited the senior tranche at the ECB to tap additional sources of liquidity. A second transaction was carried out in 2012; its portfolio comprises lease assets of Bank Italy as well as lease assets of the securitisation transaction from 2009 that was terminated prematurely in 2011. The special purpose vehicle "Salina Leasing S.r.L." issued the original volume of EUR 568.7 million. The securitisation transaction "Salina Leasing S.r.L." was also rated by two rating agencies. Hypo Alpe Adria, the originator, also retained the notes but submitted the senior tranche to the ECB to generate liquidity.

No securitisation transaction was conducted in 2013.

### (13) Financial Instruments: Recognition and Measurement (IAS 39)

In accordance with IAS 39, all financial assets and liabilities must be recognised in the statement of financial position. Financial instruments are initially recognised at their fair value (usually the acquisition costs). Financial assets or liabilities which are not designated at fair value through profit or loss include transaction costs directly incurred by the acquisition of an asset or the issue of a liability. Recognition and derecognition of derivatives and regular way contracts are recorded at Hypo Alpe Adria on the trade date.

Financial assets are derecognised when the contractual rights to the cash flows expire or when the transfer qualifies for derecognition under IAS 39. Financial liabilities are derecognised when the obligation has been paid or has expired.

Fair value is the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In general, the fair value of a financial asset is determined by reference to quoted prices on the main market. The main market is that market where the financial instrument is most active. If no quoted price is available, the quoted price of similar assets or liabilities is applied or the fair value is determined on the basis of generally accepted valuation models. If there are no market parameters available due to lack of liquidity in the market, estimates of benchmark parameters are made on the basis of similar markets and instruments and are used in standard models to measure the value of the instrument. Care is taken to select similar framework conditions such as similar credit rating, similar term, similar payment structure or a closely-linked market, in order to arrive at the best possible market benchmark.

When applying valuation models, fair value is determined based on observable prices and market parameters. If none can be determined, then the parameters must be estimated by experts on the basis of past experience with an appropriate risk premium applied.

For the purposes of subsequent measurement, financial assets are divided into four categories in accordance with IAS 39:

- Financial assets at fair value through profit or loss
    a. Held for trading
    b. Financial assets designated at fair value through profit or loss

- Held to maturity investments
- Loans and receivables
- Available-for-sale financial assets

Financial liabilities are divided into the following categories in accordance with IAS 39:

- Financial liabilities at fair value through profit or loss
  a. Held for trading
  b. Financial liabilities designated at fair value through profit or loss
- Other liabilities

**Financial assets at fair value through profit and loss**
Financial instruments that are acquired for the purpose of their sale in the short term, or that form part of a portfolio managed for short-term profit taking, i.e. securities and receivables held for trading, are classified and recognised as assets held for trading.

The positive market values of derivatives in a hedging relationship, for application in banking book management, are reported in the item derivative financial instruments and not in trading assets.

Trading assets are measured at fair value, which is their quoted price in the case of quoted instruments. Valuation techniques such as, for example, the net present value method or other appropriate methods are used to establish the fair value of financial instruments not quoted on an active market.

Gains and losses on sale, results from currency valuation and changes in fair value are reported in the result from trading. Interest income and interest expenses related to trading assets are reported in net interest income, current dividends are included in trading result.

Irrespective of any trading intention, IAS 39 allows the irrevocable classification of financial assets, upon addition, as "financial assets designated at fair value through profit or loss" (fair value option – FVO). This classification cannot, however, be reversed at a later date, even if the conditions for the designation no longer exist (IAS 39.50(b)). However, this designation is only possible if one of the following applies:

- The financial asset contains one or more separable embedded derivatives
- The fair value approach eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch)
- A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Designation in accordance with the first two criteria gives a better presentation of the financial situation and financial performance (see note (47) Result from financial assets – designated at fair value through profit and loss).

This designation cannot, however, be made for equity instruments that have no quoted market value and whose fair value cannot be determined reliably.

By classifying financial instruments in this category, hedging relationships can be reflected without meeting the rigid rules of hedge accounting.

Financial assets designated at fair value through profit or loss are measured at their fair value. In the case of quoted financial instruments, these assets are recognised at their quoted price. For non-quoted financial instruments, the fair value is established using the net present value method or by using other appropriate valuation techniques.

Realised and unrealised gains and losses are recognised in the item result from financial investments – designated at fair value through profit or loss. Interest income and interest expense from these financial instruments are included in net interest income, dividends received are included in result from financial assets - designated at fair value through profit and loss.

**Held to maturity investments**
This category may only include non-derivative financial assets with fixed or determinable payments and fixed maturity which the group intends and is able to hold to maturity. If a financial instrument meets the definition of loans and receivables, it is classified in the category loans and receivables. They are measured at amortised cost, with premiums and discounts being allocated in the accounts over the respective term by means of the effective interest method. Impairment losses reduce directly the carrying amount in the statement of financial position and are recognised in profit or loss, included in the item impairment on financial assets.

This position is small, as Hypo Alpe Adria handles additions to this category very restrictively.

**Loans and receivables**

Loans and receivables are all non-derivative financial assets with fixed or determinable payments that are not held for trading and are not quoted in an active market. They are measured at amortised cost using the effective interest method. Impairments are disclosed separately as credit risk provisions in the item (see note (61) Risk provisions on loans and advances and provisions for credit risk) or at present value in finance lease receivables.

Originated loans, finance lease receivables, overnight loans and time deposits as well as unquoted bonds are mainly disclosed in this item. The position loans and advance to credit institutions also contains balances with central banks not daily due. Carrying amounts include accrued interest before deductions for risk provisions on loans and advances.

Premiums and discounts are allocated in the accounts over the respective term and are also shown in net interest income. Interest income is recognised in the item interest and similar income.

**Available-for-sale financial assets**

This category includes all non-derivative financial assets that are not assigned to any of the aforementioned categories. Subsequent measurement is at fair value, whereby gains and losses – after taking into account deferred taxes – are recognised in other comprehensive income (OCI) directly in equity. Upon disposal, the differential amounts to the carrying amount recorded in the available-for-sale reserve are released to profit or loss. Impairment losses and any reversals are immediately offset against the value of the asset shown in the statement of financial position. Premiums and discounts on debt instruments are allocated in the accounts over the respective term by means of the effective interest method. Impairment losses are also recognised in profit or loss.

Hypo Alpe Adria has classified most bonds and other fixed-interest securities, as well as shares and other non-fixed-interest securities, as financial investments – available for sale, if they are traded in an active market.

These investments are initially measured at their fair value, which corresponds to their quoted price (including transaction costs). Alternatively, the fair value is established on the basis of comparable instruments or by applying valuation techniques using market data. Recognition at nominal value is not permitted. Any accrued interest paid as part of the purchase is not classified as part of acquisition costs. Subsequent measurements are based on the fair value (excluding transaction costs).

Further long-term investments as well as non-consolidated subsidiaries are classified as financial investments – available for sale. Equity instruments without a listed price in an active market and whose fair value cannot be reliably determined are always measured at cost less impairments.

The measurement result for this category is recognised – after consideration of deferred taxes – in other comprehensive income (OCI). Material or permanent impairment losses are recorded in profit or loss, which are recognised in the position impairment on financial assets. Reversals of impairments of debt instruments are recognised in profit or loss in the item impairment on financial assets; reversals of impairments of equity instruments are recognised only in other comprehensive income (OCI) and not in the income statement. Capital gains and losses are reported in the item gainsand losses from financial instruments not measured at fair value through profit or loss. The result from the currency translation of debt instruments is recognised in the result from trading and that of equity instruments in other comprehensive income (OCI).

Income from fixed-interest securities, including spread premiums and discounts are recognized as interest and similar income. Dividends and income from non-fixed-interest securities (shares, investment funds, participations, etc.) are recognised in the position gains and losses from financial instruments not measured at fair value through profit or loss.

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

**Financial liabilities at fair value through profit or loss**

This category includes trading liabilities, liabilities related to short sales and liabilities for which the fair value option (FVO) was used. The fair value option can be applied to financial liabilities under the same conditions that apply to financial assets.

**Other financial liabilities**

This category encompasses financial liabilities, including liabilities evidenced by certificates, for which the fair value option was not used. As a general rule, they are recognised at amortised cost. Premiums and discounts are allocated in the accounts over the respective term using the effective interest method and are reported under interest expense.

**Embedded derivatives**

Structured finance products are characterised by being made up of a host contract and one or more embedded derivatives. The embedded derivatives form an integral part of the agreement and may not be traded separately.

IAS 39 requires separation of the embedded derivative from the host contract if:

- The economic characteristics and risks of the embedded derivative are not closely related to those of the basic contract;
- The structured finance product is not measured at fair value with changes in fair value recognised in profit or loss;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Gains and losses of the embedded derivative are recognised in the income statement. Inseparable embedded derivatives are measured together with and in the same way as the host contract according to its category.

### (14) Financial Instruments: Net gains and losses

Net gains/losses include net interest income, fair value measurements with and without impact on profit or loss and risk provisions on loans and advances.

### (15) Classes of financial instruments according to IFRS 7

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

The table below shows the classes defined and used by Hypo Alpe Adria:

| Type of class | Essential valuation standard: At fair value through profit or loss | At cost | Other | Category as per IAS 39 |
|---|---|---|---|---|
| **Asset classes** | | | | |
| Cash and balances at central banks | | | Nominal value | n/a |
| Loans and advances to credit institutions | | x | | LAR/LAC |
| Loans and advances to customers | | x | | LAR/LAC |
| of which: receivables from financing leasing | | x | | n/a |
| Trading assets | x | | | HFT |
| Derivative financial instruments | x | | | HFT (Fair Value Hedges) |
| Financial investments – afvtpl | x | | | FVO |
| Financial investments – afs | | | At fair value through other comprehensive income | AFS |
| Financial investments – htm | | x | | HTM |
| Investments in companies accounted for at equity | | | | n/a |
| Other financial investments | | x | | |
| Assets of the disposal group | | | Net disposal value | n/a |
| **Liability classes** | | | | |
| Liabilities to credit institutions | x | x | | LAR/LAC |
| Liabilities to customers | x | x | | LAR/LAC/FVO |
| Liabilities evidenced by certificates | x | x | | LAR/LAC/FVO |
| Trading liabilities | x | | | HFT |
| Derivative financial instruments | x | | | HFT (Fair Value Hedges) |
| Liabilities included in disposal groups classified as held for sale | | | Net disposal value | n/a |

## (16) Hedge accounting

Hedged items such as loans and advances, financial investments or financial liabilities may be measured differently compared to hedging derivatives, which are always classified at fair value through profit or loss. Hedge accounting in accordance with IAS 39 recognises the offsetting effects on profit or loss of changes in the fair values of hedging instruments and hedged items.

The prerequisite for the use of hedge accounting is the documentation of the hedging relationship at the inception of the hedge and an effective compensation of the risks (prospective effectiveness). Throughout the hedging period there should be continual monitoring of whether the derivatives are compensating for changes in the value of the underlying transaction effectively (retrospective effectiveness). The proportion of the change in value of the hedged item and the hedging instrument must lie within a range of 80% to 125%. Once the hedge is no longer effective or once the hedged item or the hedging instrument no longer exists, hedge accounting must be discontinued.

Hypo Alpe Adria only uses fair value hedges in hedge accounting.
These serve to hedge changes in the market values of assets and liabilities (hedged items). The risks to be hedged concern the interest risk and the foreign currency risk. In the case of 100 % effectiveness, the measurement effects of hedged items and the hedging instrument are fully offset and have no impact on the income statement. In the event of ineffectiveness within the accepted range, such ineffectiveness is recognised in the result from hedge accounting.

A similar effect can be achieved for the item to be hedged – without having to fulfil the rigid rules of hedge accounting – if the fair value option (FVO) of IAS 39 is used. The adoption of the fair value option is irrevocable and requires documentation of the offsetting of risks. The prerequisites for a possible designation in the fair value option category are found in note (13) Financial instruments: recognition and measurement (IAS 39). Positive market values of derivatives which are used for hedging are stated in derivative financial instruments on the asset side, while negative market values are stated in derivative financial instruments on the liabilities side.

### (17) Leasing

The decisive factor for the classification and recognition of a lease in financial statements of a lessor is the substance of the lease contract rather than ownership of the leased asset. A finance lease according to IAS 17 is a lease that transfers substantially all the risks and rewards incident to ownership of an asset to the lessee; an operate lease is a lease other than a finance lease.

The majority of the lease contracts entered into by Hypo Alpe Adria as lessor are classified as finance leases. In the statement of financial position, these are recorded under finance lease receivables at the net investment value (present value) – in this connection, please refer to notes (59) Loans and advances to credit institutions and (60) Loans and advances to customers. The receipts are split into interest income with impact on profit and loss, as well as debt repayments without impact on profit and loss.

Under operating lease agreements, the lessor presents the asset at cost less scheduled depreciation over the useful life of the asset and less any impairment loss. In the case of operating lease agreements concluded in the local currency for which repayments by the lessee were agreed in a different currency, an embedded foreign currency derivative was separated out in the event that IAS 39 criteria were met.

Except for leased real estate, leased assets are reported in other assets (thereof operating leases). Lease income less scheduled depreciation and gains and losses on disposals are recognised in other operating result. Potential impairment losses are reported in the item impairment on non-financial assets.

Real estate leased out under operating lease agreements is classified as investment property.

Assets not yet or no longer leased out are included in other assets. Impairment losses are reported in the item impairment on non-financial assets.

### (18) Repurchase agreements

A repurchase agreement is an agreement between two parties whereby one party sells to the other a security at a specified price for a limited period of time and at the same time undertakes to repurchase the security, upon expiry of the said term, at another specified price. Under IAS 39, the seller continues to recognise the asset in its statement of financial position if the material risks and rewards remain with the seller. The amount received is presented as a liability by the seller, whereas the buyer recognises a receivable.

### (19) Fiduciary transactions

In accordance with IFRS, fiduciary transactions entered into by Hypo Alpe Adria in its own name, but on the account of a third party, are not recognised in the statement of financial position. Fees are included in fee and commission income.

### (20) Financial guarantees

Financial guarantees are contracts that oblige the company to make compensation payments to the guarantee holder for loss incurred. This loss arises if a certain debtor does not meet his payment obligations pursuant to the contractual terms and conditions. Financial guarantees are initially recognised as liabilities at fair value, any transaction costs directly related to the guarantee issued are substracted. Liabilities are subsequently measured on the basis of the best possible estimate of the amounts required for covering all current obligations as at the reporting date. If, however, fair value amounts to zero at initial recognition, it is evaluated during subsequent measurements if a provision pursuant to IAS 37 should be recognised.

### (21) Cash and balances at central banks

This item includes cash and balances daily due at central banks. These amounts are stated at nominal value.

Treasury bills, eligible for refinancing with central banks are not shown in this item but, depending on their valuation category, are shown as financial investments.

## (22) Risk provisions on loans and advances

Credit default risks are accounted for by creating specific risk provisions and portfolio risk provisions and by setting aside reserves for off-balance-sheet commitments.

Specific risk provisions are created as soon as there are objective indications that a loan may not be recoverable, the size of the allowance reflecting the amount of the expected loss. Provisions are calculated at the difference between the carrying amount of the loan and the net present value of the estimated future cash flows, taking the respective original effective interest rate into account and considering the provided collateral.

As specific risk provisions are based on the net present value of future cash flows, the future interest income of an impaired loan is determined through discounting of previous cash flow estimations. An increase in present value on the following reporting date is recognised as interest income (unwinding). If a loan restructuring or extension agreement is concluded, the recoverability of the loan commitment is assessed. A specific risk provision must be recognised if the present value of the agreed cash flows differs from the original carrying amount of the receivable.

Portfolio risk provisions are recorded for incurred but not yet reported losses of credit portfolios at balance sheet date. Calculations are carried out by the banks and leasing companies by configuring or grouping loans into homogeneous portfolios with comparable risk characteristics. Provisions are made on the basis of historical loss experience in consideration of the off-balance sheet transaction. Receivables for which specific risk provisions were made are not included in the determination of the portfolio impairment.

After taking into account the customer segment and volume involved, Hypo Alpe Adria assumes the following LIP (Loss Identification Period) factors when calculating portfolio risk provisions on loans and advances: for banks and states: 0.1 (2012: 0.1) and for corporate and retail customers: 0.5 (2012: 0.5).

Amounts identified as irrecoverable after the collateral has been realized are charged against an existing specific risk provision or directly written off. A direct derecognition or an utilisation of the specific risk provision occurs only if there are no further legal claims regarding the customer at the time of determining risk provision. Recoveries of loans and advances previously written-off are recognised in profit or loss. Allocations and reversals of risk provisions and provisions for credit commitments and guarantees are recognised in the income statement under impairments on financial assets – at cost (risk provisions on loans and advances).

In addition to loans and advances, financial instruments are measured and subjected to a recoverability test by Hypo Alpe Adria and the following indicators, which are used throughout the group, give an objective indication – whether individually or as a whole – of when impairment should be applied to a financial instrument:

- For loans and advances in the LAR category this is from that point in time at which the customer exhibits considerable financial difficulties, or at any rate if the customer is more than 90 days in arrears with repayment.
- The same indicators apply for investments in debt instruments (afs) as for loans and advances carried at amortised cost. Here, however, there is an additional objective indication of the existence of impairment, namely, if there is a material reduction in fair value below the amortised cost. Hypo Alpe Adria defines a material reduction as being when the market value is more than 10 % below the amortised cost.

## (23) Derivative financial instruments

Positive and negative fair values of derivative financial hedging instruments for underlying transactions recognised pursuant to the fair value option (FVO) as well as banking book derivates, trading book derivatives and derivatives that meet the hedge accounting requirements of IAS 39 are reported in this item. In the income statement, the results of the measurement of FVO derivatives are recognised in the result from financial investments designated at fair value through profit or loss, the results of the measurements of banking book derivatives and trading book derivatives are reported in the result from trading, and those derivatives that meet the hedge accounting requirements of IAS 39 are stated in the result from hedge accounting.

## (24) Investments in companies accounted for at equity

Investments in associated companies and in joint ventures accounted for at equity are shown in a separate item in the statement of financial position.

The impact of the ongoing at-equity valuation as well as any revenue of disposal or impairment loss is shown in the item result from companies accounted for at equity.

## (25) Investment properties

Investment properties are land and buildings held to earn rental income or to benefit from expected increases in value. Provided that material rented out parts of mixed-use property can be let or sold separately, these parts are also treated as investment property.

Investment properties are carried at amortized cost, adopting the cost method provided for in IAS 40, with straight-line depreciation applied over the useful life for tangible assets. At each reporting date, it is determined if there are any indications of possible impairment of investment properties held by the bank. Pursuant to IAS 36, the current carrying amount is compared with the recoverable amount for this purpose. The recoverable amount of an asset is therefore the higher of its fair value less costs of disposal and its value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. The calculation of value in use is based on the future expected cash flow as well as country-specific discounting factors for debt and equity financing. The determining factors for the calculation of fair value are the market-based estimates that are generally prepared by full-time experts. If market-based estimates are not available, fair value is estimated on the basis of the income approach.

Lease income less scheduled depreciation on rented buildings and gains and losses on disposals are recognised in the position operating income from investment properties. Potential impairment losses are reported in the item impairment on non-financial assets. If the reasons for the impairment cease to exist, the previously recognised impairment is written up. Write-ups are limited to the maximum carrying amount that does not exceed the amount that would have resulted from depreciation and amortisation if the asset had not been impaired in previous years. The useful life of building held as financial investments is the same as that of buildings recognised as tangible assets.

## (26) Intangible and tangible assets

Intangible assets include goodwill arising on acquisitions, software, other intangible assets and advance payments for the acquisition of intangible assets. These assets are measured at acquisition or manufacturing cost less depreciation. Internally generated software is recognised in accordance with IAS 38, providing that the conditions for recognition pursuant to the standard are fulfilled.

Acquired goodwill is recognised at cost on the date of acquisition. The straight-line method of depreciation is not applied to goodwill, it is instead subject to annual impairment testing in accordance with IAS 36. More frequent testing is required if events and circumstances indicate that an impairment may have occurred. If and when such tests reveal impairment, impairment is applied on the basis of a discounted cash flow calculation taking into consideration the interest rate which is applied to the respective asset, whereby the asset's individual useful life in the group is also considered. A possible change in the amount of the referential interest rate used as a basis can have a significant effect on the impairment expense and therefore also on the carrying amount of the asset.

Tangible assets include land and buildings and plant and equipment used by Hypo Alpe Adria for its own operations. Real estate let to third parties or purchases held for capital return is reported in investment properties. Tangible assets are measured at amortised cost.

Straight-line depreciation, based on the following annual rates, is applied over the useful life of assets:

| Depreciation rate | in percent | in years |
|---|---|---|
| for immovable assets (buildings) | 2 –4 % | 25 –50 yrs |
| for movable assets (plant and equipment) | 5 –33 % | 3 –20 yrs |
| for software | 14 –33 % | 3 –7 yrs |

In the case of events and circumstances that indicate impairment, the expense is recognised in profit or loss. The impairment of corporate assets used by the group for generating cash flows is tested pursuant to IAS 36. The current carrying amount is therefore compared with the recoverable amount. The recoverable amount of an asset is therefore the higher of its fair value less costs of disposal and its value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. Scheduled depreciation is booked separately on the income statement and impairments and reversals are included in the position impairments on non-financial assets. Gains and losses from disposals are included in other operating result.

### (27) Taxes on income

Current and deferred tax assets and liabilities are recognised jointly in the statement of financial position as tax assets or liabilities. Current taxes are calculated in accordance with tax regulations in the respective countries.

Deferred tax assets and liabilities are computed using the liability method, which compares the tax base of the balance sheet items with the carrying amounts pursuant to IFRS. In the case of taxable temporary differences, taxes are deferred. A deferred tax liability shall be recognised, if the reversal of taxable temporary differences will lead to an effective tax burden. For taxable temporary differences associated with shares in domestic subsidiaries, no deferred tax liabilities are recognised in accordance with IAS 12.39 (b) because no reversal of the temporary difference is expected in the foreseeable future. Deferred tax assets are recognised for taxable temporary differences, which lead to a tax credit when recovered. The tax assets and deferred tax liabilities have been offset as required by IAS 12.

Changes to the tax rate are taken into account with respect to the determination of deferred taxes, always providing that they are known at the time of establishing the consolidated financial statements. In accordance with IAS 12 long-term deferred taxes are not discounted. Deferred tax assets are recorded in respect of tax loss carry-forwards if it is deemed probable that future taxable profits will be available. This assessment is based on business plans passed by the Executive Board. Due to the European Commission's decision, regarding reporting as at 31 December 2013 only the expected future taxable profits up to the planned date of disposal need to be recognised for banks. Given the history of losses and the uncertainties arising from the restructuring of the group, there has been no capitalisation of tax loss carry-forwards for the members of the Hypo Alpe-Adria-Bank International AG Austrian tax group and the majority of companies earmarked to be wound down.

The recoverability of a deferred tax asset due to tax loss carry-forwards and taxable temporary differences is reviewed at the end of each reporting period.

The accrual and release of deferred tax assets or liabilities is either recognised in income statement or in other comprehensive income (e.g. revaluation reserve for available-for-sale financial instruments).

From 1 January 2005 the group taxation option was exercised, with Hypo Alpe-Adria-Bank International AG acting as the lead company. The group taxation agreement drawn up to this end contains the rights and duties of the lead company and group members as well as the compulsory ruling on tax reconciliation as laid down by section 9 (8) of the Austrian Corporation Tax Act (KStG). This includes, in particular, the procedure for making the group taxation application, the determination of the individual group members' tax results, rights/duties to receive/provide information, elimination from the group, dissolution and duration of the group. The tax contribution method applied is essentially based on charges and any advantage arising is distributed to group members by means of a fixed charge/credit rate.

### (28) Assets classified as held for sale

According to IFRS 5, an asset held for sale is defined as an asset whose carrying amount can only be realised through a disposal as opposed to ongoing usage. Key conditions pursuant to IFRS 5.7 and 5.8 which cumulatively lead to classification are:

- Direct availability, i.e. the asset is available for immediate sale in its current state at customary conditions usually applied in selling such assets
- Concrete intention to sell, active search for a buyer
- High probability of sale
- Sale within twelve months

If investments, which had previously been accounted for at equity in the consolidated financial statements, are classified as assets held for sale, the equity method should be discontinued at this point and the assets assessed in accordance with IFRS 5.

If the prerequisites are fulfilled, the asset classified as held for sale shall be assessed at the end of the reporting period according to the special rules of IFRS 5 and measured at the lower of carrying amount and fair value less costs to sell.

In the statement of financial position, the assets classified as held for sale and the liabilities associated therewith shall each be shown in a separate main item. In the income statement, it is not compulsory to report the associated expenses and income separately. Detailed information can be found on this in note (73) Assets classified as held for sale.

### (29) Other assets

The main items in other assets include deferred expenses, receivables other than those arising from banking activities, short-term real estate projects, moveable lease assets let under operating lease agreements and certain short-term lease assets.

Receivables other than those arising from banking activities mainly include receivables from goods and services, receivables from tax authorities relating to taxes other than income taxes. Deferred items and other receivables arising from non-banking activities are recognised at their nominal values.

Together with completed real estate projects, the item other assets also includes buildings under construction as well as buildings in the preparatory phases of construction whose sale is planned after completion. These assets are measured at acquisition or manufacturing cost. Impairment is applied if the carrying amount on the reporting date exceeds the net realisable value, or if a restriction of the utilisation possibilities has resulted in a reduction in value. In accordance with IAS 23, borrowing costs incurred during the manufacturing period must be recognised as part of the value of the asset. Gains and losses from disposals, as well as valuation losses, are included in other operating result.

Other assets also include operating leases leased or not leased out as at the reporting date, as well as returned assets awaiting the signing of a new contract or pending sale (remarketing). They are measured at amortised cost less impairment losses to reflect reduction in value. The measurement result is shown in the statement of comprehensive income in impairments for non-financial assets.

### (30) Liabilities

Liabilities to credit institutions and customers, including liabilities evidenced by certificates, are recognised at amortised cost unless they are designated at fair value through profit or loss. Costs of issues as well as premiums and discounts for liabilities evidenced by certificates are spread over the term of the debt.

When using hedge accounting, the fair value changes of the underlying transactions attributable to the hedged risk are recognised in profit or loss.

### (31) Long-term employee provisions

Hypo Alpe Adria has both defined contribution and defined benefit plans.

In the former case, a fixed contribution is paid to an external provider. These payments are recognised under personnel expenses in the income statement. Except for these, there are no further legal or other obligations on the part of the employer. Therefore, no provision is required.

Defined benefit plans exist in respect of retirement and severance obligations as well as provisions for anniversary payments. These schemes are mostly unfunded, i.e. all of the funds required for coverage remain within the company. Plan assets are only available for a limited level of retirement provisions.

Provisions for long-term employee benefits are measured in accordance with IAS 19 – Employee Benefits, using the projected unit credit method. The determination of the value of the future commitment is based on an actuarial expert opinion prepared by independent actuaries. The value shown in the statement of financial position is stated as the present value of the defined benefit obligation. In accordance with the new IAS 19 rules, actuarial gains and losses are recognised in other comprehensive income in equity without impact on profit or loss. The most important parameters upon which the actuarial calculation for Austrian employees is based are as follows: an underlying interest rate of 3.25% (2012: 3.25 %) as at 31 December 2013, as well as the consideration of wage and salary increases – unchanged against the previous year – of the active employees at a rate of 3.0% p.a. and an increase in pay to already retired former employees at a rate of 2.0% p.a. and a fluctuation deduction of 6.0% (2012: 6.0 %). The basic biometric data are taken from the Generations Life Expectancy Tables of the AVO (Austrian Actuarial Society) 2008 P for employees.

Provisions for long-term employee benefits are calculated on the basis of the earliest possible legal retirement age. Local rules are applied in the case of employees working abroad.

Expenses to be recognised in profit or loss are divided into service costs (which are reported in personnel expenses), as well as interest costs (which are reported in interest and similar expenses); actuarial gains and losses are recognised in other comprehensive income in equity without impact on profit or loss.

### (32) Provisions for credit commitments and guarantees

Provisions for credit commitments and guarantees are created for risks arising in particular from impending drawdown on framework agreements or as a provision regarding guarantees assumed for customer transactions. Provisions for both individual cases and those at portfolio level are accrued.

Changes to provisions for credit commitments and guarantees to be recognised in profit or loss are shown in the income statement under impairments on financial assets – at cost (risk provisions on loans and advances).

### (33) Provisions for restructuring

Provisions are only recorded for restructuring if the general criteria for accruing provisions in accordance with IAS 37.72 are fulfilled. In particular, the company has a contructive obligation, as evidenced by the existence of a detailed and formal restructuring plan and the announcement of the measures set out in it to those affected.

The cost associated with the restructuring measures is reported in note (49) Other operating result.

### (34) Other provisions

Other provisions are accrued if a past event is likely to translate into a present liability towards a third party, if the assertion of the relevant claim is probable and if the amount of the claim can be determined reliably. If the effect is significant, long-term provisions are discounted. Provisions for uncertain liabilities and impending losses are measured on a best-estimate basis in accordance with IAS 37.36 et seq.

Additions to and releases from other provisions are shown in the corresponding expense item.

### (35) Other liabilities

This item includes deferred income. Accruals and deferrals are stated at nominal value, while liabilities are stated at amortised cost.

### (36) Subordinated capital

Subordinated capital includes subordinated liabilities as well as supplementary capital.

Subordinated liabilities involve liabilities evidenced or not by certificates and in the event of liquidation or insolvency, creditors are only satisfied after all other creditors as specified in the contracts.

Supplementary capital is contractually issued by the bank/credit institution for at least eight years and any right of ordinary or extraordinary termination is waived. Here, the remaining maturity must be at least three years. Interest is only paid by the issuer to the extent it is covered by annual profits as shown in the separate financial statements in line with the Austrian Commercial Code/Banking Act. In accordance with section 23 (7) (3) of the BWG, supplementary capital prior to liquidation may only be paid back after proportionate deductions have been made for net losses reported during its term.

It is not possible to repay supplementary capital bonds issued by Hypo Alpe Adria at the originally agreed price due to their share in losses. If the fair value option is not applied for these instruments, they are recognised at amortised cost using the effective interest method. Pursuant to IAS 39 AG.8, the repayment amount has to be adjusted regularly in subsequent periods if the instrument shares in loss. The carrying amount of the liability is determined by discounting the future expected cash flows using the original effective interest rate. To calculate the future expected cash flow, current company planning as well as future estimates are consulted; the effects from this remeasurement are recognised in the position gains and losses from financial instruments not measured at fair value through profit and loss.

For further information on subordinated capital, see note (130) Servicing of subordinated capital.

### (37) Hybrid capital

As a general rule, hybrid capital (as defined by the Austrian banking supervision regulations) is provided for the entire term of the enterprise. It differs from common subordinated capital in that it is ranked below subordinated capital. Hybrid capital is classified as debt in the IFRS consolidated financial statements due to the fact that coupons are essentially compulsory. Please refer to note (36) Subordinated capital regarding the measurement of hybrid capital.

### (38) Equity (including non-controlling interests)

Equity evidences the residual interest in the assets of an entity after deduction of all liabilities or obligations which cannot be terminated by the investor.

Subscribed capital represents the amounts paid in by shareholders in accordance with the memorandum of articles of association. Amounts of participation capital issued are reported separately.

The cumulative gain or loss includes the cumulated profits made by the group with the exception of the share of profit to which external parties are entitled.

The item available-for-sale reserve reflects changes in fair values – after deductions for deferred taxes – arising from available-for-sale financial assets. Non-controlling interests in the equity of subsidiaries in accordance with IAS 1 are presented as a separate item within equity.

## Notes to the income statement

### (39) Segment reporting

The basis for segment reporting is provided by IFRS 8 – Operating Segments. 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). Segmentation may therefore differ from the structure presented in the income statement. 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 "going concern" group units consist of the SEE network, i.e. bank and leasing companies in Slovenia, Croatia, Bosnia and Herzegovina, as well as the banking units in Serbia and Montenegro. In order to pursue the fundamental objective of winding up the bank, the focus is on selling the SEE network with a reduced management holding company in Klagenfurt and Wörthersee. The process to sell 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 no later than on 30 June 2015. Based on market interest, it is currently assumed that the SEE network will be sold as a group. In order to continue driving forward the privatisation of the SEE network, a holding company was implemented in 2013 and the investments of the SEE network are being transferred to it. The related required permits have been obtained from the local authorities and the implementation is slated for 2014.

The "Italy" business segment consists of the Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A., while the leasing unit already designated for winding down is assigned to the "Asset Resolution" segment. In keeping with the restructuring plan of Hypo Alpe Adria submitted to the European Commission on 29 June 2013, the Italian subsidiary bank had to cease new business operations as at 1 July 2013.

For the subsidiary bank Hypo Alpe-Adria-Bank AG (Austria) that was still part of the group in the previous year, the sales process initiated in 2011 was successfully concluded in 2013. The bank was sold to an international investor on 19 December 2013 and is therefore eliminated from the Hypo Alpe Adria group.

The business area defined as "Asset Resolution" combines all group leasing companies active in the countries of Croatia, Germany, Austria, Hungary, Macedonia, Montenegro, Bulgaria, Bosnia, Serbia, the Ukraine and Italy. Problematic windup portfolios are also included in this segment. These were separated from the SEE network banks in Bosnia and Herzegovina, Montenegro, Slovenia, Serbia and Croatia and assigned for winding down. The securities portfolios of the investment companies HBInt Credit Management Ltd. and Norica Investments Ltd. as well as the customer portfolio (mainly cross-border and large-volume corporate loan transactions) of Hypo Alpe-Adria-Bank International AG are included as well. Investments that are assigned to Tourism and Real Estate outside the banking and leasing business, and are intended for sale, are also reported in the "Asset Resolution" segment.

The Consolidation/Head Office division includes the effects from the consolidation between different business segments as well as the part of the group holding which features a reference to the core business activities.

Please note: unlike the previous presentation, segment reporting in 2013 uses a summarised presentation in the annual report which corresponds to reporting to the Executive Board since the 2013 financial year. The comparative figures for 2012 are adapted to this reporting format as well.

#### 39.1. SEE network

The business units included in this segment generated total net interest income of EUR +270.5 million (2012: EUR +268.1 million) and net fee and commission income of EUR +68.5 million in 2013 (2012: EUR +59.7 million) and thus contributed around 59.4% and as much as 133.8% to the group's comprehensive income in 2013. In reference to net interest income, this is an increase of EUR +2.4 million compared to the previous year. Net fee and commission income in 2013 increased by EUR +8.8 million, mainly due to offsetting commissions to the units of the wind-down companies. The other result including financial result is EUR -22.2 million in financial year 2013 (2012: EUR +1.7 million). The decrease in the other result from 2012 to 2013 is due primarily to the provisions recognised in 2013 related to foreign currency loans (especially CHF) issued in the past at EUR -17.2 million. At EUR -340.1 million (2012: EUR -51.2 million), around 25% (2012: around 16%) of the total risk expenditures applied to the SEE segment, with high risk provisions for Croatia and Slovenia in particular. The total operating expenses of the SEE network increased from 2012 (EUR -219.0 million) to 2013 (EUR-268.5 million). Targeted cost management in the various SEE banking units allowed costs to be reduced in the areas of personnel expenses, legal and consulting fees and general administrative expenses. However, extraordinary depreciation for the headquarters in Croatia at EUR -15.7 million was added to the operating expenses. Next to Croatia, other units also recognised extraordinary depreciation on real estate for specific uses (EUR -5.0 Mio). The holding company of the SEE segment is also reported for the first time on 31 December 2013. This affects operating expenses by EUR -35.7 million.

The segment result before taxes is EUR -291.8 million (2012: EUR +59.3 million) in 2013. After taking into account the positive effect of deferred taxes at EUR +5.9 million (2012: EUR -5.2 million), the segment result after taxes for 2013 is EUR -285.9 million (2012: EUR +54.1 million).

The SEE network, which is normally a high-yield segment for the Hypo Alpe Adria Group, was unable to make a positive contribution to comprehensive income in 2013 and closed with a loss of EUR -285.9 million (2012: gain of EUR +54.1 million).

The significant decrease in segment assets is mainly due to separating the portfolio into a core and a wind-down portfolio, which took place beginning in 2011 with the transfer of assets valued at around EUR 3.5 billion within the group. Additional portfolio transfers totalling EUR 200 million are planned for the year 2014, related to the SEE network banks in Serbia and Bosnia.

### 39.2. Italy

The Italy segment, which is represented by the bank in Udine, is mainly composed of lease transactions in the real estate segment. Overall the Italy segment generated net interest income of EUR +55.2 million (2012: EUR +78.9 million) and net fee and commission income of EUR +7.2 million (2012: EUR +8.5 million). The decrease in interest income compared to the previous year is due to the cessation of new business since 1 July 2013, which is related to the EU restructuring plan of the Hypo Alpe Adria Group. The negative development of the other result in the 2013 financial year (EUR -134.8 million), with a reduction of EUR -132.8 million compared to the previous year (EUR -2.0 million), is due mainly to refunding interest of around EUR 109.0 million related to the case of fraud identified in 2013. At EUR -153.8 million (2012: EUR -30 million), the expenditures for risk provisions in this segment increased more than fivefold and reflect the tense economic situation in Italy. Around EUR -10 million of the increase in gross expenditures in 2013 to EUR -56.9 million (2012: EUR -52.8 million) is due to unplanned depreciation on the headquarters in Udine in order to adjust the value of this building to the current market value. Personnel and administrative costs fell significantly in 2013. Positive deferred taxes on the credit portfolio due to the high impairment losses totalled EUR +45.4 million (2012: EUR -1.6 million) and reduced the segment loss for 2013 accordingly. The total segment result after taxes is reported at EUR -237.7 million, which is significantly less compared to the previous year (2012: EUR +0.9 million).

Because of the ban on new business imposed in mid-2013 and the high impairment losses that had to be recognised in the year under review, segment assets decreased from EUR 3.3 billion (2012) to EUR 2,7 billion (2013).

### 39.3. Austria

The Austria segment encompasses the results of the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG up to the deconsolidation date. The group holding company Hypo Alpe-Adria-Bank International AG transferred its 100% stake in the subsidiary bank to Anadi Financial Holding Pte. Ltd. (Singapore) on 31 May 2013; this transaction was closed on 19 December 2013.

In 2013 the subsidiary bank until the closing date generated net interest income of EUR +37.7 million (2012: EUR +41.8 million) as well as net fee and commission income of EUR +14.7 million (2012: EUR + 14.9 million). The other result of the Austrian subsidiary in 2013 is EUR +9.7 million (2012: EUR +45.7 million) and has decreased by around EUR -36 million compared to the previous year, since one-time effects from the cancellation of supplementary capital bonds in the amount of EUR 40.0 million (face value) due to the demerger were taken into account in 2012. Positive one-time effects from the sale of an Eastern European commodity share were also included in 2013, contributing EUR +7.7 million to the result. After taking into account higher operating expenses of EUR -50.3 million (2012: -46.6 million), credit risk provisioning expenses of EUR -2.7 million (2012: EUR -1.4 million) and income tax expenses of EUR -0.2 million (2012: EUR -3.4 million) the segment result after taxes for 2013 is positive at EUR +8.9 million (2012: EUR +50.9 million).

The deconsolidation result is explicitly disclosed in the Holding/Consolidation column. Due to the disposal of the subsidiary bank, the segment assets on the reporting date of 31 December 2013 are EUR 0 (2012: EUR 4.1 billion).

The result of the Austrian subsidiary was reported in the consolidated financial statements under discontinued operations. Based on the requirements of IFRS 5, the company's result is reported under "Result of discontinued operations after taxes". The reclassification between the prior reporting of the annual profit and specific disclosure as a discontinued operation according to IFRS 5 is shown in the explicitly included column "IFRS 5 Reclassification".

### 39.4. Asset Resolution

The group leasing and financing companies as well as the divisions of the domestic parent company that, according to the restructuring plan prepared for the EU, are not part of the future going concern group, generated half the net interest income in 2013 at EUR +110.0 million compared to 2012 (EUR +214.6 million). Most of the decrease in net interest income is due to higher expenditures in 2013 related to the new subordinate issue at the end of 2012 guaranteed by the government at EUR 1.0 billion. Without taking into account current interest, it has an impact of EUR -53.3 million in the current year (2012: EUR -2.7 million). As in the previous year, the net fee and commission income at EUR -24.3 million (2012: EUR -26.6 million) was clearly negative, mainly due to the annual liability fee of around EUR -18.2 million related to the guarantee agreement concluded with the Republic of Austria at the end of 2010. The other result of EUR -242.6 million (2012: EUR +21.7 million) was defined by the depreciation of investment properties and impairments of emergency acquisitions at EUR -183.4 million. Furthermore, the negative effects of the IFRS 5 measurement of an extensive hotel complex in Croatia in 2013 are included here as well. Credit risk provisioning for this extensive segment increased significantly to EUR -846.2 million in the 2013 financial year compared to the previous year (EUR -222.6 million). This is because the non-performing loan (NPL) portfolio could not be wound down as planned due to the general economic situation. Additional provisioning was necessary in order to account for Illiquidity and uncertainty in the secondary markets, especially for real estate. At EUR -186.4 million, operating expenses increased significantly compared to previous year (EUR -172.6 million). After taking into account operating expenses, credit risk provisioning and income taxes for 2013, this segment has a negative result after taxes of EUR -1,167.3 million (2012: EUR -201.1 million).

The assets allocated to this segment have a value of EUR 10 billion as at 31 December 2013 (2012: EUR 11.3 billion) and include the non-performing loans (NPL) transferred or still to be transferred as a consequence of the portfolio transfer project for the “going concern” units.

### 39.5. Consolidation/Head Office

This segment includes the core activities of the Austrian group holding company, namely controlling and managing funds for the group companies, as well as consolidation effects between the individual segments. Here net interest income of EUR +20.0 million was generated in 2013, significantly below the previous-year value of EUR +75.0 million The net fee and commission income at EUR -0.2 million is significantly below the previous year as well (2012: EUR +6.3 million), mainly resulting from making liquidity available to the SEE network (unused credit commitments). The other result in the 2013 year is EUR -11.6 million which is significantly lower compared to the previous year (2012: EUR +41.3 million). This decrease is mainly due to the positive one-time effects in 2012 from the repurchase and valuation of supplementary and hybrid capital at EUR +113.7 million. In the 2013 financial year, the value of own liabilities measured at fair value in the amount of EUR +39.5 million improved noticeably compared to the previous year (EUR -36.1 million) with a positive effect on results. This effect was mainly due to the increased own credit spread in the course of the insolvency discussions, which only had a temporary positive impact. A negative impact on results is once again expected over the medium term.

Compared to the previous year, the valuation result for the securities portfolio was approximately halved at EUR +12.0 million (2012: EUR +25.1 million). Additional material driver of other results in 2013 are the penalties pursuant to Section 97, Paragraph 2 BWG of the Austrian group holding company at EUR -17.2 million and the payments for failure to comply with the participation capital conditions, with an additional negative impact on results of EUR -4.0 million. After deducting income taxes, this segment was unable to generate positive comprehensive income in 2013. The 2013 segment result after taxes is EUR -161.4 million (2012: EUR +103.5 million).

On the reporting date of 31 December 2013, the segment assets total EUR 4.9 billion which is unchanged from the previous year (2012: EUR 4.9 billion).

## 39.6. Segment presentation

EUR m

| Period 1.1. - 31.12.2013 | SEE-Network | Hypo Italy | Hypo Austria | Asset Resolution | Holding/ Consoli-dation | IFRS 5 Reclassi-fication | Hypo Group |
|---|---|---|---|---|---|---|---|
| **Operating income** | **316.7** | **–72.4** | **62.1** | **–156.8** | **8.2** | **–62.1** | **95.7** |
| Net interest income | 270.5 | 55.2 | 37.7 | 110.0 | 20.0 | –37.7 | 455.7 |
| Net fee and commission income | 68.5 | 7.2 | 14.7 | –24.3 | –0.2 | –14.7 | 51.2 |
| Other result (incl. financial result) | –22.2 | –134.8 | 9.7 | –242.6 | –11.6 | –9.7 | –411.2 |
| **Operating expenses** | **–268.5** | **–56.9** | **–50.3** | **–186.4** | **–18.8** | **50.3** | **–530.6** |
| Operating result – prior to risk provisions on loans and advances | 48.3 | –129.3 | 11.8 | –343.2 | –10.6 | –11.8 | –434.9 |
| Risk provisions on loans and advances | –340.1 | –153.8 | –2.7 | –846.2 | –21.9 | 2.7 | –1,362.1 |
| **Result after tax from continued operations** | **–285.9** | **–237.7** | **8.9** | **–1,167.3** | **–55.7** | **–8.9** | **–1,746.6** |
| Result after tax from discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | –105.7 | 8.9 | –96.8 |
| **Result after tax** | **–285.9** | **–237.7** | **8.9** | **–1,167.3** | **–161.4** | **0.0** | **–1,843.4** |
| | | | | | | | |
| **Segment assets** | **8,553** | **2,728** | **0** | **9,984** | **4,954** | **0** | **26,219** |
| Loans and advances to customers | 6,370 | 2,632 | 0 | 10,120 | 167 | 0 | 19,289 |
| Liabilities to customers | 4,105 | 400 | 0 | 43 | 1,573 | 0 | 6,121 |

EUR m

| Period 1.1. - 31.12.2012 | SEE-Network | Hypo Italy | Hypo Austria | Asset Resolution | Holding/ Consoli-dation | IFRS 5 Reclassi-fication | Hypo Group |
|---|---|---|---|---|---|---|---|
| **Operating income** | **329.5** | **85.3** | **102.4** | **209.7** | **122.6** | **–102.4** | **747.0** |
| Net interest income | 268.1 | 78.9 | 41.8 | 214.6 | 75.0 | –41.8 | 636.6 |
| Net fee and commission income | 59.7 | 8.5 | 14.9 | –26.6 | 6.3 | –14.9 | 47.8 |
| Other result (incl. financial result) | 1.7 | –2.0 | 45.7 | 21.7 | 41.3 | –45.7 | 62.6 |
| **Operating expenses** | **–219.0** | **–52.8** | **–46.6** | **–172.6** | **–7.9** | **46.6** | **–452.3** |
| Operating result – prior to risk provisions on loans and advances | 110.5 | 32.4 | 55.8 | 37.1 | 114.7 | –55.8 | 294.7 |
| Risk provisions on loans and advances | –51.2 | –30.0 | –1.4 | –222.6 | –4.8 | 1.4 | –308.5 |
| **Result after tax from continued operations** | **54.1** | **0.9** | **50.9** | **–201.1** | **103.5** | **–50.9** | **–42.6** |
| Result after tax from discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 50.9 | 50.9 |
| **Result after tax** | **54.1** | **0.9** | **50.9** | **–201.1** | **103.5** | **0.0** | **8.3** |
| | | | | | | | |
| **Segment assets** | **10,159** | **3,282** | **4,145** | **11,296** | **4,922** | **0** | **33,804** |
| Loans and advances to customers | 7,715 | 3,059 | 2,773 | 10,487 | 368 | 0 | 24,401 |
| Liabilities to customers | 4,433 | 659 | 1,563 | 58 | 1,694 | 0 | 8,406 |

The net interest income in segment reporting corresponds to internal reporting, with income from operating lease assets as well as investment properties are included in this item. In the consolidated statement of comprehensive income, this income is included in the operating result from investment properties and in the other operating result.

## (40) Interest and similar income

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| **Interest income** | **978.5** | **1,184.6** |
| from loans and advances to credit institutions | 52.8 | 70.2 |
| from loans and advances to customers | 639.6 | 801.6 |
| from bonds, treasury bills and other fixed-interest securities | 58.3 | 74.9 |
| from derivative financial instruments, net | 219.2 | 229.3 |
| from finance leasing | 153.4 | 207.6 |
| Other interest income | 8.5 | 8.6 |
| **Total** | **1,131.9** | **1,392.2** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

Interest income also includes the income from unwinding in the amount of EUR 147.5 million (2012: EUR 178.2 million) as well as fees and commissions with similar interest characteristics. A significant part of the item other interest income is the interest on the minimum reserve.

Interest and similar income breaks down as follows in accordance with IAS 39 categories:

EUR m

| | IAS 39 Measurement category | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|---|
| **Interest income** | | **1,131.9** | **1,392.2** |
| from loans and advances to credit institutions and customers | LAR | 847.4 | 1,078.6 |
| from trading assets | HFT | 0.2 | 0.3 |
| from derivative financial instruments, net | HFT (Fair Value Hedges) | 219.2 | 229.3 |
| from financial investments – designated at fair value through profit or loss | FVO | 8.9 | 15.3 |
| from financial investments – available for sale | AFS | 51.6 | 65.9 |
| from financial investments – held to maturity | HTM | 4.6 | 2.8 |
| Other | - | 0.0 | 0.1 |
| **Total** | | **1,131.9** | **1,392.2** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

## (41) Interest and similar expenses

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| **Interest expenses** | **–650.9** | **–783.6** |
| for liabilities to credit institutions | –109.8 | –138.6 |
| for liabilities to customers | –207.7 | –240.1 |
| for debt securities in issue | –280.3 | –371.5 |
| for subordinated capital | –52.1 | –30.8 |
| for other liabilities | –0.9 | –2.6 |
| **Similar expenses** | **–57.5** | **–10.7** |
| **Total** | **–708.4** | **–794.4** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

The item similar expenses includes the guarantee commission relating to the state-guaranteed subordinated bond issued at the end of 2012.

Interest and similar expenses break down as follows in accordance with IAS 39 categories:

EUR m

| | IAS 39 Measurement category | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|---|
| **Interest expenses** | | **–650.8** | **–783.6** |
| for financial liabilities – designated at fair value through profit or loss | FVO | –28.3 | –24.7 |
| for financial liabilities – at cost | Fin. Liabilities At Cost | –622.5 | –758.9 |
| **Similar expenses** | | **–57.5** | **–10.7** |
| **Total** | | **–708.4** | **–794.4** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

### (42) Fee and commission income

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| Credit business | 21.8 | 26.4 |
| Securities and custodian business | 10.1 | 10.0 |
| Bank transfers including payment transactions | 36.5 | 39.2 |
| Other financial services | 24.9 | 23.9 |
| **Total** | **93.3** | **99.4** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

### (43) Fee and commission expenses

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| Credit business | –22.4 | –30.1 |
| Securities and custodian business | –5.3 | –6.1 |
| Bank transfers including payment transactions | –7.6 | –8.0 |
| Other financial services | –6.9 | –7.4 |
| **Total** | **–42.1** | **–51.5** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

Fee and commission expenses also include commission payable to the Republic of Austria for the assumption of guarantee in the amount of EUR 18.2 million (2012: EUR 19.6 million).

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

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| Result from fin. investments – available for sale | 2.6 | 11.2 |
| Result from fin. investments – held to maturity | 0.0 | –0.1 |
| Result from fin. investments – at cost | 0.4 | 102.5 |
| **Total** | **3.0** | **113.5** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

In financial year 2012 hybrid and supplementary capital bonds recognised at amortised cost were written down. The resulting effect of EUR 99.9 million was reported under the result from fin. investments – at cost.

## (45) Result from trading

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| Foreign exchange transactions | 0.1 | 16.8 |
| Shares and index related transactions | 0.1 | 0.3 |
| **Total** | **0.2** | **17.0** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

In addition to trading activities, the item result from trading also includes income from banking book derivatives as well as from currency valuation. Foreign exchange transactions include profits and losses from foreign exchange trading of EUR -7.8 million (2012: EUR 9.4 million).

## (46) Result from hedge accounting

This item includes income from hedge accounting in accordance with IAS 39, resulting from the valuation of hedging derivatives and the valuation of the underlying transactions.

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| Valuation result from secured underlying transactions | 265.4 | 58.2 |
| Valuation result from hedging derivatives | –268.3 | –60.0 |
| **Total** | **–2.9** | **–1.8** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

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

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| **Result from financial assets and related derivatives** | **15.6** | **28.7** |
| from loans and advances to customers and credit institutions | 3.9 | 4.5 |
| from equity instruments | –0.1 | –3.2 |
| from debt instruments | 12.2 | 26.4 |
| from treasury bills | –0.4 | 1.0 |
| **Result from financial liabilities and related derivatives** | **39.5** | **–35.3** |
| from liabilities evidenced by certificates | 16.5 | –22.1 |
| from subordinated capital | 23.0 | –13.2 |
| from other liabilities | 0.0 | 0.0 |
| **Current income from shares and other not fixed interest securities** | **0.0** | **0.1** |
| **Total** | **55.1** | **–6.5** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

The fair value option (FVO) applies to financial assets and liabilities that include embedded derivatives which must be stated separately. By designating the entire instrument in the category at fair value through profit or loss, the compulsory separation of hedging instruments is avoided.

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

In the past years, the changes in the bank's own credit spreads or the widening of the liquidity spread of financial liabilities, which will be realized at fair value, resulted in an amount of EUR 98.8 million (2012: EUR 214.4 million), which in the previous years was recognised in profit or loss. The market development of the financial liabilities led to a positive impact of EUR 36.1 million (2012: EUR -32.2 million). The remaining cumulative effect of EUR 134.9 million (2012: EUR 103.5 million) may lead to measurements being recognised in profit or loss in the IFRS consolidated financial statements in the coming years. Of this amount, EUR 98.3 million (2012: EUR 76.1 million) pertains to issues underwritten by third parties, EUR 25.6 million

(2012: 16.7 million) to the still outstanding hybrid capital instruments (nominal value: EUR 23.5 million) and EUR 11.0 million (2012: EUR 10.7 million) to supplementary capital issues.

### (48) Operating result from investment properties

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| Rental income | 49.5 | 49.4 |
| Depreciation | –23.3 | –16.0 |
| Other expenses | –4.7 | –1.4 |
| **Total** | **21.4** | **32.0** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

Other expenses from investment properties relate to the result from disposals of EUR 2.4 million as well as ongoing expenses of EUR -7.1 million.

### (49) Other operating result

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| Other income | 112.9 | 305.0 |
| Other expenses | –357.5 | –288.7 |
| **Total** | **–244.6** | **16.4** |
| Result from operate lease assets | 0.9 | 12.5 |
| Other rental income | 1.3 | 1.5 |
| Net capital gains/losses from the sale of intangible and tangible assets | 2.4 | 2.3 |
| Result from emergency acquisitions and repossessed asset | –2.3 | 1.7 |
| Result from allocation/release of other provisions | –4.7 | 14.4 |
| Other tax expenses (incl. bank tax except income tax) | –31.6 | –26.9 |
| Expenses from complete or partial sale of fully consolidated companies | –2.1 | –0.7 |
| Restructuring expenses | –13.7 | 0.5 |
| Income from assets classified as held for sale and disposal groups | –39.2 | –12.4 |
| Other result | –155.5 | 23.4 |
| **Total** | **–244.6** | **16.4** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

The result from operating lease assets is mainly composed of gains on disposal and ongoing lease payments less regular depreciation.

Other rental revenue is the result of renting buildings used for own activities, which are of minor importance.

Next to the proceeds of disposal, the result from emergency acquisitions and repossessed leasing assets also includes rental income and current operating expenses.

Other tax expenses include the bank levies for the 2013 financial year at EUR -21.1 million (2012: EUR -22.1 million).

Detailed information on restructuring expenses can be found in note (118) Restructuring expenses.

The result from assets classified as held for sale and disposal groups is mainly due to the valuation of the Croatian real estate project "Skiper" which is available for sale (EUR -37.2 million), and the valuation of assets of an European leasing company (EUR -1.5 million) which, according to IFRS 5, are reported separately under the item assets held for sale as at 31 December 2013.

The remaining other result consists primarily of other income and expenses not related to the banking business and, in the 2013 financial year, is mainly composed of compensation payments in the context of failing to correctly pass on interest adjustments (EUR -135.2 million).

## (50) Impairment of financial assets

The impairment of financial assets is composed as follows:

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| **Impairment financial assets – at cost (risk provision on loans and advances)** | **–1,362.1** | **–308.5** |
| Allocations | –1,684.7 | –676.5 |
| Releases | 343.5 | 360.1 |
| Receipts from loans and advances previously impaired | 26.7 | 34.1 |
| Directly recognised impairment losses | –47.5 | –26.2 |
| **Impairment financial assets – available for sale** | **–10.9** | **–19.4** |
| Expenses from impairment | –17.2 | –27.3 |
| Income from write-up | 6.3 | 8.0 |
| **Impairment financial assets – held to maturity** | **–2.6** | **0.0** |
| Expenses from impairment | –2.6 | 0.0 |
| Income from write-up | 0.0 | 0.0 |
| **Total** | **–1,375.6** | **–327.9** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

The impairment of financial assets – at cost includes credit risk provisioning for on and off-balance-sheet transactions. For detailed information about risk provisioning, see note (61) Risk provisions on loans and advances and provisions for credit risk.

## (51) Impairment of non-financial assets

The impairment of non-financial assets is composed as follows:

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| Land and buildings | –33.1 | –16.7 |
| Plant and equipment | –25.5 | –0.3 |
| Intangible assets | –32.3 | –3.8 |
| Investment properties | –137.6 | –24.3 |
| Operate-Leases | –5.7 | 2.3 |
| Emergency required assets and repossessed assets | –54.4 | –17.8 |
| **Total** | **–288.6** | **–60.6** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

The impairment of land and buildings comes mainly from the subsidiaries in Croatia and Italy, since administrative buildings used internally were written down here.

Based on the expected sale of the bank network in the SEE countries by mid-2015, identifying a need for impairment on plant and equipment as well as intangible assets based on the value in use could not be performed. The fair value less costs of disposal was used instead. This resulted in an impairment of EUR -25.1 million for plant and equipment, and EUR -23.9 million for intangible assets. Local expert opinions were used as the basis for determining the fair value.

The impairment of the real estate held as financial investments is mainly due to the leasing units in Italy and Slovenia. This impairment is due to changed interest rates and a change in the expected leasing cash flows regarding the underlying assets.

A large portion of the impairment of emergency acquisitions and repossessed leasing assets originates with the two Italian companies (EUR -23.1 million), which had to record write-downs due to a reduction in market values. The leasing units in Bulgaria, Croatia and Slovenia also had to record write-downs.

## (52) Personnel expenses

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| Wages and salaries | –150.9 | –161.3 |
| Social security | –43.0 | –46.7 |
| Long-term employee provisions | –5.3 | –6.0 |
| Other employee costs | –12.3 | –11.4 |
| **Total** | **–211.6** | **–225.4** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

The long-term employee provisions contain contributions to defined contribution plans totalling EUR 0.6 million (2012 adjusted: EUR 1.2 million). In addition, payments totalling EUR 0.6 million (2012: EUR 0.7 million) were made into the employee severance and retirement fund for the employees in Austria.

## (53) Other administrative expenses

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| Infrastructure costs | –41.1 | –45.5 |
| IT- and telecommunications | –39.0 | –37.6 |
| Advertising costs | –10.0 | –9.6 |
| Legal and advisory costs | –28.0 | –25.4 |
| Expense for audit and audit-related services | –4.3 | –3.9 |
| Expenses related to reorganisation and restructuring | –9.9 | –8.3 |
| Investigation of the past | –23.6 | –6.0 |
| Staff training cost | –2.7 | –3.8 |
| Administration expenses related to HBInt. Credit Management | –1.7 | –1.7 |
| Other general administrative expenses | –32.3 | –41.4 |
| **Total** | **–192.5** | **–183.2** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

The item audit and audit-related services includes costs of EUR 2.1 million (2012: EUR 2.7 million) for the audit firm Ernst & Young, see note (119) Audit expenses.

## (54) Depreciation and amortization on tangible and intangible assets

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| Land and buildings | –9.5 | –10.3 |
| Plant and equipment | –15.0 | –14.3 |
| Intangible assets | –11.2 | –8.5 |
| **Total** | **–35.7** | **–33.1** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

## (55) Result from companies accounted for at equity

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| Share of profits | 0.1 | 0.0 |
| Share of losses | –1.5 | 0.0 |
| **Total** | **–1.4** | **0.0** |

## (56) Taxes on income

### 56.1. Income tax expenses

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| **Current tax** | **4.8** | **–27.1** |
| from previous period | –3.2 | 0.7 |
| **Deferred tax** | **47.0** | **–1.7** |
| from previous period | 11.4 | 2.6 |
| **Total** | **51.7** | **–28.8** |

* Previous year’s figures for 2012 were adjusted, see note (10) Adjustment of previous year’s figures.

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

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Result before tax from continued operations | –1,798.3 | –13.9 |
| Result before tax from discontinued operations | –95.1 | 54.4 |
| **Result before tax** | **–1,893.4** | **40.5** |
| Theoretical income tax expense based on Austrian corporate tax rate of 25 % | 473.4 | –10.1 |
| **Tax effects** | | |
| from divergent foreign tax rates | –30.4 | 3.5 |
| from previous year | 8.5 | 3.3 |
| from foreign income and other tax-exempt income | 0.1 | 1.0 |
| from investment related tax relief and other reducing the tax burden | 2.3 | 6.9 |
| from non-tax deductible expenses | –16.1 | –17.6 |
| from non-recognition of deferred taxes on loss carry-forwards and temporary differences | –379.6 | –15.5 |
| from the change of deferred taxes on loss carry-forwards and temporary differences | –3.3 | –10.1 |
| from non-recognition of deferred taxes because of permanent differences | 1.4 | 0.1 |
| from other tax effects | –6.1 | 6.3 |
| **Actual income tax expenses (effective tax rate: 2.6 % (2012: 79.6%)** | **50.0** | **–32.2** |
| Income tax expenses reported in profit or loss | 51.7 | –28.8 |
| Income tax expenses attributable to discontinued operations | –1.7 | –3.4 |

In 2013 the non-recognition of deferred taxes on tax loss carry-forwards as well as the amortisation of deferred tax assets recognized in the previous year had a negative impact on actual income tax expenses.

### 56.2. Deferred tax assets/liabilities

In 2013, deferred tax assets and liabilities were offset as far as the specifications of IAS 12 permitted.

Legally valid tax assessment notices for Hypo Alpe-Adria-Bank International AG have been issued for the years up to and including 2003. The assessment for corporation tax due in 2004 pursuant to section 200 (1) of the Federal Fiscal Code (BAO) is still of a provisional nature. The tax assessments for 2005 to 2010 are, by contrast, legally valid. The corporate income tax return for 2011 has not yet been requested by the tax authorities. The corporate income tax return for 2012 has not yet been submitted to the tax authorities. A tax audit is currently taking place which affects all Austrian members of the tax group.

Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between carrying amounts for tax purposes and IFRS recognition, for the following positions:

EUR m

| | 2013 | | | 2012* | | |
|---|---|---|---|---|---|---|
| | Deferred Tax (netted) | Income Statement | Other comprehensive income (OCI) | Deferred Tax (netted) | Income Statement | Other comprehensive income (OCI) |
| Provisions for loans and advances | 87.4 | 64.2 | 0.0 | 19.4 | 11.4 | 0.0 |
| Accelerated depreciation for tax purposes /Accelerated capital allowances | 1.8 | –0.3 | 0.0 | –0.8 | 0.2 | 0.0 |
| Effects on AFS-investments | –3.0 | 2.4 | 1.5 | 2.4 | –0.1 | –3.9 |
| Hedged Accounting – revaluation of a hedged financial asset/liability and of the related swap | 0.8 | –1.7 | 0.0 | 0.8 | 0.9 | 0.0 |
| FVO – revaluation of a financial asset /liability and the related swap | 4.8 | 1.0 | 0.0 | 1.1 | 0.7 | 0.0 |
| Revaluation of leasing contracts | –5.8 | 5.3 | 0.0 | –5.2 | –4.7 | 0.0 |
| Termination benefits | 0.2 | 0.0 | 0.0 | 0.2 | 0.1 | 0.0 |
| Deferred revenue fee income | 3.5 | –0.3 | 0.0 | 3.8 | –0.3 | 0.0 |
| Other | –8.8 | –6.5 | 0.0 | –0.7 | –6.8 | –0.7 |
| Utilizable tax losses carried forward | 5.8 | –17.0 | 0.0 | 15.6 | –3.1 | 0.0 |
| **Total deferred Tax** | **85.3** | **47.0** | **1.5** | **36.6** | **–1.7** | **–4.6** |

* Previous year's figures for 2012 were adjusted, see note (10) Adjustment of previous year's figures.

The total change in deferred taxes compared to the previous year is EUR 48.7 million, of which EUR 47.0 million of deferred tax income is reflected in the income statement and EUR 1.5 million positively impacted other comprehensive income in equity. The remaining EUR 0.2 million is a result of foreign exchange differences and changes in the scope of consolidation.

The total deferred tax effect of EUR +47.0 million is a result of deferred taxes on the recognition or reversal of temporary differences totalling EUR +64.0 million and the write-down of previously deferred tax assets due to tax loss carry-forwards of EUR -17.0 million.

The positive change in deferred taxes in provisions for loans and advances amounting to EUR 64.2 million is largely due to the recognition of deferred taxes at the Italian subsidiary. Recoverability at these companies is not depending on future taxable profits, as claims can be made from the financial authorities based on local law.

The development of deferred taxes in net terms is as follows:

EUR m

| | 2013 | 2012 |
|---|---|---|
| **Balance at start of period (1.1.)** | **36.6** | **45.8** |
| Tax income/expense recognised in profit or loss | 47.0 | –1.7 |
| Tax income/expense recognised in OCI | 1.5 | –4.6 |
| Fx-difference | –0.1 | –0.7 |
| Deferred taxes acquired in change of scope | 0.3 | –2.2 |
| **Balance at end of period (31.12.)** | **85.3** | **36.6** |

Deferred taxes are reported as follows in the balance sheet:

EUR m

| | 2013 | 2012 |
|---|---|---|
| Deferred tax assets | 97.7 | 58.6 |
| Deferred tax liabilities | 12.4 | 22.0 |
| **Deferred tax** | **85.3** | **36.6** |

From deferred tax assets recognised, EUR 5.8 million (2012: EUR 15.6 million) were the result of recognising tax assets in respect of usable tax loss carry-forwards. Due to a lack of possible usability in the various group companies, deferred tax assets of EUR 853.2 million (2012: EUR 715.4 million) on unused tax losses of EUR 3,689.5 million (2012: adjusted EUR 2,981.1 million) and deferred tax assets of EUR 116.9 million (2012: EUR 87.2 million) for temporary differences of EUR 607.3 million (2012: EUR 444.3 million) were not recognised. In addition, deferred tax assets of EUR 103.0 million (2012: EUR 39.8 million) for investments in subsidiaries for temporary differences of EUR 439.2 million (2012: EUR 177.5 million) were not recognised. Of the unused tax losses amounting to EUR 3,689.5 million, EUR 3,047.0 million (2012: EUR 2,265.0 million) are unlimited and EUR 642.6 million (2012: EUR 716.1 million) can be carried forward for a maximum of 5 years.

Deferred tax assets from tax loss carry-forwards are recorded when it is probable that future taxable profits will be made which will enable these tax losses to be offset. The basis for these estimates are the respective business plans which have a time horizon of five years. For SEE banks, however, only the taxable profit up to the time of disposal is recognized in accordance with the European Commission's decision on reporting as at 31 December 2013.

Given the history of losses and the uncertainties arising from the restructuring of the group, there has been no capitalisation of tax loss carry-forwards for the members of the Hypo Alpe-Adria-Bank International AG Austrian tax group and the majority of companies earmarked to be wound down .

In accordance with IAS 12.39 deferred tax liabilities of EUR 4.4 million (2012: EUR 6.4 million) on temporary differences relating to investments in subsidiaries of EUR 18.3 million (EUR 26.4 million) were not recognized as they are not expected to be reversed in the foreseeable future.

## (57) Non-controlling interests

In the income statement, non-controlling interests in the income statement of the relevant group companies are included as follows:

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012 |
|---|---|---|
| **HBInt Credit Management Limited** | **9.0** | **16.5** |
| Share in interest income | 2.8 | 4.5 |
| Share in measurement result | 6.2 | 12.0 |
| **Norica Investments Limited** | **11.5** | **15.2** |
| Share in interest income | 11.5 | 15.2 |
| **Non-controlling interests of other co-owners** | **–0.2** | **–0.5** |
| **Total** | **20.3** | **31.1** |

At HBInt Credit Management Limited, Jersey, the total result stemming from the measurement and sale of securities amounted to EUR +12.6 million (2012: adjusted EUR +24.4 million) in 2013. In the consolidated financial statements, EUR +6.2 million (2012: EUR +12.3 million) thereof are assigned to the 49% non-controlling shareholder as a result covered by the equity contribution.

The share of interest income attributable to the non-controlling interest in Norica Investments Limited includes a special dividend and a pro rata share of profit and loss.

## Notes to the statement of financial position

### (58) Cash and balances at central banks

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Cash on hand | 124.2 | 124.4 |
| Balances with central banks (due on demand) | 2,188.5 | 2,748.8 |
| **Total** | **2,312.7** | **2,873.2** |

Balances with central banks only include those balances which are due on demand. Balances that are not due on demand are shown under loans and advances to credit institutions. The balances at central banks also serve to meet the requirements for minimum reserves. As at the reporting date, the minimum reserve held as due on demand amounted to EUR 144.5 million (2012: EUR 288.9 million).

### (59) Loans and advances to credit institutions

#### 59.1. Loans and advances to credit institutions – by type of business

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Minimum reserve (not due daily) | 344.3 | 434.3 |
| Giro- and clearing business | 1,023.0 | 550.3 |
| Money market placements | 584.4 | 834.9 |
| Loans | 114.1 | 160.7 |
| Finance lease receivables | 18.7 | 11.1 |
| Other loans and advances | 3.0 | 1.8 |
| **Total** | **2,087.4** | **1,993.1** |

#### 59.2. Loans and advances to credit institutions – by region

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Austria | 421.1 | 623.8 |
| Central and Eastern Europe (CEE) | 411.3 | 579.3 |
| Other countries | 1,255.0 | 790.0 |
| **Total** | **2,087.4** | **1,993.1** |

The region “Central and Eastern Europe (CEE)” includes Southern Eastern European countries (SEE) as well as other Eastern European countries.

## (60) Loans and advances to customers

### 60.1. Loans and advances to customers – by type of business

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Current account credit | 458.1 | 745.5 |
| Bank loans | 8,252.5 | 9,529.5 |
| Mortgage loans | 3,331.0 | 4,726.7 |
| Municipal loans | 2,015.4 | 3,152.8 |
| Finance lease receivables | 4,018.7 | 4,730.3 |
| Other loans and advances | 1,213.3 | 1,516.6 |
| **Total** | **19,289.0** | **24,401.5** |

### 60.2. Loans and advances to customers – by type of customer

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Public sector | 2,008.8 | 3,390.8 |
| Corporate clients | 12,391.4 | 14,498.8 |
| Retail clients | 4,888.8 | 6,511.9 |
| **Total** | **19,289.0** | **24,401.5** |

### 60.3. Loans and advances to customers – by region

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Austria | 1,213.0 | 3,886.8 |
| Central and Eastern Europe (CEE) | 13,845.2 | 15,288.0 |
| Other countries | 4,230.7 | 5,226.7 |
| **Total** | **19,289.0** | **24,401.5** |

## (61) Risk provisions on loans and advances and provisions for credit risk

### 61.1. Risk provisions on loans and advances and provisions for credit risk – development during the year

EUR m

| | As at 1.1.2013 | Foreign-exchange-differences | Allocations | Releases | Use | Changes to the consolidated Group | Un-winding | As at 31.12.2013 |
|---|---|---|---|---|---|---|---|---|
| **Specific risk provisions** | **–2,930.3** | **7.1** | **–1,647.6** | **241.0** | **327.8** | **56.4** | **148.0** | **–3,797.7** |
| Loans and advances to credit institutions | –2.4 | 0.0 | –5.3 | 0.1 | 0.0 | 0.0 | 0.0 | –7.7 |
| Loans and advances to customers | –2,917.9 | 7.2 | –1,604.9 | 240.2 | 327.3 | 50.9 | 148.0 | –3,749.2 |
| to public sector | –3.0 | 0.0 | –1.7 | 1.8 | 0.1 | 0.0 | 0.1 | –2.7 |
| to corporate clients | –2,506.5 | 11.1 | –1,210.3 | 197.8 | 267.7 | 23.5 | 130.0 | –3,086.6 |
| to retail clients | –408.4 | –3.9 | –392.8 | 40.5 | 59.5 | 27.4 | 17.9 | –659.9 |
| Other financial assets | –10.0 | 0.0 | –37.4 | 0.7 | 0.4 | 5.5 | 0.0 | –40.9 |
| **Portfolio-based risk provisions** | **–153.4** | **–3.9** | **–24.7** | **98.6** | **0.0** | **6.5** | **0.0** | **–76.9** |
| Loans and advances to credit institutions | –0.6 | 0.0 | –0.4 | 0.4 | 0.0 | 0.0 | 0.0 | –0.6 |
| Loans and advances to customers | –152.3 | –3.9 | –24.3 | 98.0 | 0.0 | 6.5 | 0.0 | –76.0 |
| Other financial assets | –0.5 | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | –0.3 |
| **Subtotal risk provisions on loans and advances** | **–3,083.7** | **3.3** | **–1,672.4** | **339.5** | **327.8** | **62.9** | **148.0** | **–3,874.6** |
| **Provisions for credit commitments and guarantees** | **–26.0** | **0.0** | **–26.3** | **14.0** | **0.0** | **–3.8** | **0.0** | **–42.1** |
| Individual provisions | –8.7 | 0.0 | –13.4 | –0.6 | 0.0 | –6.5 | 0.0 | –29.2 |
| Portfolio provisions | –17.3 | 0.0 | –12.9 | 14.6 | 0.0 | 2.7 | 0.0 | –13.0 |
| **Total** | **–3,109.7** | **3.3** | **–1,698.7** | **353.6** | **327.8** | **59.1** | **148.0** | **–3,916.7** |
| thereof discontinued operations | –59.3 | 0.0 | –14.0 | 10.0 | 9.1 | 53.6 | 0.5 | 0.0 |

Risk provisions on loans and advances and provisions for credit risk were as follows as at 31 December 2012:

EUR m

| | As at 1.1.2012 | Foreign-exchange-differences | Allocations | Releases | Use | Changes to the consolidated Group | Un-winding | As at 31.12.2012 |
|---|---|---|---|---|---|---|---|---|
| **Specific risk provisions** | **–2,934.0** | **–1.7** | **–653.3** | **286.3** | **204.6** | **–10.5** | **178.3** | **–2,930.3** |
| Loans and advances to credit institutions | –13.1 | 0.0 | 0.0 | 0.8 | 10.0 | 0.0 | 0.0 | –2.4 |
| Loans and advances to customers | –2,914.3 | –1.7 | –649.7 | 285.3 | 194.6 | –10.4 | 178.3 | –2,917.9 |
| to public sector | –4.4 | 0.0 | –0.4 | 1.3 | 0.4 | 0.0 | 0.2 | –3.0 |
| to corporate clients | –2,547.1 | –1.7 | –516.4 | 224.5 | 169.0 | 10.2 | 155.0 | –2,506.5 |
| to retail clients | –362.8 | 0.0 | –132.8 | 59.5 | 25.2 | –20.6 | 23.0 | –408.4 |
| Other financial assets | –6.6 | 0.0 | –3.6 | 0.2 | 0.1 | –0.1 | 0.0 | –10.0 |
| **Portfolio-based risk provisions** | **–176.0** | **–0.6** | **–30.8** | **54.3** | **0.0** | **–0.3** | **0.0** | **–153.4** |
| Loans and advances to credit institutions | –0.1 | 0.0 | –0.5 | 0.1 | 0.0 | 0.0 | 0.0 | –0.6 |
| Loans and advances to customers | –175.5 | –0.6 | –30.1 | 54.2 | 0.0 | –0.3 | 0.0 | –152.3 |
| Other financial assets | –0.4 | 0.0 | –0.1 | 0.0 | 0.0 | 0.0 | 0.0 | –0.5 |
| **Subtotal risk provisions on loans and advances** | **–3,110.0** | **–2.2** | **–684.1** | **340.6** | **204.6** | **–10.8** | **178.3** | **–3,083.7** |
| **Provisions for credit commitments and guarantees** | **–48.2** | **–2.3** | **–7.5** | **31.7** | **0.3** | **0.0** | **0.0** | **–26.0** |
| Individual provisions | –21.6 | –2.3 | –4.1 | 19.0 | 0.3 | 0.0 | 0.0 | –8.7 |
| Portfolio provisions | –26.6 | 0.1 | –3.4 | 12.7 | 0.0 | 0.0 | 0.0 | –17.3 |
| **Total** | **–3,158.2** | **–4.5** | **–691.6** | **372.2** | **204.9** | **–10.8** | **178.3** | **–3,109.7** |
| thereof discontinued operations | –78.1 | –0.2 | –15.1 | 12.1 | 10.3 | 11.0 | 0.7 | –59.3 |

In addition, please refer to note (4) Use of estimates and assumptions/uncertainties in connection with estimates, note (50) Impairment of financial assets and note (86) Risk report et seq.

Provisions for credit risk are stated in note (79) Provisions.

### 61.2. Risk provisions on loans and advances – by region

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Austria | –192.4 | –229.9 |
| Central and Eastern Europe (CEE) | –3,099.0 | –2,477.1 |
| Other countries | –583.1 | –376.8 |
| **Total** | **–3,874.6** | **–3,083.7** |

## (62) Trading assets

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Bonds and other fixed-interest securities | 12.5 | 1.4 |
| Shares and other non-fixed-interest securities | 0.0 | 0.1 |
| **Total** | **12.5** | **1.5** |

## (63) Derivative financial instruments

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Positive market value of derivative financial instruments – trading | 14.2 | 32.8 |
| Positive market value of derivative financial instruments – banking book | 1,055.8 | 1,393.3 |
| **Total** | **1,070.1** | **1,426.1** |

Hypo Alpe Adria hedged the fixed interest component of several fixed-interest issues with derivative financial instruments as part of its interest risk management. The market value of the issues developed negatively and the corresponding derivative transaction positively due to the steep drop in interest rates compared with the issue date of the liabilities. By using hedge accounting and the fair value option, the underlying transactions are not recognised at amortised cost but at the so-called hedge adjusted value instead (hedge fair value), while the market value of the derivative transaction is recognised separately as an asset pursuant to IAS 39. Positive market values from derivative transactions are primarily hedged by counterparties supplying cash collateral.

The net change in the market value of the derivative instruments and the hedged underlying transactions are recognised in the result from hedge accounting and in the result from financial assets – designated at fair value through profit or loss on the basis of the corresponding designation.

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

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Loans and advances to customers and credit institutions | 289.6 | 579.1 |
| Bonds and other fixed-interest securities | 197.1 | 185.2 |
| Shares and other non-fixed-interest securities | 18.4 | 19.1 |
| **Total** | **505.2** | **783.4** |

## (65) Financial investments – available for sale

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Bonds and other fixed-interest securities | 2,338.9 | 2,627.0 |
| Shares and other non-fixed-interest securities | 31.3 | 40.8 |
| Participations without intention for sale (< 20 %) | 1.6 | 6.6 |
| Other participations (associated companies 20 % –50 %) | 1.3 | 2.8 |
| Shares in affiliated, non-consolidated companies (> 50 %) | 26.4 | 11.0 |
| Loans and advances to customers/credit institutions | 22.0 | 0.0 |
| **Total** | **2,421.5** | **2,688.3** |

## (66) Financial investments – held to maturity

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Bonds and other fixed-interest securities | 83.7 | 85.5 |
| Treasury bills, eligible for refinancing with central banks | 0.0 | 5.0 |
| **Total** | **83.7** | **90.5** |

Financial assets available for sale with a carrying amount of EUR 42.6 million were reclassified to held to maturity in 2012. These financial assets had a fair value of EUR 45.0 million as at 31 December 2013. The original measurement at fair value would have resulted in a positive effect of EUR 2.3 million in other comprehensive income.

## (67) Investments in companies accounted for at equity

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Shares in other associated companies | 5.9 | 7.4 |
| **Total** | **5.9** | **7.4** |

The list of associated companies accounted for at equity is shown in note (139) Scope of consolidation.

## (68) Investment properties

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Investment properties | 1,115.3 | 1,279.2 |
| **Total** | **1,115.3** | **1,279.2** |

The majority of investment properties include real estate let under operating lease agreements.

Pursuant to IAS 36, the current carrying amount is compared with the recoverable amount to determine possible impairments. The recoverable amount of an asset is therefore the higher of its fair value less cost of disposal and its value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. The calculation of value in use is based on the future expected cash flow as well as country-specific discounting factors for debt and equity financing, which assumes a debt (67.6 %: 2012: 73.7 %) and equity (32.4 %; 2012: 26.3 %) ratio derived from the market. The following country-specific interest rates for the period of planned use are taken into consideration.

| | Beginning discount rate equity costs | | Closing discount rate equity costs | |
|---|---|---|---|---|
| | 31.12.2013 | 31.12.2012 | 31.12.2013 | 31.12.2012 |
| Croatia | 7.59% | 6.39% | 6.09% | 4.89% |
| Italy | 6.52% | 6.41% | 5.02% | 4.91% |
| Slovenia | 6.99% | 5.79% | 5.49% | 4.29% |
| Bosnia and Herzegovina | 10.17% | 7.80% | 8.67% | 6.30% |
| Serbia | 9.31% | 6.84% | 7.81% | 5.34% |
| Montenegro | 8.86% | 6.31% | 7.36% | 4.81% |

The determining factors for the calculation of fair value are the market-based estimates that are generally prepared by full-time experts. If market-based estimates are not available, fair value is estimated on the basis of the income approach.

## (69) Development of financial assets and financial investments

| 31.12.2013 | Acquisition costs 1.1.2013 | Foreign-exchange-differences | Additions |
|---|---|---|---|
| **Financial investments – held to maturity** | **85.5** | **0.0** | **8.1** |
| Bonds, treasury bills and other fixed-interest securities | 85.5 | 0.0 | 8.1 |
| **Financial investments – available for sale** | **75.1** | **1.1** | **1.8** |
| Shares in affiliated, non-consolidated companies (>50%) | 30.5 | 0.0 | 1.8 |
| Other participations (associated companies 20 % –50 %) | 15.7 | 1.1 | 0.0 |
| Participations without intension for sale (under 20 %) | 29.0 | 0.0 | 0.0 |
| **Companies accounted for at equity** | **6.6** | **0.0** | **0.0** |
| **Total** | **167.2** | **1.1** | **9.9** |
| thereof discontinued operations | 19.4 | 0.0 | 0.0 |

| 31.12.2012 | Acquisition costs 1.1.2012 | Foreign-exchange-differences | Additions |
|---|---|---|---|
| **Financial investments – held to maturity** | **36.5** | **0.0** | **52.3** |
| Bonds, treasury bills and other fixed-interest securities | 36.5 | 0.0 | 52.3 |
| **Financial investments – available for sale** | **78.4** | **0.5** | **3.4** |
| Shares in affiliated, non-consolidated companies (>50%) | 34.5 | 0.5 | 2.4 |
| Other participations (associated companies 20 % –50 %) | 15.2 | 0.0 | 0.7 |
| Participations without intension for sale (under 20 %) | 28.7 | 0.0 | 0.3 |
| **Companies accounted for at equity** | **10.8** | **0.0** | **0.0** |
| **Total** | **125.7** | **0.5** | **55.7** |
| thereof discontinued operations | 19.4 | 0.0 | 0.0 |

## (70) Intangible assets

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Purchased software | 0.0 | 17.5 |
| Self generated software | 0.0 | 7.5 |
| Other intangible assets | 16.3 | 15.1 |
| Prepayments for intangible assets | 0.0 | 4.5 |
| **Total** | **16.3** | **44.6** |

EUR m

| | Disposals | Other changes | Acquisition costs 31.12.2013 | Cumulated change 31.12.2013 | Carrying amount 31.12.2013 | Carrying amount 31.12.2012 |
|---|---|---|---|---|---|---|
| | **–7.6** | **0.0** | **86.0** | **–2.3** | **83.7** | **85.5** |
| | –7.6 | 0.0 | 86.0 | –2.3 | 83.7 | 85.5 |
| | **–17.1** | **57.5** | **118.4** | **–89.1** | **29.3** | **20.5** |
| | –16.6 | 95.0 | 110.7 | –84.2 | 26.4 | 11.0 |
| | –0.4 | –10.2 | 6.1 | –4.9 | 1.3 | 2.8 |
| | 0.0 | –27.3 | 1.6 | 0.0 | 1.6 | 6.6 |
| | **0.0** | **–0.4** | **6.2** | **–0.3** | **5.9** | **7.4** |
| | **–24.7** | **57.2** | **210.7** | **–91.7** | **119.0** | **113.5** |
| | –11.8 | –7.6 | 0.0 | 0.0 | 0.0 | 4.2 |

EUR m

| | Disposals | Other changes | Acquisition costs 31.12.2012 | Cumulated change 31.12.2012 | Carrying amount 31.12.2012 | Carrying amount 31.12.2011 |
|---|---|---|---|---|---|---|
| | **–3.2** | **0.0** | **85.5** | **0.0** | **85.5** | **36.5** |
| | –3.2 | 0.0 | 85.5 | 0.0 | 85.5 | 36.5 |
| | **–5.6** | **–1.6** | **75.1** | **–54.6** | **20.5** | **24.4** |
| | –4.6 | –2.3 | 30.5 | –19.4 | 11.0 | 16.2 |
| | –1.0 | 0.7 | 15.7 | –12.8 | 2.8 | 2.9 |
| | 0.0 | 0.0 | 29.0 | –22.3 | 6.6 | 5.3 |
| | **0.0** | **–4.2** | **6.6** | **0.8** | **7.4** | **1.4** |
| | **–8.8** | **–5.8** | **167.2** | **–53.7** | **113.5** | **62.2** |
| | 0.0 | 0.0 | 19.4 | –15.2 | 4.2 | 4.2 |

## (71) Tangible assets

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Land and buildings | 244.2 | 342.8 |
| Plant and equipment | 16.6 | 49.3 |
| **Total** | **260.8** | **392.0** |

## (72) Development of fixed assets

### 72.1. Development of acquisition costs and carrying amounts

| 31.12.2013 | Acquisition costs 1.1.2013 | Foreign-exchange-differences | Additions |
|---|---|---|---|
| **INTANGIBLE ASSETS** | **151.1** | **–0.5** | **21.1** |
| **Goodwill** | **1.1** | **0.0** | **0.0** |
| **Software** | **120.7** | **–0.3** | **8.7** |
| purchased | 75.2 | –0.4 | 8.0 |
| self generated | 45.5 | 0.1 | 0.7 |
| **Other intangible assets** | **24.0** | **0.0** | **3.7** |
| **Prepayments for intangible assets** | **5.3** | **–0.1** | **8.6** |
| **TANGIBLE ASSETS** | **651.2** | **–2.3** | **59.9** |
| **Land and buildings** | **470.4** | **–1.5** | **47.7** |
| Land | 31.6 | –0.1 | 2.0 |
| Buildings | 433.0 | –1.3 | 41.5 |
| Assets under construction | 5.8 | –0.1 | 4.2 |
| **Plant and equipment** | **180.7** | **–0.8** | **12.2** |
| **INVESTMENT PROPERTIES** | **1,435.6** | **–1.6** | **122.9** |
| Investment properties leased out/rented | 1,137.9 | –1.4 | 52.0 |
| Vacant investment properties | 262.2 | 0.2 | 68.8 |
| Assets under construction (future investment properties) | 35.6 | –0.4 | 2.1 |
| **Total** | **2,237.9** | **–4.4** | **203.9** |
| thereof discontinued operations | 47.9 | 0.0 | 1.7 |

Among investment properties, acquisitions amount to the sum of EUR 85.7 million which has been transferred from inventories. The amount of EUR 4.5 million stems from the capitalisation of subsequent expenditures.

| 31.12.2012 | Acquisition costs 1.1.2012 | Foreign-exchange-differences | Additions |
|---|---|---|---|
| **INTANGIBLE ASSETS** | **217.2** | **–2.7** | **9.8** |
| **Goodwill** | **54.5** | **0.0** | **0.0** |
| **Software** | **112.5** | **–2.5** | **6.8** |
| purchased | 70.6 | –0.7 | 6.2 |
| self generated | 41.9 | –1.8 | 0.6 |
| **Other intangible assets** | **36.7** | **–0.1** | **0.4** |
| **Prepayments for intangible assets** | **13.5** | **–0.1** | **2.6** |
| **TANGIBLE ASSETS** | **582.9** | **–3.6** | **53.2** |
| **Land and buildings** | **404.8** | **–1.2** | **39.4** |
| Land | 30.0 | 0.0 | 0.2 |
| Buildings | 367.6 | –1.0 | 33.9 |
| Assets under construction | 7.2 | –0.2 | 5.3 |
| **Plant and equipment** | **178.1** | **–2.4** | **13.9** |
| **INVESTMENT PROPERTIES** | **953.7** | **–0.8** | **480.2** |
| Investment properties leased out/rented | 849.9 | –0.6 | 275.4 |
| Vacant investment properties | 52.7 | –0.1 | 193.8 |
| Assets under construction (future investment properties) | 51.1 | –0.1 | 11.0 |
| **Total** | **1,753.8** | **–7.1** | **543.2** |
| thereof discontinued operations | 48.6 | 0.0 | 0.9 |

The reclassification of assets held for sale reported under IFRS 5 and the disposal of assets of Hypo Alpe-Adria-Bank AG (Austria) which were divested in December 2013 are included under other changes. In addition, acquisitions from assets stemming from BLOK 67 ASSOCIATES DOO BELGRADE are also reported among other changes.

EUR m

| | Disposals | Other changes | Acquisition costs 31.12.2013 | Cumulative depreciation 31.12.2013 | Carrying amount 31.12.2013 | Carrying amount 31.12.2012 |
|---|---|---|---|---|---|---|
| | **–26.6** | **–3.6** | **141.6** | **–125.3** | **16.3** | **44.6** |
| | **0.0** | **0.0** | **1.1** | **–1.1** | **0.0** | **0.0** |
| | **–25.5** | **–1.0** | **102.6** | **–102.6** | **0.0** | **25.0** |
| | –0.8 | –2.3 | 79.9 | –79.9 | 0.0 | 17.5 |
| | –24.8 | 1.3 | 22.8 | –22.8 | 0.0 | 7.5 |
| | **–0.3** | **–0.8** | **26.7** | **–10.4** | **16.3** | **15.1** |
| | **–0.8** | **–1.9** | **11.2** | **–11.2** | **0.0** | **4.5** |
| | **–42.2** | **–117.4** | **549.2** | **–288.4** | **260.8** | **392.0** |
| | **–27.4** | **–106.0** | **383.3** | **–139.1** | **244.2** | **342.8** |
| | –1.6 | –5.1 | 26.8 | –3.5 | 23.3 | 31.4 |
| | –23.7 | –96.7 | 352.9 | –134.6 | 218.3 | 307.4 |
| | –2.1 | –4.2 | 3.7 | –1.0 | 2.7 | 4.0 |
| | **–14.8** | **–11.4** | **165.9** | **–149.3** | **16.6** | **49.3** |
| | **–17.0** | **–148.9** | **1,391.0** | **–275.7** | **1,115.3** | **1,279.2** |
| | –11.9 | –352.0 | 824.5 | –152.6 | 671.9 | 1,035.9 |
| | –4.5 | 223.0 | 549.6 | –117.6 | 431.9 | 216.7 |
| | –0.5 | –19.8 | 16.9 | –5.5 | 11.4 | 26.5 |
| | **–85.8** | **–269.9** | **2,081.7** | **–689.3** | **1,392.4** | **1,715.8** |
| | –7.2 | –42.4 | 0.0 | 0.0 | 0.0 | 27.1 |

EUR m

| | Disposals | Other changes | Acquisition costs 31.12.2012 | Cumulative depreciation 31.12.2012 | Carrying amount 31.12.2012 | Carrying amount 31.12.2011 |
|---|---|---|---|---|---|---|
| | **–60.0** | **–13.2** | **151.1** | **–106.5** | **44.6** | **60.0** |
| | **–53.4** | **0.0** | **1.1** | **–1.1** | **0.0** | **0.0** |
| | **–4.8** | **8.7** | **120.7** | **–95.7** | **25.0** | **28.4** |
| | –0.2 | –0.7 | 75.2 | –57.7 | 17.5 | 18.2 |
| | –4.6 | 9.4 | 45.5 | –38.0 | 7.5 | 10.1 |
| | **–1.1** | **–11.9** | **24.0** | **–8.9** | **15.1** | **18.9** |
| | **–0.7** | **–9.9** | **5.3** | **–0.8** | **4.5** | **12.8** |
| | **–31.1** | **49.7** | **651.2** | **–259.1** | **392.0** | **359.9** |
| | **–17.0** | **44.5** | **470.4** | **–127.7** | **342.8** | **310.1** |
| | –1.1 | 2.5 | 31.6 | –0.2 | 31.4 | 29.8 |
| | –15.8 | 48.4 | 433.0 | –125.6 | 307.4 | 275.0 |
| | –0.2 | –6.4 | 5.8 | –1.9 | 4.0 | 5.3 |
| | **–14.0** | **5.2** | **180.7** | **–131.4** | **49.3** | **49.8** |
| | **–38.3** | **40.9** | **1,435.6** | **–156.5** | **1,279.2** | **837.5** |
| | –28.5 | 41.7 | 1,137.9 | –102.0 | 1,035.9 | 776.9 |
| | –6.6 | 22.4 | 262.2 | –45.4 | 216.7 | 15.7 |
| | –3.2 | –23.2 | 35.6 | –9.0 | 26.5 | 44.9 |
| | **–129.4** | **77.3** | **2,237.9** | **–522.0** | **1,715.8** | **1,257.4** |
| | –1.6 | 0.0 | 47.9 | –20.8 | 27.1 | 11.3 |

## 72.2. Development of depreciation

| 31.12.2013 | Cumulative depreciation 1.1.2013 | Foreign-exchange-differences |
|---|---|---|
| **INTANGIBLE ASSETS** | **-106.5** | **0.3** |
| **Goodwill** | **-1.1** | **0.0** |
| **Software** | **-95.7** | **0.3** |
| purchased | -57.7 | 0.3 |
| self generated | -38.0 | 0.0 |
| **Other intangible assets** | **-8.9** | **0.0** |
| **Prepayments for intangible assets** | **-0.8** | **0.0** |
| **TANGIBLE ASSETS** | **-259.1** | **1.0** |
| **Land and buildings** | **-127.7** | **0.4** |
| Land | -0.2 | 0.0 |
| Buildings | -125.6 | 0.4 |
| Assets under construction | -1.9 | 0.0 |
| **Plant and equipment** | **-131.4** | **0.6** |
| **INVESTMENT PROPERTIES** | **-156.5** | **0.4** |
| Investment properties leased out/rented | -102.0 | 0.3 |
| Vacant investment properties | -45.4 | 0.1 |
| Assets under construction (future investment properties) | -9.0 | 0.0 |
| **Total** | **-522.0** | **1.7** |
| thereof discontinued operation | -20.8 | 0.0 |

| 31.12.2012 | Cumulative depreciation 1.1.2012 | Foreign-exchange-differences |
|---|---|---|
| **INTANGIBLE ASSETS** | **–157.2** | **1.8** |
| **Goodwill** | **–54.5** | **0.0** |
| **Software** | **–84.2** | **1.8** |
| purchased | –52.3 | 0.4 |
| self generated | –31.8 | 1.4 |
| **Other intangible assets** | **–17.8** | **0.0** |
| **Prepayments for intangible assets** | **–0.7** | **0.0** |
| **TANGIBLE ASSETS** | **–223.1** | **2.2** |
| **Land and buildings** | **–94.7** | **0.5** |
| Land | –0.2 | 0.0 |
| Buildings | –92.6 | 0.4 |
| Assets under construction | –2.0 | 0.1 |
| **Plant and equipment** | **–128.3** | **1.8** |
| **INVESTMENT PROPERTIES** | **–116.2** | **0.5** |
| Investment properties leased out/rented | –73.0 | 0.4 |
| Vacant investment properties | –37.0 | 0.1 |
| Assets under construction (future investment properties) | –6.2 | 0.0 |
| **Total** | **–496.4** | **4.6** |
| thereof discontinued operations | –21.4 | 0.0 |

EUR m

| | Disposals | Depreciation charge for the year | Impairment | Other changes | Write-ups | Cumulative depreciation 31.12.2013 |
|---|---|---|---|---|---|---|
| | **23.7** | **-11.3** | **-34.0** | **1.9** | **0.6** | **-125.3** |
| | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **-1.1** |
| | **22.8** | **-10.0** | **-22.6** | **1.9** | **0.6** | **-102.6** |
| | 0.5 | -6.8 | -19.5 | 3.3 | 0.0 | -79.9 |
| | 22.3 | -3.2 | -3.1 | -1.4 | 0.6 | -22.8 |
| | **0.3** | **-1.3** | **-0.4** | **0.0** | **0.0** | **-10.4** |
| | **0.7** | **0.0** | **-11.0** | **0.0** | **0.0** | **-11.2** |
| | **19.3** | **-26.1** | **-61.6** | **35.1** | **3.0** | **-288.4** |
| | **6.1** | **-10.3** | **-36.1** | **25.5** | **3.0** | **-139.1** |
| | 0.0 | 0.0 | -3.3 | 0.0 | 0.0 | -3.5 |
| | 5.0 | -10.3 | -32.6 | 25.4 | 3.0 | -134.6 |
| | 1.1 | 0.0 | -0.2 | 0.0 | 0.0 | -1.0 |
| | **13.1** | **-15.7** | **-25.5** | **9.7** | **0.0** | **-149.3** |
| | **1.3** | **-23.3** | **-138.0** | **40.3** | **0.1** | **-275.7** |
| | 1.2 | -17.4 | -44.4 | 9.6 | 0.1 | -152.6 |
| | 0.1 | -5.9 | -93.2 | 26.7 | 0.0 | -117.6 |
| | 0.0 | 0.0 | -0.5 | 4.0 | 0.0 | -5.5 |
| | **44.3** | **-60.7** | **-233.6** | **77.4** | **3.7** | **-689.3** |
| | 6.2 | -1.7 | 0.0 | 16.2 | 0.0 | 0.0 |

EUR m

| | Disposals | Depreciation charge for the year | Impairment | Other changes | Write-ups | Cumulative depreciation 31.12.2012 |
|---|---|---|---|---|---|---|
| | **51.7** | **–8.6** | **–3.8** | **9.5** | **0.0** | **–106.5** |
| | **53.4** | **0.0** | **0.0** | **0.0** | **0.0** | **–1.1** |
| | **–2.5** | **–6.9** | **–3.8** | **–0.1** | **0.0** | **–95.7** |
| | 0.1 | –6.9 | 0.0 | 1.0 | 0.0 | –57.7 |
| | –2.6 | 0.0 | –3.8 | –1.1 | 0.0 | –38.0 |
| | **1.0** | **–1.7** | **0.0** | **9.6** | **0.0** | **–8.9** |
| | **–0.1** | **0.0** | **0.0** | **0.0** | **0.0** | **–0.8** |
| | **16.1** | **–25.8** | **–17.1** | **–11.6** | **0.0** | **–259.1** |
| | **5.2** | **–10.6** | **–16.7** | **–11.3** | **0.0** | **–127.7** |
| | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | –0.2 |
| | 5.2 | –10.6 | –16.7 | –11.3 | 0.0 | –125.6 |
| | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | –1.9 |
| | **10.9** | **–15.2** | **–0.3** | **–0.3** | **0.0** | **–131.4** |
| | **7.5** | **–16.0** | **–25.0** | **–10.3** | **3.0** | **–156.5** |
| | 5.1 | –15.7 | –7.9 | –11.2 | 0.3 | –102.0 |
| | 2.4 | –0.3 | –12.0 | 0.9 | 0.5 | –45.4 |
| | 0.0 | 0.0 | –5.0 | 0.0 | 2.2 | –9.0 |
| | **75.3** | **–50.3** | **–45.8** | **–12.4** | **3.0** | **–522.0** |
| | 1.4 | –1.3 | 0.0 | 0.5 | 0.0 | –20.8 |

## (73) Assets classified as held for sale

On 31 December 2013, 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 doo, the Croatian Real Estate Project "Skiper" and an Eastern European leasing unit. It is considered very likely that these companies will be sold in the next twelve months. In the segment report, the GRAND HOTEL LAV doo hotel, assets of the "Skiper" real estate project consisting of hotel mansions and residential complexes and assets from the leasing unit are displayed under the asset segment resolution.

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Loans and advances to credit institutions | 1.2 | 0.0 |
| Loans and advances to customers | 29.7 | 0.0 |
| Impairment on financial instruments – at cost (risk provision) | –25.9 | 0.0 |
| Other financial investments (investment properties) | 1.0 | 0.0 |
| Tangible assets | 46.9 | 0.0 |
| Tax assets | 0.3 | 0.0 |
| Other assets | 44.2 | 0.0 |
| **Total** | **97.5** | **0.0** |

The SEE network sale process has already started; however, there is no reporting under IFRS 5 yet as not all the criteria required under IFRS 5 have been met. For more detailed information, please refer to note (6) Discontinued operations.

## (74) Other assets

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Deferred income** | **38.1** | **55.7** |
| **Other assets** | **650.5** | **774.0** |
| Assets used for operate lease | 82.0 | 112.9 |
| Real Estate (under construction, held for sale, emergency acquisition, repossessed assets) | 308.8 | 329.3 |
| Movables (leases to go and repossessed assets) | 100.7 | 122.7 |
| Prepayments | 1.6 | 2.3 |
| Value added taxes and other tax assets | 30.0 | 24.2 |
| Remaining not bank specific receivables | 75.5 | 122.2 |
| Other assets | 51.8 | 60.4 |
| **Total** | **688.6** | **829.7** |

Real estate and moveable assets include an amount of EUR 298.1 million whose book value was determined based on the fair value less costs to sell.

## (75) Liabilities to credit institutions

### 75.1. Liabilities to credit institutions – by type of business

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **To central banks** | **278.4** | **443.7** |
| **To other credit institutions** | **4,386.9** | **4,808.9** |
| Due on demand | 32.6 | 75.4 |
| Time deposits | 2,718.0 | 2,790.6 |
| Loans from banks | 654.8 | 770.4 |
| Money market securities | 951.2 | 1,138.2 |
| Other liabilities | 30.3 | 34.1 |
| **Total** | **4,665.3** | **5,252.5** |

### 75.2. Liabilities to credit institutions – by region

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Austria | 74.2 | 290.8 |
| Central and Eastern Europe (CEE) | 493.1 | 530.2 |
| Other countries | 4,098.0 | 4,431.5 |
| **Total** | **4,665.3** | **5,252.5** |

Liabilities to credit institutions include liabilities designated at fair value through profit or loss in the amount of EUR 289.8 million (2012: EUR 318.2 million) – see note (121) Assets designated at fair value and financial liabilities.

## (76) Liabilities to customers

### 76.1. Liabilities to customers – by type of customer

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Saving deposits** | **537.0** | **1,414.6** |
| **Demand and time deposits** | **5,583.9** | **6,991.2** |
| from public sector | 348.2 | 555.8 |
| from corporate clients | 2,706.6 | 3,350.7 |
| from retail clients | 2,529.2 | 3,084.7 |
| **Total** | **6,120.9** | **8,405.9** |

### 76.2. Liabilities to customers – by region

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Austria | 63.7 | 1,445.2 |
| Central and Eastern Europe (CEE) | 3,997.3 | 4,489.2 |
| Other countries | 2,059.9 | 2,471.5 |
| **Total** | **6,120.9** | **8,405.9** |

Liabilities to customers include liabilities designated at fair value through profit or loss in the amount of EUR 9.2 million (2012 adjusted: EUR 139.3 million) – see note (121) Assets designated at fair value and financial liabilities.

## (77) Liabilities evidenced by certificates

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Issued bonds | 9,183.0 | 12,875.1 |
| Liabilities issued by the "Pfandbriefstelle" | 1,196.2 | 1,960.0 |
| Other liabilities evidenced by certificates | 16.6 | 0.7 |
| **Total** | **10,395.8** | **14,835.8** |

Liabilities evidenced by certificates include liabilities designated at fair value through profit or loss in the amount of EUR 371.9 million (2012 adjusted: EUR 390.2 million. ) – see note (121) Assets designated at fair value and financial liabilities.

## (78) Derivative financial instruments

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Negative market value of derivative financial instruments – trading | 11.2 | 31.0 |
| Negative market value of derivative financial instruments – banking book | 766.0 | 750.9 |
| **Total** | **777.3** | **781.9** |

## (79) Provisions

### 79.1. Provisions in detail

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Pensions | 7.0 | 12.0 |
| Severance payments | 8.6 | 18.3 |
| Provisions for anniversary payments | 1.0 | 2.1 |
| Provisions for credit commitments and guarantees | 42.1 | 26.0 |
| Restructuring provisions as per IAS 37.70 | 14.2 | 10.3 |
| Other provisions | 118.6 | 59.4 |
| **Total** | **191.5** | **128.1** |

The development of provision for credit commitments and guarantees is shown in note (61) Risk provisions on loans and advances and provisions for credit risk.

In the 2013 financial year, restructuring provisions were formed by those companies within Hypo Alpe Adria which, in the wake of the EU procedure, were designated as wind-down unit and are legally obliged to pay severance. The bulk of the restructuring reserves is expected to be reduced by 2017.

The item other provisions shows provisions related to potential penalty payments, consulting and legal costs, tax proceedings and other miscellaneous provisions. The provisions are for the most part short-term in character, with the exception of employee benefit provisions.

## 79.2. Provisions – developments in the present value of pension and severance provisions and plan assets

The development of the present value of pension and other benefit obligations are displayed below. The data was summarised on the grounds of non-materiality.

EUR m

| | 2013 | 2012 |
|---|---|---|
| **Present value of employee benefit obligation as at 1.1.** | **30.3** | **26.7** |
| + Current service costs | 0.7 | 0.2 |
| + Interest costs | 0.4 | 1.1 |
| +/- Actuarial gains/losses | –0.1 | 5.0 |
| +/- Actuarial gains/losses arising from changes in demographic assumptions | –0.1 | –0.3 |
| +/- Actuarial gains/losses arising from changes in financial assumptions | –0.3 | 3.4 |
| +/- Actuarial gains/losses arising from experience assumptions | 0.3 | 1.9 |
| + Contributions to the plan – (employer) | 0.1 | 0.1 |
| - Payments from the plan | –2.2 | –2.0 |
| - thereof amount paid in respect of any settlements | 0.1 | 0.0 |
| +/- Other changes | –13.4 | –0.8 |
| **Present value of employee benefit obligation as at 31.12.** | **15.8** | **30.3** |

Changes in pension and other benefit obligations due to the sale of Hypo Alpe-Adria-Bank AG (Austria) are included in other changes.

The development of plan assets as at 31 December 2013 is as follows:

EUR m

| | 2013 | 2012 |
|---|---|---|
| **Fair Value of plan assets as at 1.1.** | **0.0** | **0.0** |
| + Interest income on plan assets | 0.0 | 0.0 |
| +/- Other changes | 0.2 | 0.0 |
| **Fair Value of plan assets as at 31.12.** | **0.2** | **0.0** |

For the most important parameters, a sensitivity analysis is displayed in the following table:

EUR m

| Assumptions | Discount rate | | Salary increases | | Benefit increases | | Mortality rate 31.12.2013 | |
|---|---|---|---|---|---|---|---|---|
| Scenario | Increase by 0.5 % | Decrease by 0.5 % | Increase by 0.5 % | Decrease by 0.5 % | Decrease by 0.5 % | Decrease by 0.5 % | Increase by 1 year | Decrease by 1 year |
| Retirement benefits | –0.2 | 0.6 | 0.0 | 0.0 | 0.6 | –0.1 | 0.6 | –0.1 |
| Severance payment | –0.3 | 0.3 | 0.2 | –0.3 | 0.0 | 0.0 | 0.0 | 0.8 |

In performing the sensitivity analysis, the following actuarial assumptions were considered significant and calculated with the following margins:

- pension provision: discount rate + / - 0.5 % pension increase + / - 0.5 %, life expectancy + / - 1 year
- provision for severance payments: discount rate + / - 0.5 % salary increase + / - 0.5 %

The sensitivity analysis of life expectancy was facilitated by a shift in the average life expectancy for all components of each plan.

The defined benefit obligation is expected to result in the following payments in the upcoming years:

EUR m

| | 2013 | 2012 |
|---|---|---|
| Within the next 12 months | 1.3 | 2.7 |
| From 2 to 5 | 3.5 | 6.8 |
| From 5 to 10 | 3.9 | 7.8 |
| Over 10 years | 4.2 | 4.2 |
| **Total expected benefit payment** | **12.8** | **21.5** |

The average maturity of the defined benefit obligation for Hypo Alpe-Adria-Bank International AG amounts to nine years as at 31 December 2013 (2012: 10 years).

### 79.3. Provisions – development of other provisions

The development of other provisions in the year under review was as follows:

EUR m

| | Carrying amount 1.1.2013 | Foreign-exchange-differences | Allocations | Use | Releases | Other changes | Carrying amount 31.12.2013 |
|---|---|---|---|---|---|---|---|
| Provisions for anniversary payments | 2.1 | 0.0 | 0.1 | 0.0 | –0.1 | –1.1 | 1.0 |
| Restructuring provisions (IAS 37.72) | 10.3 | 0.0 | 14.0 | –9.3 | –0.4 | –0.4 | 14.2 |
| Other provisions | 59.5 | –0.1 | 177.7 | –100.4 | –6.4 | –11.6 | 118.6 |
| **Total** | **71.8** | **–0.2** | **191.9** | **–109.7** | **–6.8** | **–13.1** | **133.8** |
| thereof discontinued operations | 9.9 | 0.0 | 2.9 | –4.6 | –0.4 | –7.8 | 0.0 |

Other provisions largely pertain to reserves set aside for litigation costs totalling EUR 35.2 million concerning companies in Italy. Accruals were made for yet to be distributed reimbursements in connection with interest rate adjustments which had been incorrectly passed on to customers. Furthermore, the other remaining reserves contain provisions for litigation and advisory costs, particularly in the context of cleaning up the past as well as provisions for potential penalties in accordance with paragraph 97 (1) of the Austria Banking Act (BWG) in the amount of EUR 22.9 million (2012: EUR 5.6 million) and other contractual penalties in the amount of EUR 4.0 million (2012: EUR 2.0 million).

EUR m

| | Carrying amount 1.1.2012 | Foreign-exchange-differences | Allocations | Use | Releases | Other changes | Carrying amount 31.12.2012 |
|---|---|---|---|---|---|---|---|
| Provisions for anniversary payments | 2.0 | 0.0 | 0.4 | 0.0 | 0.0 | –0.3 | 2.1 |
| Restructuring provisions (IAS 37.72) | 15.6 | –0.1 | 6.9 | –5.7 | –10.3 | 3.9 | 10.3 |
| Other provisions | 91.3 | –1.1 | 37.6 | –40.1 | –26.5 | –1.8 | 59.4 |
| **Total** | **108.9** | **–1.1** | **44.9** | **–45.9** | **–36.8** | **1.8** | **71.8** |
| thereof discontinued operations | 15.7 | 0.0 | 4.6 | –7.4 | –3.0 | 0.0 | 9.9 |

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

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Liabilities to credit institutions | 2.2 | 0.0 |
| Provisions | 0.2 | 0.0 |
| Tax liabilities | 0.2 | 0.0 |
| thereof current tax liabilities | 0.2 | 0.0 |
| thereof deferred tax liabilities | 0.0 | 0.0 |
| Other liabilities | 3.0 | 0.0 |
| **Total** | **5.6** | **0.0** |

## (81) Other liabilities

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Deferred expenses | 60.7 | 206.7 |
| Accruals und other obligations | 212.0 | 220.9 |
| **Total** | **272.7** | **427.6** |

## (82) Subordinated capital

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Subordinated liabilities | 1,914.4 | 1,956.6 |
| Supplementary capital | 0.4 | 0.7 |
| **Total** | **1,914.8** | **1,957.3** |

Among the subordinated liabilities or in supplementary capital, are liabilities designated at fair value through profit or loss in the amount of EUR 28.2 million (2012: EUR 27.3 million) – see also note (121) Assets designated at fair value and financial liabilities. The use of subordinated capital is described in note (131) Use of subordinated capital.

## (83) Hybrid capital

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Hybrid capital | 1.2 | 6.0 |
| **Total** | **1.2** | **6.0** |

Hybrid capital includes liabilities designated at fair value through profit or loss in the amount of EUR 1.2 million (2012: EUR 6.0 million) – see also note (121) Assets designated at fair value and financial liabilities.

## (84) Equity

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Attributable to equity holder of the parent** | **1,341.1** | **1,447.6** |
| Issued capital* | 1,669.1 | 969.1 |
| Participation capital | 1,139.5 | 339.5 |
| Additional paid-in capital | 250.0 | 0.0 |
| Available for sale reserves | –27.3 | –43.1 |
| Foreign currency translation | –104.2 | –95.7 |
| Retained earnings (including net consolidated income) | –1,586.0 | 277.7 |
| **Non-controlling interest** | **517.7** | **520.9** |
| **Total** | **1,858.8** | **1,968.4** |

*To improve the display of information, non-voting capital will be reported in a separate column as at 2013.The previous year was adjusted accordingly.

Issued capital is based on separate financial statements issued by Hypo Alpe-Adria-Bank International AG under UGB/BWG as at 31 December 2013. This includes EUR 1,669.1 million (2012: EUR 969.1 million) in share capital of Hypo Alpe-Adria-Bank International AG which has been split up into 682,536,752 (2012: 396,288,732) voting bearer shares. The development of the share capital is as follows:

in EUR

| | Subscribed capital | Number of shares |
|---|---|---|
| **As at 1.1.2012** | **469,097,049.29** | **191,825,860** |
| Ordinary capital increasing with effective 20.12.2012 | 499,999,999.71 | 204,462,872 |
| **As at 31.12.2012** | **969,097,049.00** | **396,288,732** |
| Ordinary capital increasing with effective 27.9.2013 | 699,999,997.64 | 286,248,020 |
| **As at 31.12.2013** | **1,669,097,046.64** | **682,536,752** |

In the extraordinary shareholders' meeting on 23 July 2013 and/or on 12 September 2013, shareholders approved an increase in the company's share capital by issuing new bearer shares. The resolution also intends for the new shares to be issued at the pro rata amount of share capital (excluding share premium. The sole shareholder (Republic of Austria) has the subscription right for newly issued shares.

In addition, on 29 November 2013, the sole shareholder (Republic of Austria) made a shareholder contribution in the amount of EUR 250.0 million to the capital reserves of Hypo Alpe-Adria-Bank International AG.

At the general shareholders' meeting of 13 December 2013, the Executive Board was authorized to issue non-voting capital shares up to a nominal amount of EUR 800.0 million which were subscribed to by the sole purchaser, the Republic of Austria. As a result, on the balance sheet date as at 31 December 2013, the non-voting capital shares subscribed to by the Republic of Austria amounted to EUR 1,075.1 million (2012: EUR 275.1 million).

The available-for-sale reserves include negative available-for-sale reserves in the amount of EUR -40.4 million.

### (85) Statement of cash flows

The statement of cash flows as defined in IAS 7 shows the change in cash and cash equivalents through cash flows from operating activities, investment activities and financing activities.

The cash flow from operating activities at Hypo Alpe Adria includes cash inflows and outflows as a result of loans and advances to credit institutions and customers, from liabilities to credit institutions and customers as well as liabilities evidenced by certificates. Changes in trading assets and liabilities are also included as are cash flow from received dividends and income taxes.

The cash flow from investing activities is recorded for payments for and receipts from securities and participations, intangible and tangible assets and receipts from selling/payments made for the acquisition of subsidiaries.

The cash flow from financing activities shows payments made and received for equity and subordinated capital. Capital increases, dividend payments and changes in subordinated capital are covered by this item.

The cash and cash equivalents include the balance sheet item cash and balances at central banks, which covers cash on hand and balances with central banks which are due on demand.

The relevance of the statement of cash flows for banks is considered low. Hypo Alpe Adria, therefore, does not use it as an instrument of management.

## Risk report

### (86) Risk strategy, control and monitoring

Hypo Alpe Adria controls and monitors its risks across all business segments, with the aim of optimising its risk/performance profile and ensuring the ability to bear risks at any time, thus protecting the bank's creditors. In doing so, it influences the business and risk policies of its strategic participations and other participations through its involvement in shareholder and supervisory committees. In the case of group strategic and other participations, compatible risk control processes, strategies and methods are implemented.

The following central principles apply to the overall controlling process in Hypo Alpe Adria:

- Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants are aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest in accordance with the Minimum Requirements for Risk Management (FMA-MSK) and the Austrian Banking Act (BWG).
- The group determines and implements appropriate, mutually compatible procedures for the purpose of identifying, analysing, measuring, combining, directing and monitoring the different risk types.
- Appropriate limits are set and effectively monitored for material risk types.

### (87) Risk organisation and Internal Audit

Ensuring adequate risk management and controlling structures and processes is the responsibility of the group's Chief Risk Officer (CRO), who is a member of the Hypo Alpe Adria Executive Board and acts independently of market and trading units with a focus on the minimum requirements for risk management as well as appropriate internal controls.

The core tasks of risk management are the individual risk management of counterparty risks; the rehabilitation of problem loans; monitoring the credit-granting process; and risk controlling and monitoring of counterparty, market, liquidity and operational risks as well as other risks at portfolio level. The CRO is also responsible for monitoring the risk-bearing capacity and directing the risk capital that is required from an economic and regulatory point of view.

The Risk Office is an integral part of the Group Risk Governance Rules of Hypo Alpe Adria and consists of four pillars. This concept is cascaded – in other words, the four-pillar principle is implemented consistently – both at group and local levels. The respective Country CROs must ensure compliance with the risk principles among all subsidiaries situated in the country.

The Risk Control pillar includes the following main functions:

- Identifying risks
- Determining risk policy guidelines and limits
- Providing risk methods and models
- Performing risk analysis, mitigation and monitoring and risk reporting

The Credit Management pillar includes the following main functions:

- Balance sheet analysis and implementing ratings
- Credit monitoring
- Credit support
- Country risk portfolio management
- Controlling and reporting retail risks
- Credit underwriting

The Credit Rehabilitation pillar includes the following main functions:

- Restructuring transactions
- Work-out transactions
- Loan loss provision calculation (tool/rules)

The Credit Processing pillar includes the following main functions:

- Loan and collateral administration
- Justifying, monitoring and managing collaterals
- Carrying out back office activities
- Compiling a group of borrowers pursuant to BWG

The Risk Quality Assurance Team ensures the qualitative and practical implementation of group specifications/policies at a local level and regularly reports on events to the Chief Risk Officer.

Within the Executive Board, the Chief Financial Officer (CFO) is responsible for monitoring adherence to regulatory equity requirements. Hypo Alpe Adria has separated the CFO and CRO functions.

The Audit division is a permanent function that audits the business activities of Hypo Alpe Adria. In terms of organisation, it reports to the Chairman of the Executive Board and also reports in detail to the Supervisory Board. Auditing activities are based on a risk-oriented audit approach, and generally cover all activities and processes of Hypo Alpe Adria. This area carries out its tasks independently of the tasks, processes and functions to be audited, and in consideration of the applicable statutory and regulatory requirements.

### (88) Internal risk management guidelines

Hypo Alpe Adria states its group-wide standard risk management guidelines in the form of risk guidelines to ensure that risks are dealt with in a standardised manner. These guidelines are promptly adjusted to reflect organisational changes as well as changes to parts of the regulations such as processes, methods and procedures. The existing regulations are assessed at least once a year with regard to the need for updating. This ensures that the actual and documented processes coincide at all times.

In 2013, a major change took place in terms of the risk strategy. In order to highlight the relevance of liquidity risk steering, a separate liquidity risk strategy was developed.

Hypo Alpe Adria has clearly defined responsibilities for all of these risk guidelines, ranging from preparation, review and update to the roll-out to the subsidiaries. Each of these guidelines must be implemented on local level by the subsidiaries and adjusted to local conditions. Compliance with these guidelines is ensured by instances directly involved in the risk management process. Process-independent responsibility is carried by the Risk Quality Assurance Team and Internal Audit.

Hypo Alpe Adria therefore has fully comprehensive and up-to-date internal risk management guidelines.

## (89) Projects

Further progress was made in the restructuring of Hypo Alpe Adria in the financial year 2013 as a result of a number of different project activities. In the Lux project (see the group management report, chapter "Project concerning disposal possibilities for the wind-down unit"), institutional structure and participation models were defined and analysed for the group. The aim of the Alpe project was to establish a target operating model for asset resolution and the dissolution of the operations of the SEE network and wind-down units. In the Adria project, preparations were made for the reprivatisation of the SEE network, while the Hypo Alpe-Adria-Bank AG (HBA) Carve Out project involved the operating dissolution of the already sold Hypo Alpe-Adria-Bank AG from Hypo Alpe-Adria-Bank International AG.

### 89.1. Alpe project

The aim of the Alpe project was to create an efficient asset resolution platform that covers all Hypo Alpe Adria portfolios intended for wind-down. For this purpose, a target operating model was designed for the asset resolution which was split into group and local units and tasks. At group level, the organisation was focused on wind-down tasks on the one hand and on the steering of the SEE network on the other.

In countries not part of the SEE network, in which there are no Hypo Alpe Adria bank participations, independent asset resolution companies are already operating within HETA Asset Resolution GmbH, which acts as an interim holding company for all asset resolution companies. In 2013, companies in the five core countries, that is Bosnia and Herzegovina, Croatia, Montenegro, Serbia and Slovenia, allocated to the wind-down portfolio were still closely integrated on an operative basis with the banks and leasing companies in the SEE network that were earmarked for reprivatisation. This integration was reflected in a large number of mutual services and a common IT infrastructure. The purpose of the Alpe project was to conceive and implement the dissolution of units from SEE network and wind-down units on the basis of the defined target operating model. Organisational implementation was predominantly completed as at 1 January 2014, while the separation of the IT infrastructure will be completed by the end of the third quarter of 2014.

### 89.2. HBA Carve Out project

The aim of the HBA Carve Out project was the operational dissolution of Hypo Alpe-Adria-Bank AG from Hypo Alpe-Adria-Bank International AG and constituted an important preparatory step for its sale. The objective was to completely separate mutual services and create two autonomous companies that are completely independent from one another.

The separation of subjects into 23 specialist concepts during the programme was implemented in two projects, one based in each bank. Each of these specialist concepts included an individual implementation plan that was controlled primarily within the scope of the respective project and coordinated via the programme depending on the five group themes of IT, contracts, facility management, data separation and participations. A standardised structure within the individual concepts permitted overarching monitoring to programme level. The dissolution was completed for all concepts on schedule with the closing of the transaction on 19 December 2013. Further services required beyond this date are regulated by service level agreements until mid-2014.

## (90) Measures to improve risk management

### 90.1. Development of provisions

#### 90.1.1. METHOD OF CALCULATING PROVISIONS:

As part of the calculation of specific risk provisions, the underlying credit exposure is subject to an individual analysis in accordance with provision calculation regulations. In this calculation, payments from a company's operating business (primary cash flows) and from the liquidation of collaterals and non-core assets (secondary cash flows) are taken into consideration. Depending on the assumed default scenario (restructuring or liquidation), expected payments are assessed individually in terms of amount and time, the underlying assumptions are documented and justified on a case-by-case basis and expected cash flows are discounted to the net present value according to the effective rate of interest and offset against the outstanding current exposure.

In terms of the calculation of recovery cash flows from real estate, Hypo Alpe Adria bases its assumptions on the collateral's market value, which is updated annually in commercial real estate business. Any haircuts are measured on the real estate depending on the determined usability and based on a variety of factors such as market liquidity, location, recovery period and legal situation.

90.1.2. INCREASE OF PROVISIONS:
In 2013, there was a significant rise in provisions at Hypo Alpe Adria. The bank took into account the continued problematic market environment by adding additional impairment write-downs on loans and advances of EUR 1.35 billion. Provision effects reached a significantly high level in 2013 and are largely the result of the following factors:

The SEE credit portfolio had to be subjected to a radical clean-up to ensure that the SEE network banks could be privatised in the limited time available under the EU ruling from September 2013. This concerned the corporate loan portfolio, with further problematic portfolio components being moved to the wind-down portfolio. Provisions were also increased due to the planned sale of part of the NPL retail loan portfolio (debt sale) overdue by more than 180 days. These measures have brought and will continue to bring the loan to deposit ratios (LTD) and the SEE network bank's NPL ratios close to privatisation benchmarks.

The transfer of Hypo Alpe-Adria-Bank S.p.A. into the wind-down business portfolio and the resulting discontinuation of business including portfolio restructuring required increased provisions for the NPL portfolio in regard to the continuing economic crisis in Italy. The wind-down plan commissioned by the European Commission for the primary funds of Hypo Alpe-Adria-Bank S.p.A. meant that the reduction of assets in the Italian subsidiary units needed to take place as soon as possible so as to ensure that the impact on Hypo Alpe-Adria-Bank International AG from the securing of liquidity for Hypo Alpe-Adria-Bank S.p.A. remained within contractual limits. The provisions were also in line with the results of the audit by Banca d'Italia.

The monitoring of restructuring cases saw the increased occurrence of factors requiring a revision of the underlying customer strategy, as negative economic development in Hypo Alpe Adria markets caused original restructuring concepts to not longer be deemed valid ("failed restructurings"). Part of the need for provisions is also related to the further decline in the value of collaterals.

90.1.3. DEVELOPMENT OF THE COVERAGE RATIO
The considerable increase in provisions in 2013 was also reflected in the coverage ratio, which increased over the course of the year from 34.4% to 44.3% (total risk provisions (see note (61.1) Risk provisions on loans and advances and provisions for credit risk – development during the year) plus Phoenix guarantee of EUR 182 million divided by NPLs (see note (93.5) Exposure by rating class)). Especially due to the planned sale of a part of the NPL retain loan portfolio, the coverage ratio was able to be increased considerably in 2013 on account of a change to the SRP collective impaired algorithm (specific provisions by statistical method) in retail, private individuals (PI) and SME portfolio.

90.1.4. SHORTFALL – COMPARISON OF EXPECTED LOSSES WITH RISK PROVISIONS
In accordance with the calculations carried out on behalf of Hypo Alpe Adria group as at 31 December 2013 based on the requirements of the JRAD II process (initial compliance as at 31 December 2013), the expected loss from credit risk stands at EUR 4.55 billion. Of this amount, EUR 4.08 billion is attributable to the NPL portfolio and EUR 0.47 billion to the performing loan (PL) portfolio, although these are offset by existing provisions in accordance with UGB of EUR 4.1 billion. These provisions are composed of specific provisions of EUR 4.02 billion and portfolio provisions of EUR 0.08 billion. Including the provisions not to be considered on account of the EUR 200 million (nominal) guarantee agreement ("Phoenix") concluded with the Republic of Austria in 2010 ("hedged" value of loans and advances of EUR 0.18 billion), then the overall shortfall for credit risk stands at EUR 0.27 billion.

Analysing the NPL portfolio separately from the PL portfolio shows that the expected loss (EL) in the NPL portfolio of EUR 4.08 billion is already covered to a sufficient extent by existing specific provisions and the "Phoenix" guarantee totalling EUR 4.21 billion and that, on account of the surplus coverage of EUR 0.13 billion, there is no shortfall in this non-performing part of the portfolio.

The EL for the SEE group stands at EUR 0.77 billion as at the reporting date 31 December 2013. This is offset by provisions totalling EUR 0.58 billion, resulting in a shortfall of EUR 0.19 billion. The EL in the NPL portfolio comes in at EUR 0.53 billion. This is offset by provisions of EUR 0.53 billion, meaning that there is no shortfall in the NPL portfolio.

**90.2. New business requirements in the context of the EU proceeding**
On 3 September 2013 (see also note (129.1) EU proceeding), the European Commission announced its final decision to Hypo Alpe Adria and determined the final behavioural measures for new business and existing business (performing and non-performing loans) in the respective segments of the marketable, non-privatised units. The purpose of these behavioural measures is, among other things, to limit collateral and profitability terms, ratings and minimum requirements when granting new loans or when prolonging or restructuring existing loans. Furthermore, the part of Hypo Alpe Adria to be divested may no longer grant new loans. Already existing loans may be prolonged or restructured under specific circumstances.

On behalf of the European Commission, the bank has commissioned a Monitoring Trustee to monitor these behavioural measures and the requirements for Hypo Alpe Adria's wind-down portfolio. This Monitoring Trustee will report to the European Commission on a quarterly basis. A tool and process were implemented enabling each and every risk-relevant transaction conducted by the group to be reported and assessed for compliance with the behavioural measures in order to satisfy the extensive reporting requirements for the Monitoring Trustee. Furthermore, the reporting system for the wind-down portfolio was expanded to include non-financial assets and rolled out in the group on a step-by-step basis (implementation set to be concluded over the course of 2014). The monitoring of individual transactions is largely the responsibility of the Credit Management units and the Rehabilitation/Work-out units of the respective subsidiary units, in cooperation with Local/Group Credit Risk Control. The results are given to the Monitoring Trustee on a quarterly basis, who subsequently reviews them. This information serves as a basis for the Monitoring Trustee's report to the European Commission.

### 90.3. Risk Academy

The Hypo Alpe Adria Risk Academy was set up with the aim reaching the high standards of a "state-of-the-art" risk management system and giving employees in the Hypo Alpe Adria Risk divisions access to high-quality and above all risk-specific training.

Due to the technical knowledge gained of the bidding procedure, a tender was started in 2012. From the 13 providers that entered bids, five were invited to personally present their offers. The documents and presentations soon showed that the very wide range of requirements within the Risk Office could not all be met by just one provider. As a result and after an intensive selection process, Risk Reward Ltd. was selected as the main vendor. In addition, agreements for sub-areas were concluded with training partners GTIS, Unicredit Bank Austria/Financial Analysts and CMS Reich-Rohrwig-Hainz Rechtsanwälte GmbH. In contrast to the original plan, these do not act as sub-vendors to Risk Reward Ltd., but rather as separate contractual partners of Hypo Alpe Adria.

The following six job roles were defined for the Risk Office and assigned Key Risk Competences (KRC):

- Credit Risk Controller
- Market Risk Controller
- Credit Underwriter
- Retail Risk Manager
- Rehabilitation Manager
- Credit Processing Manager

Based on these job roles and KRC, framework conditions were worked out with the main vendor, consisting of the following criteria:

- Each job role has three training stages (levels 1, 2 and 3) and each stage of training consists of 15 days; these are to be split between the main and sub-vendors depending on the topic.
- The training course programme consists of 93 separate courses, 80 of which are managed by Risk Reward Ltd., ten by GTIS, two by CMS and one by Bank Austria.
- Each level has three groups of courses and each course ends with a test which needs to be passed before the next course can be taken.
- Each level ends with a test; by passing this test the participant receives a certificate for the level in question.

Since the launch of the "Hypo Risk Academy", a total of 124 courses have taken place (between February 2013 and December 2013) and 860 employees have been trained over the course of 1,800 man-days.

In 2014, the course programme, which was originally planned with the Risk Reward training institute, is to be consolidated and courses covering the same or similar content will be pooled together, with others being cancelled if only a small number of employees were being trained. Instead of covering 80 courses, the new programme will now cover 45. Under the new concept, employees will by trained over the course of 2,900 man days on 140 separate course days.

In addition, the final exam concept, with one exam per job role and level, has been replaced by certification for every participant after completion of each course. Employee registration for the PRMIA test is unaffected by this.

### 90.4. Basel III – credit risk

Due to the final guidelines –the final version published on 27 June 2013 (amended on 30 November 2013) and the corresponding national regulations (CRR-BV – BGBLA_2013_II_425 dated 11 December 2013) are available by now – and the final Implementing Technical Standards (ITS) of Basel III, there have been changes and additional requirements with regard to credit risk and to reporting and equity requirements.

The new definitions of certain receivables classes require an assessment and/or adjustment in the classifications of receivables. National option rights are removed almost entirely to create a "maximum harmonisation approach".

With regard to the definition of default, defaulted receivables are determined with an approach for each customer (approach based on internal ratings) instead of on account level (standard approach) as it was done previously.
An exception exists for retail exposures, where the definition of losses may be applied to individual loans rather than the borrower's total liabilities.
From a regulatory point of view, this leads to an increase in defaulted receivables at Hypo Alpe Adria.

To meet the requirements of the new Basel III regulations, a project was launched internally as well as within the IT provider. Currently, efforts are focused on testing technical implementation and reviewing calculation logic with regard to the final guidelines and the final ITS. A major change in this respect in 2013 concerns the clarification of the underlying accounting standards. With the exception of first-time users of IFRS (International Financial Reporting Standards), groups have to align reports with IFRS values until 1 January 2014, whereby single institution reports will still have to be submitted on the basis of the Austrian Commercial Code (UGB). Technical implementation in the general data centre was adapted, and data provision to the group data pool is to be expanded to include IFRS values. In order to define own capital funds, an additional internal project was started with external consultancy.

### 90.5. Basel III – liquidity risk and liquidity risk management

The greatest challenges in liquidity risk management in 2013 were the professional integration and group-wide implementation of the provisions 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 met as a result of the recent expansion of the IT infrastructure, which ensures a quality-assured and automated data supply. Hypo Alpe Adria also took part in the Quantitative Impact Study (QIS study) in 2013, in which key figures for the LCR and NSFR were submitted to the EBA.

In order to take into consideration the significance of the new liquidity risk management requirements, a separate liquidity risk strategy was rolled out group-wide in 2013 to complement the existing risk strategy. The liquidity modelling forecasts are subject to continual further development and are validated and back tested with the help of statistical methods.

The target for 2014 is to successfully implement the reporting of LCR and NSFR on the basis of the ITS and establish forecast calculation capabilities. 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 expanded to include all of 2014 for this purpose.

The milestones achieved in 2013 and the initiatives planned for 2014 mean that Hypo Alpe Adria meets both qualitative and quantitative requirements of the EBA and the Oesterreichische Nationalbank (OeNB) / Austrian Financial Markets Authority (FMA).

### 90.6. Ongoing evaluation of real estate collateral and other collaterals

The "Collateral Management Policy" and the "Collateral & Collateral Monitoring Manual" stipulate the management of all collaterals at Hypo Alpe Adria. The regulations of these guidelines are binding for all subsidiaries. Country-specific adjustments have to be made in the local manuals, whereas minimum standards and maximum securitisation values may only be deviated from if the stated values are stricter than the original ones. All guidelines are updated once a year.

The foundation of group collateral management, which is implemented by its own department within "Group Credit Processing", are built on the data collection of all collaterals by the system by allocating a reference number to each collateral. This reference number is alphanumerical and is called GSI (Group Collateral ID) or DSI (Detail Collateral ID). All GSI / DSI are checked once a month for the entire group. The data quality of the GSI / DSI assigned to all collaterals regularly comes to 99%. As at 31 December 2013, 858,748 GSI / DSI were valid, divided into the following collateral categories: Cash Collateral, Guarantees, Real Estate Mortgages, Moveables, Rights/Receivables, Insurances and Others.

Real Estate collaterals account for 71.2% (71% in 2012) of collaterals internally reported as recoverable; the remaining recoverable collaterals are split between Guarantees (15.0%, 2012: 16.9%), Moveables (9.1%) and Others (4.7%, 2012: 5.6%).

The group-wide steering of real estate pledged as collateral is of crucial importance as the total market value of all 74,949 properties is EUR 20.3 billion (2012: EUR 25.4 billion), making up 54.6% (2012: 84,525 properties and 43%) of all existing market values and also providing 71.2% (2012: 71%) of all collaterals internally reported as recoverable. These are divided into 53,963 residential real estate (RRE) (2012: 59,545) with a market value of EUR 6.2 billion (2012: EUR 7.84 billion) and 20,986 (2012: 24,980) commercial real estate (CRE) with a market value of EUR 14.1 billion (2012: EUR 17.5 billion). The ongoing update of the appraisals on which the market values are based that is stipulated in the Solvency Regulations (SolvaV)

– every three years for RRE and once a year for CRE – applies to the whole group. As at 31 December 2013, 98.0% (2012: 99%) of all collaterals were up to date.

All commercial real estate with a market value above EUR 1.0 million is assessed individually, and all real estate is evaluated with the help of a valuation tool. A group-wide "collateral workflow" for commercial real estate worth more than EUR 1.0 million has been implemented. It ensures that the required process is maintained, which, in turn, ensures that all data is up to date. All evaluations are requested on the part of the market three months before revaluations are due. The specifically assigned evaluation unit – Commercial Real Estate Management (CREM) – carries out the revaluations / new valuations and transfers the results to the employees who maintain collaterals in the collateral systems. The CREM has well-trained employees, who all went through the "Valuation Academy". The appraisals are prepared on the basis of a precisely defined methodology that is stipulated as a binding rule in the "HAA Real Estate Valuation Standards" and the "HAA Collateral Valuation DB Manual".

The greatest of care is taken to ensure that market values remain up-to-date. The table below contains an overview of changes in market values from a dynamic perspective, in other words only real estate that was part of the portfolio for the whole of the respective calendar year was considered.

| | 12/2012-12/2013 | 12/2011-12/2012 |
|---|---|---|
| CRE | -4.1% | -6.6% |
| RRE | -3.0% | -4.5% |

The valuation rules ensure that the determined market values can be achieved in the case of actual liquidation scenarios.

The manuals mentioned above, especially the "Collateral & Collateral Monitoring Manual", also stipulate the reductions of market values underlying the securitisation values (Internal Collateral Value – ICV). The reductions on market values are binding for all collaterals recognised by the group and are set conservatively.

The haircuts defined in the Collateral & Collateral Monitoring Manual are considered conservative, but are retained for 2014.

The following chart shows the real estate market values that qualify for recognition in the group. All tourism properties, for instance, had a 50% haircut and industrial properties a 60% haircut.

| Category | Pledge/mortgage | Transfer of ownership/ building lease | Building on third-party land |
|---|---|---|---|
| Owner-occupied apartments and private houses | 70 | 70 | 60 |
| Construction land | 70 | 70 | |
| Commercial multi-storey dwellings | 70 | 70 | 60 |
| Office buildings | 60 | 60 | 50 |
| Tourism property | 50 | 50 | 40 |
| Agricultural properties | 60 | 60 | 50 |
| Undeveloped agricultural land | 60 | 60 | |
| Commercial properties | 60 | 60 | 50 |
| Undeveloped commercial land | 60 | 60 | |
| Public buildings | 50 | 50 | 40 |
| Industrial properties | 40 | 40 | 30 |
| Undeveloped industrial land | 40 | 40 | |
| Non-profit Housing | 70 | 70 | 60 |

The market values of all real estate with a market value of less than EUR 1.0 million are determined with a statistically validated electronic valuation tool. The "TnT" project further develops this statistical tool. It creates a local automated connection between the collaterals databases and the evaluation databases. The values determined by statistical methods are updated monthly, and the documented indices are adjusted every six months due to the collective nature of the data stored in the evaluation databases and external market information.

### 90.7. Development of rating procedures

The application rating in the SEE network previously used for all private Hypo Alpe Adria customers was replaced in the first half of 2013 with recently developed scorecards for private customers. The scorecards conform to the fundamental restructuring of the retail business, which now strives for short decision-making and lead times. Hypo Alpe Adria currently employs the following rating tools: corporate, small and medium enterprises, retail behaviour rating, expert, support, start-up, project finance, commercial real estate, municipalities, countries, insurances, banks and scorecards for private customers. The scorecards can also be used to make other product-specific decisions.

The procedures will be validated and improved as stipulated by the standards issued by the regulatory authorities. In accordance with the current validation plan, the retail behaviour rating, corporate and expert rating procedures were validated in the first half of 2013 and the rating procedure for small and medium enterprises was improved. The validation phase will result in a comprehensive validation report for each of the rating procedures. The elements and a detailed description of the process are described and regulated in the validation concept. In the second half of 2013, validation was carried out for commercial real estate and insurances. A number of tools are currently being improved in accordance with the results of the validation process.

### 90.8. Improving the financial statements analysis system and implementing enhanced analytical methods

In the first half of 2013 further improvements were made regarding the presentation and evaluation financial statements in the Group Credit Management division. Expanding the scope of IFRS to include additional key figures was reviewed and implemented by evaluating the existing infrastructure. The benefits of this development result from the enhanced reduction of risks on financial statements as the basis for risk-sensitive and uniform ratings.

The evaluation method used to present financial statements in the analysis tool (Allgemeines Rechenzentrum GmbH) was evaluated and expanded based on these specific requirements.

The focus was on developing binding regulations relating to the evaluation of financial statements pursuant to IFRS and similar reporting standards, with the aim of forming a sustainable picture of the assets, liabilities, financial position and profit or loss of our customers.

### 90.9. Adjusting risk parameters

The roll-out of the loss database, including automatic default recognition, was continued in the second half of 2013 and represents a further milestone towards automation and the establishment of an internal default history. The data gathered systematically will be used to improve the existing parameter estimates. In addition, methodical improvement of internal estimates continued in 2013. Regulatory parameters defined under paragraph 140 SolvaV are applied to internal risk-bearing capacity calculation. Internal estimates serve as comparable figures and are called upon in the benchmarking process.

### Cost of standard risk and own capital funds calculation

A variety of input parameters are used in the calculation of internal capital funds and the cost of standard risk and own capital funds. In 2013, the following changes took place in the calculation of cost of standard risk and capital funds:

- Use of regulatory recovery rates (unsecured LGDs) of 45% for all business segments in the cost of standard risk and capital funds calculation models. These recovery rates refer to a one-year forecast of losses from a customer following the liquidation of all income from collateral agreements and customer assets.
- Discontinuation of a fixed asset correlation of 0.15 and the implementation of a formula for asset correlation pursuant to paragraphs 74 and 75 SolvaV, consideration of expected loss in the formula for the calculation of regulatory capital in accordance with paragraph 74 SolvaV, introduction of an adjustment to terms in accordance with paragraph 74 SolvaV (for segments not part of private customer segments).
- Use of the JRAD I parameter (regulatory CCFs and LGDs) in the internal risk-bearing capacity calculations for credit risk (from October 2013).
- The CRR comes into force on 1 January 2014 and requires modifications to the IRB formula. In accordance with paragraph 153 (2), the correlation factor for risk positions to major companies in the financial industry and non-regulated finance companies must be multiplied by 1.25.

### 90.10. Adjustment of general risk provisions and general risk provisions collective impaired

In the second half of 2013, there was an adjustment of the general risk provisions method. For the retail portfolio in particular, it is logical to use a formula-based portfolio approach instead of individual analysis. The existing method was changed to the extent that the duration of the default is now considered as an additional variable. The longer a customer defaults for, the lower the recovery rate and the higher the LGDs. After a certain period of time in default, provisions are formed for the entire exposure.

### 90.11. JRAD – Joint Risk Assessment and Decision process

As at 31 December 2013, the requirements defined under JRAD II must be complied with at group level at Hypo Alpe Adria. These requirements stipulate a minimum capital ratio 12.4% and the covering of the shortfall (expected loss – risk provisions) through own capital funds. As a result of the capital injection on the part of the owner of EUR 250 million (November 2013) and the issuing of EUR 800 million (December 2013), the above requirements were able to be complied with.

On 9 April 2014, the resolution for a further capital increase of EUR 750 million was approved by the sole owner, the Republic of Austria.

Another JRAD analysis took place in 2013, however the results are not yet available.

### 90.12. Wind-down portfolio management

The comprehensive and value-preserving reduction of the existing wind-down portfolio from the business areas identified as non-strategic is a major prerequisite for the successful restructuring of Hypo Alpe Adria.

The wind-down strategy for the “Wind-Down Financials” and “Wind-Down Industrials” has been defined with the aim of keeping the value level as high as possible. A sale of partial portfolios or whole units at the best possible liquidation rates is, however, always viewed as a possible alternative. The parts of Hypo Alpe Adria’s business identified as wind-down cover both selected leasing companies, wind-down portfolios of individual banking institutions (Wind-Down Financials) as well as the non-strategic participations (Wind-Down Industrials).

The wind-down of the portfolio was consistently advanced and monitored by the responsible central units in 2013. In addition, existing bank and lease structures have been reorganised to improve the implementation of the wind-down in operations, and further parts of the portfolio were transferred to the “Wind-Down Financials” portfolio as part of the “Brush” project.

The detailed wind-down planning for the Rehabilitation portfolio has been ongoing since 2011. This plan is updated annually and subjected to regular target/actual comparisons. In cooperation with Financial Controlling, these wind-down plans will also be included in the overall Hypo Alpe Adria plan until 2018. The wind-down plans include the quantification of the pure volume reduction as well as a division into cash and non-cash components and therefore play a major part in steering the wind-down portfolio. The further development and group-wide implementation of tracking tools will make improved and more targeted portfolio steering possible.

Hypo Alpe Adria’s wind-down portfolio was defined further on the basis of the allocation of certain subsidiaries and subportfolios. Within the scope of responsibility of the Chief Risk Officer (CRO), this was also considered through the improvement of the organisational structure in 2013. The existing Rehabilitation areas GCR and GTFR were restructured and corresponding portfolios were reallocated. Effective as at 1 January 2014, the new divisions Group Restructuring & Workout Asset Resolution, which is responsible for the entire NPL portfolio in the Hypo Alpe Adria wind-down organisation (HETA Asset Resolution) and in Hypo Alpe-Adria-Bank International AG, and Group Credit Operations SEE, which manages the risks of corporate credit portfolios in the remaining SEE network, were established. A clear definition of responsibilities between SEE and the wind-down portfolio was ensured thanks to the specialist units.

### 90.13. Further development of retail risk management

In order to support the retail strategy, the Group Retail Risk Management division was set up in 2011 as the equal partner of the Retail sales and marketing function. It reports directly to the Group Chief Risk Officer.

Its responsibilities include retail portfolio management, data analysis and reporting, fraud prevention, allocation of customers to segments in the collections process, as well as making decisions on credit and checking/assuring quality. The “Development Plan” drawn up in 2011 continued to be consistently implemented to ensure a unified structure across the group and to determine the appropriate resources needed. The main pillars of this plan have already been successfully implemented:

- Developing the retail risk areas in the SEE (South East Europe) countries
- Implementing the Retail Credit Policy as well as centralising Underwriting, which now comprises both the private customer and retail SME (small and medium-sized enterprises) customer segment (in all core countries) as well as the leasing business (in most countries)
- Implementing product-specific application scorecards for the SEE countries
- Implementing fraud prevention measures as well as establishing a Retail Risk Review function in Serbia, Bosnia and Herzegovina, Slovenia, and Croatia
- Establishing monthly portfolio quality calls with all SEE countries to identify portfolio trends on time and implement measures
- Developing local Retail Risk Data Marts that include control-related risk information
- Establishing quarterly retail risk reports to the Group Management Board

- Organisation of group-wide training courses regarding private lending and lending to SMEs, portfolio analysis and credit life cycle management, within the scope of the Hypo Risk Academy

Furthermore, the following controlling activities were also carried out:

- Introduction of policies to regulate credit restructuring, retail risk review, retail credit fraud management as well as portfolio and credit monitoring
- Successful cooperation with Collections in order to reduce flow rates further
- Implementation of regular information sharing (best practices) within the SEE retail risk units
- Successful implementation of the European Commission's new business requirements for retail

The foundations for the above development are the preparation and introduction of comprehensive guidelines that provide the group with a credit-risk-focused framework for the retail business. These developments and initiatives were completed for the most part in 2013 and are already having a positive effect on the quality of new business with private and SME customers when evaluating vintage analyses.

**90.14. Asset liability management (ALM) enhancement project**

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

An IT design was developed based on the precise specifications of the requirements for future asset liability management at Hypo Alpe Adria, especially taking into account newer regulatory and internal requirements. The implementation of this IT design has reached the testing phase. During this test phase, the initial batches of data were analysed and cross-checked with previous results; at the moment, a corresponding reporting system is being set up. The benefits of the project do not simply relate to professional risk measurement. Data delivery and data quality are being updated in line with a new standard, resulting in the following measures:

- Adaptation of the existing interface in the form of a new Unified Group Interface (UGIF)
- Gradual increase of data delivery frequency from monthly to weekly and daily data delivery
- Integration of a data compression tool and 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 started and the systematic, continuous data quality control process was initiated.

Implementation is due to be complete at the end of 2014.

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 risks in the form of interest rate and liquidity development statements, value at risk and scenario analyses as well as stress tests. Subsequently, 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) within a corresponding framework and by expanding the project.

**90.15. Funds Transfer Pricing – integration of liquidation costs**

As part of the "Liquidity Transfer Pricing" project, the existing liquidity costs allocation and takedown concept was revised. The new professional concept comprises the integration of direct and indirect liquidity costs in the existing Funds Transfers

Pricing project. Implementation into the group-wide "Risk Adjusted Pricing" tool is being developed in 2013 in collaboration with the responsible departments Group Financial Controlling, Group Balance Sheet Management & Treasury and Group Market Risk Control.

### 90.16. Market risk limitation in 2013

Significant improvements in terms of limiting Hypo Alpe Adria's market risks were implemented in order to enhance compliance with regulatory requirements and to improve the management of market risks and the monitoring of tied-up economic market risk capital. Efforts were made to prevent the unreasonable recognition of economic effects from market risks within the context of the risk-bearing capacity calculation, taking into account that defined limit systems, processes and methods must ensure an adequate and timely calculation of the current tied-up economic market risk. The application of correlation assumptions within a market risk factor in relation to the setting of group limits was converted from static adjustments to group consolidation factors to a dynamic concept, which allows for a faster and more effective reaction to changed market conditions. The defined changes were implemented operationally beginning in 2013 within the context of limiting market risks.

### 90.17. IFRS 13

In conjunction with a renowned consulting company, 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 consisted of the following:

- Implementation of overnight index swap (OIS) discounting
- Integration of basis swaps in the 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 2014, adjustments made under IFRS 13 will also be adapted in market risk measurement in the PMS to ensure consistent accounting and risk controlling.

### 90.18. 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) relating 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 – TriResolve 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

In autumn 2013, clearing through the LCH was already commenced with a part of the derivative portfolio.

The daily delivery of the entire derivative portfolio relevant to EMIR was implemented within the specified time frame. Transactions concluded before 16 August 2012 and that are still part of the portfolio were reported within the scope of the backloading process. 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.

## (91) Risk reporting

Timely, independent and risk-adequate reporting for decision makers is guaranteed for all risk types. Requests for ad hoc reports are honoured at all times.

The risk report was adjusted to the new situation at Hypo Alpe Adria in 2013. In addition to the existing Management Summary section, the risk-bearing capacity, credit and country risk, market risk, liquidity risk and operational risk, the report has been extended to include a depiction of credit risk by steering-relevant groupings: the SEE network, Hypo Alpe-Adria-Bank AG (Austria until closing as at 19 December 2013) and Hypo Alpe-Adria-Bank S.p.A (Italy), Hypo Alpe-Adria-Bank International AG and HETA Asset Resolution (including portfolio transfer). The migration report was also reviewed and now shows the migration in the Watch and Non-Performing Loans areas.

The regular credit risk reports are prepared monthly. The monthly credit risk report comprises three major components: (1) Credit portfolio overview, (2) New business report and (3) Migration analysis. Operational risk reports are prepared ad hoc and passed on to the CRO. A summary of all OpRisk cases is submitted to the Supervisory Board every six months and to the CRO in monthly meetings.

Uniform guidelines on liquidity risk and market risk reporting were introduced across the group, which include standardised daily, weekly and monthly reporting.

In cases of stress, the frequency of reporting on market risk and liquidity risk is increased.

As part of governance, all the reports issued at group level are also available at local level and are distributed regularly to the units.

## (92) Capital management

The term “capital for the purpose of solvency” refers to modified available equity that largely comprises the following items:

- core capital (in future Common Equity Tier 1) or Tier 1 capital,
- supplementary capital (Tier 2 capital) and
- deductibles

.

Up to 31 December 2013 (end of Basel III), available third-ranking funds (Tier 3 capital) was also included in regulatory terms, but no longer applies from the introduction of Basel III (1 January 2014).

Tier 1 capital or rather core capital is largely comprised as follows:

- Paid-in capital
- Participation capital (Republic of Austria, State of Carinthia, Grazer Wechselseitige Versicherung (GRAWE) (Note: The participation capital of the State of Carinthia and of GRAWE is reclassified under Basel III into Tier 2 capital at a rate of 10% per year)
- Reserves
- Funds for general banking risks
- Non-controlling interests (amortisation of material items at a rate of 20% per year from 2014)
- Deductions

Tier 2 capital inherently includes non-current subordinated liabilities.
The introduction of Basel III from 2014 has been taken into consideration in the planning process. This also includes:

- the integration of new regulatory requirements relating to capital ratios (including buffer requirements), and
- the adjustment of the manner in which the group’s regulatory capital and RWA (risk-weighted assets) are calculated from UGB to IFRS (in consideration of the regulatory scope of consolidation)

In terms of the calculation of material risk positions (RWA) in the first Basel III pillar at group level (for regulatory reporting), the following approaches are applied:

- Credit risk standard approach (CSA) for credit risk and
- Standard approach (STA) for operational risk (activities divided into eight defined business divisions)

Regulatory capital resource planning is predominantly based on the following annual target ratios:

- Common equity Tier 1 capital ratio
- Tier 1 capital ratio
- Total capital ratio

Capital ratios are calculated on the basis of the ratio of the respective capital to total risk positions or RWA at Hypo Alpe Adria. The minimum capital ratios defined by regulatory authorities must be complied with in any case. Capital ratios define the upper limit of the risk positions from Hypo Alpe Adria's business activities for the planning period.

Compliance with the resolved risk position limits for individual group companies and business divisions is monitored on an ongoing basis. Monthly reports about the current capacity utilisation are submitted to the Executive Board. The Executive Board is also informed each month about the actual ratios and material effects on these ratios and makes decisions on corresponding measures if actual figures deviate from targets.

#### 92.1. ICAAP – Internal Capital Adequacy Assessment Process

Securing the group's ability to bear economic risks forms a central part of steering activities within the Hypo Alpe Adria group; the group possesses an institutionalised internal process (ICAAP or "Internal Capital Adequacy Assessment Process").

Risks are managed as part of the overall bank management process, which makes risk capital available for the different types of necessary risk involved in following strategies and limits and monitors those risks by placing upper limits on them. The bank's Risk Office units, together with the Executive Board, are developing a risk strategy with focus on determining risk principles to ensure consistency of the group-wide risk profiles, including the capital and liquidity requirements as part of the business strategy. The main pillars of the risk strategy are defining the risk appetite, appropriately identifying and quantifying each individual risk, risk limiting, controlling and monitoring, organisational framework conditions and preparing internal guidelines and manuals.

The risk strategy goes hand in hand with the business strategy, which is based on four pillars (SEE holding, Hypo Bank Austria, Hypo Bank Italy and HETA Asset Resolution). A business strategy is defined for each of the four pillars that are in turn supported by a corresponding measurable risk strategy.

The identification of all material risks through an annual risk inventory forms the very foundation for implementing the risk-bearing capacity calculation. The value at risk (VaR) method was applied for calculating risk capital requirements for credit and market risk, the main risk categories. Hypo Alpe Adria group is controlled pursuant to the gone concern approach with a confidence level of 99.9%. In addition, the going concern approach (confidence level of 95%) is implemented for the "SEE Network" pillar.

Risk capital requirements are offset against risk bearing capital. This is used as the basis for the annual limit planning and for the monthly comparison with risk capital requirements as part of the risk-bearing capacity analysis. According to the risk strategy, 80% of the available aggregate risk cover may be used for covering risks with the remaining 20% acting as a stress buffer.

The risk-bearing capacity calculation is carried out monthly and applies three different methods, of which the internal method is used for controlling the group. As at the end of October, internal parameters were adapted to JRAD I parameters (regulatory CCFs and LGDs). In 2013, the ICAAP group methodology was also rolled out at the strategic subsidiaries and implemented as an additional controlling instrument – in addition to the local relevant regulations.

The risk-bearing capacity report is produced by Group Credit Risk Control and Group Market Risk Control and presented in the Group Asset Liability Committee (Group ALCO) as well as in the risk report submitted to the Executive Board and Supervisory Board. The GREC serves as an operational basis for controlling economic risks. The committee discusses and sets the risk standards (methods, processes, systems, organisation and stress test assumptions) for the whole of the group.

### (93) Credit risk (Counterparty default risk)

#### 93.1. Definition

In terms of scale, credit risks constitute the most significant risks for Hypo Alpe Adria. These mainly arise from the lending business. Credit risk (or counterparty risk) occurs when transactions result in claims against debtors, issuers of collaterals or counterparties. If these parties do not meet their obligations, losses result in the amount of non-received benefits less utilised collaterals, reduced by the recovery rate of unsecured portions. This definition includes default and surety risks from credit transactions as well as issuer, replacement and fulfilment risks from trading transactions.

Other risk types that are also included under credit risks, such as country and equity risks, are measured, steered and monitored separately.

### 93.2. General requirements

The credit policy provides concrete specifications for the organisational structure of the bank in the lending business as well as for risk control methods, and is supplemented by further policies as well as specific directives.

In line with a group-wide instruction on authority levels as defined by the Executive and Supervisory Boards, credit decisions are made by the Supervisory Board, Executive Board and Credit Committee, as well as by key staff in the front office and the analysis units of the risk office.

The Credit Committee is a permanent committee of Hypo Alpe Adria and the highest body for making credit decisions, subordinated only to the Executive Board.

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

### 93.3. Risk measurement

As described in note 90.7, Hypo Alpe Adria uses its own rating procedures to analyse and review the creditworthiness of its debtors. The allocation of debtors to rating classes is carried out on the basis of probabilities of default on a 25-level master rating scale.

### 93.4. Risk limitation

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

In the banking division, limits are set and monitored independently by Risk Controlling. If limits are exceeded, this is communicated immediately to the CRO and reported to the Group Risk Executive Committee.

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

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

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

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

### 93.5. Portfolio overview – credit risk

In economic risk steering, the fair value of an asset is used for the calculation of the relevant exposure. For accounting purposes, exposure is calculated on the basis of the book value.

Breakdown of exposure in the group in accordance with IFRS 7.36*:

EUR m

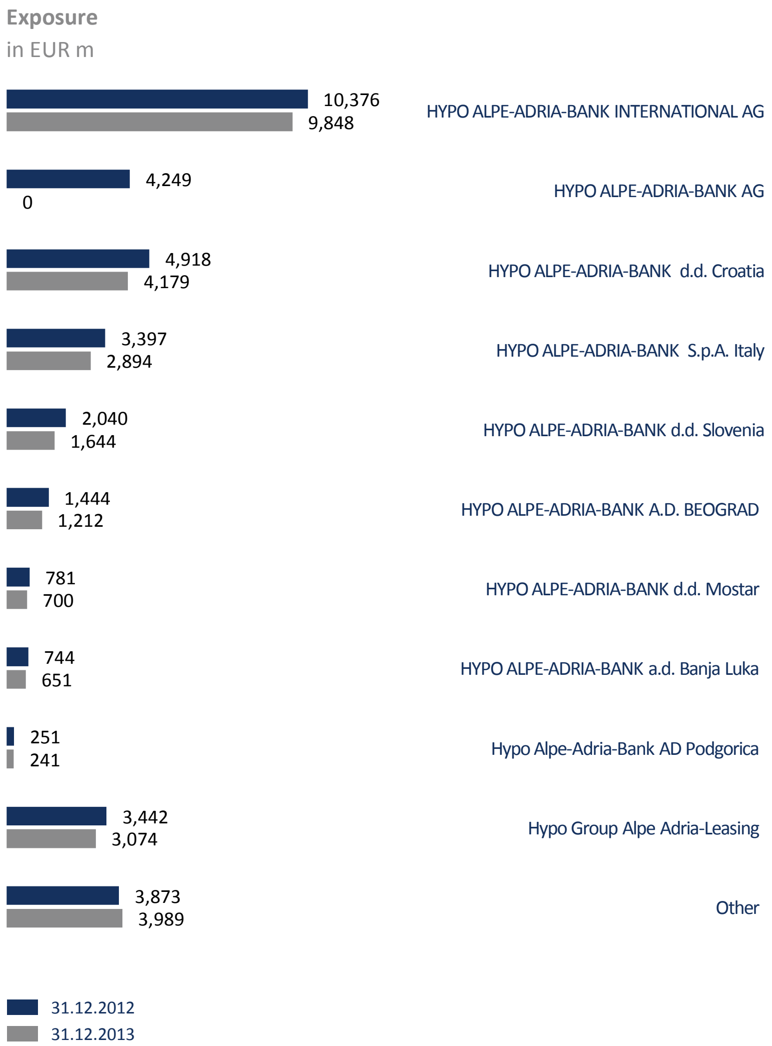
| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Cash and balances at central banks | 2,313 | 2,873 |
| Loans and advances to credit institutions | 2,087 | 1,993 |
| Risk provisions on loans and advances | -8 | -3 |
| Loans and advances to customers | 19,289 | 24,402 |
| Risk provisions on loans and advances | -3,825 | -3,070 |
| Trading assets | 13 | 1 |
| Positive fair value from hedge accounting derivatives | 1,070 | 1,426 |
| Financial investments – designated at fair value through profit or loss | 505 | 783 |
| Financial investments – available for sale | 2,422 | 2,688 |
| Financial investments – held to maturity | 84 | 91 |
| Investments in companies accounted for at equity | 6 | 7 |
| Financial investments real estate | 1,115 | 1,279 |
| Other assets | 689 | 830 |
| Provisions for other assets | -41 | -11 |
| Contingent liabilities | 509 | 725 |
| Other liabilities – irrevocable loan commitments | 473 | 861 |
| **Total** | **26,699** | **34,876** |

*Adjusted to 31 December 2012. New items are other assets, provisions for other assets. The operating lease item from the last report (EUR 113 million) is included in the “other assets” item.

**Distribution of exposure within the group**

In the year under review exposure within the group decreased by EUR 7.1 billion or 20.0%, due to very limited new business, the increased reduction of NPLs and the wind-down strategy (HETA). Furthermore, Hypo Alpe-Adria-Bank AG, which had an exposure of approximately EUR 4.2 billion at the end of 2012, was sold in 2013.

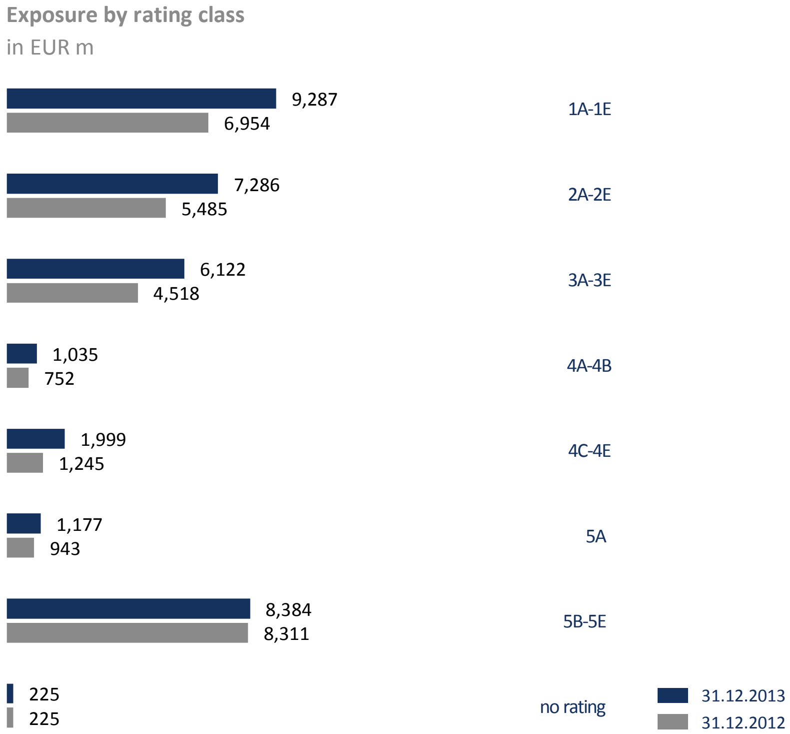
In total, there are free credit lines at Hypo Alpe Adria amounting to around EUR 1.0 billion (2012: EUR 1.6 billion). Within the group, exposure breaks down as follows:



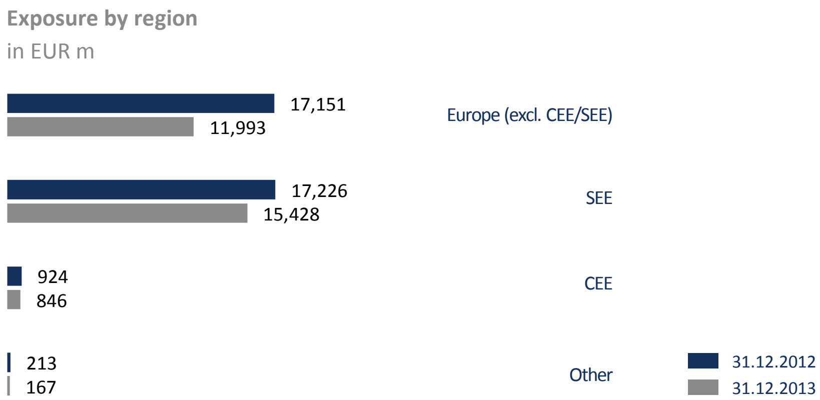

The increase in exposure in the “other” item is due to the portfolio transfer in 2013 as a result of further brush activities.

**Exposure by rating class in the group**
Around 24.5% (2012: 26.1%) of the exposure is categorised as rating classes 1A to 1E. This exposure relates mainly to loans and advances to credit institutions and public institutions.

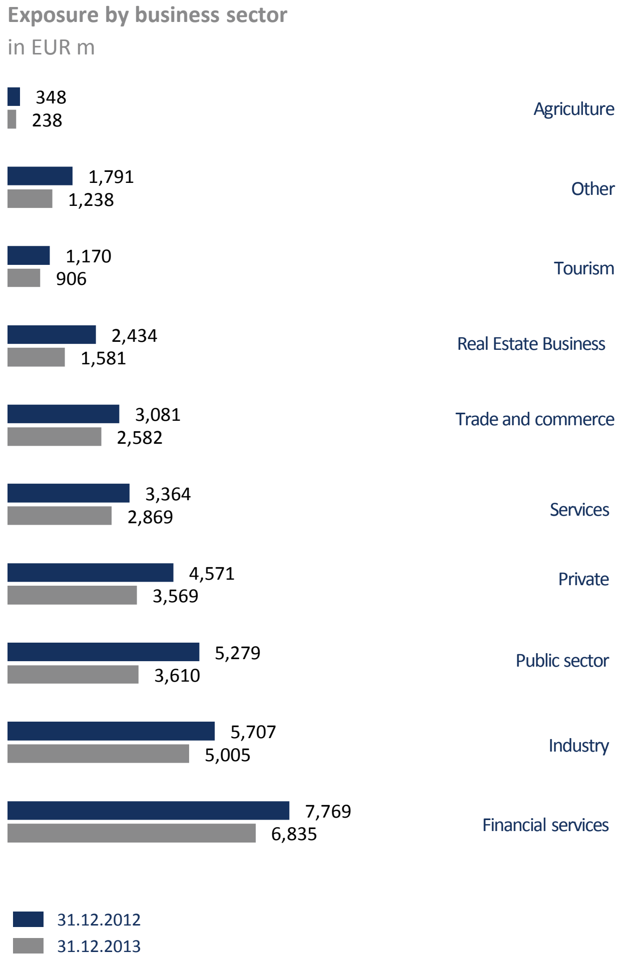
There was a decline in exposure in the classes 5B to 5E (from impaired exposure to written-off exposure) and 5A (arrears > 90 days).




**Exposure by region within the group**
The country portfolio of Hypo Alpe Adria is concentrated on the EU and SEE regions. There was, essentially, a reduction in exposure in each country/region.



**Exposure by sector within the group**
A uniform classification code (NACE Codes 2.0) is used in Hypo Alpe Adria for the economic steering and strategic focus of industry exposure. This code is mapped into ten industry sectors for reporting purposes. The lower-risk industry groups - credit institutions and the public sector – account for a share of 36.7% (2012: 36.7%). The well-diversified private clients sector has a share of 12.6% (2012: 12.9%).




Concentration risks relating to the industry sector have arisen in the real estate and tourism sectors. These risks are reduced in a targeted manner by specialist wind-down units.

**Exposure by sector and region**
When looking at the industry and region, the majority of financial services providers clearly comes from Europe (excluding CEE/SEE). These are primarily large banks with which Hypo Alpe Adria has built up good business relationships over many years. The following chart shows the exposure by sector and regions in 2013:

EUR m

| Business sector | Europe (excl. CEE/SEE) | SEE | CEE | Other | Total |
|---|---|---|---|---|---|
| Services | 747 | 1,934 | 140 | 48 | 2,869 |
| Financial services | 5,391 | 1,356 | 20 | 67 | 6,835 |
| Trade and commerce | 472 | 2,035 | 61 | 14 | 2,582 |
| Industry | 1,760 | 3,152 | 93 | 0 | 5,005 |
| Agriculture | 20 | 210 | 8 | 0 | 238 |
| Public sector | 2,071 | 1,262 | 246 | 31 | 3,610 |
| Private | 197 | 3,353 | 18 | 1 | 3,569 |
| Real estate business | 859 | 686 | 36 | 0 | 1,581 |
| Other | 113 | 783 | 10 | 0 | 906 |
| Tourism | 362 | 657 | 214 | 5 | 1,238 |
| **Total** | **11,993** | **15,428** | **846** | **167** | **28,433** |

In 2012, exposure by sector and region was as follows:

EUR m

| Business sector | Europe (excl. CEE/SEE) | SEE | CEE | Other | Total |
|---|---|---|---|---|---|
| Services | 1,214 | 1,922 | 174 | 54 | 3,364 |
| Financial services | 6,131 | 1,517 | 57 | 64 | 7,769 |
| Trade and commerce | 681 | 2,309 | 77 | 14 | 3,081 |
| Industry | 2,316 | 3,260 | 131 | 0 | 5,707 |
| Agriculture | 69 | 259 | 20 | 0 | 348 |
| Public sector | 3,669 | 1,368 | 209 | 33 | 5,279 |
| Private | 748 | 3,792 | 29 | 2 | 4,571 |
| Real estate business | 1,418 | 857 | 159 | 0 | 2,434 |
| Other | 690 | 1,039 | 17 | 45 | 1,791 |
| Tourism | 215 | 904 | 51 | 0 | 1,170 |
| **Total** | **17,151** | **17,226** | **924** | **213** | **35,515** |

The figures relate to the customer's official home country. The corporate and retail business is mainly focused on Hypo Alpe Adria's core countries in SEE. The business strategy foresees a further increase in this share, particularly in the retail business.

**Exposure size category of the transactions**
Around 54.6% (2012: 55.5%) of the exposure can be found in the size range <=EUR 10 million.
The bank is pursuing a strict strategy of reducing concentration risk in the corporate segment.

The largest share of the EUR 15.5 billion (2012: EUR 19.7 billion) exposure in the range >EUR 10 million is due to banks or the public sector. These transactions are necessary for securing liquidity, minimum deposit levels and long-term investments as well as for hedge transactions. The presentation is based on the group of borrowers.

EUR m

| Size classes | 31.12.2013 | 31.12.2012 |
|---|---|---|
| < 10,000 | 699 | 819 |
| 10-20,000 | 413 | 504 |
| 20-50,000 | 839 | 1,000 |
| 50-100,000 | 1,041 | 1,225 |
| 100-250,000 | 1,390 | 1,878 |
| 250-500,000 | 994 | 1,347 |
| 500-1,000,000 | 1,203 | 1,545 |
| 1,000-3,500,000 | 2,974 | 3,498 |
| 3,500-10,000,000 | 3,341 | 3,979 |
| > 10,000,000 | 15,539 | 19,719 |
| **Total** | **28,433** | **35,515** |

## 93.6. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired:*

EUR m

| Rating class | Exposure | 31.12.2013 Collateral | Exposure | 31.12.2012 Collateral |
|---|---|---|---|---|
| 1A-1E | 6,950 | 1,024 | 9,265 | 1,378 |
| 2A-2E | 5,255 | 1,944 | 7,029 | 3,435 |
| 3A-3E | 4,140 | 2,393 | 5,680 | 3,262 |
| 4A-4B | 634 | 385 | 818 | 466 |
| 4C-4E | 884 | 582 | 1,603 | 895 |
| 5A-5E | 190 | 120 | 402 | 232 |
| No rating | 202 | 55 | 208 | 45 |
| **Total** | **18,255** | **6,503** | **25,006** | **9,712** |

Financial assets that are overdue, but not impaired:*

EUR m

| Classes of loans and advances | Exposure | 31.12.2013 Collateral | Exposure | 31.12.2012 Collateral |
|---|---|---|---|---|
| **Financial investments** | **0** | **0** | **0** | **0** |
| – overdue to 30 days | 0 | 0 | 0 | 0 |
| **Loans and advances to credit institutions** | **1** | **1** | **12** | **4** |
| – overdue to 30 days | 0 | 0 | 11 | 4 |
| – overdue 31 to 60 days | 0 | 0 | 0 | 0 |
| – overdue 61 to 90 days | 0 | 0 | 0 | 0 |
| – overdue 91 to 180 days | 0 | 0 | 0 | 0 |
| – overdue 181 to 365 days | 0 | 0 | 0 | 0 |
| – overdue over 1 year | 1 | 1 | 1 | 0 |
| **Loans and advances to customers** | **1,669** | **1,005** | **3,101** | **1,884** |
| – overdue to 30 days | 614 | 292 | 911 | 433 |
| – overdue 31 to 60 days | 203 | 147 | 393 | 232 |
| – overdue 61 to 90 days | 113 | 79 | 115 | 76 |
| – overdue 91 to 180 days | 166 | 126 | 376 | 230 |
| – overdue 181 to 365 days | 174 | 108 | 344 | 230 |
| – overdue over 1 year | 399 | 252 | 961 | 683 |
| **Total** | **1,671** | **1,005** | **3,114** | **1,888** |

*For technical reasons, all customers in the restructuring class (5C) were shown in the last report as overdue > 90 days. If looking only at the days overdue without over control through the rating, the following changes occurred in 2012: overdue receivables decreased by around EUR 402.2 million and receivables not overdue increased by the same amount. Without these changes, EUR 3,516.0 million of the exposure were overdue and EUR 24,603.0 million not overdue at the end of 2012 in the last report.

Impaired financial assets:

EUR m

| | | 31.12.2013 | 31.12.2012 |
|---|---|---|---|
| **Financial investments** | Exposure | 0 | 0 |
| | Provisions | 0 | 0 |
| | Collateral | 0 | 0 |
| **Loans and advances to credit institutions** | Exposure | 13 | 38 |
| | Provisions | 8 | 2 |
| | Collateral | 4 | 15 |
| **Loans and advances to customers** | Exposure | 8,495 | 7,357 |
| | Provisions | 3,819 | 2,937 |
| | Collateral | 3,694 | 2,989 |
| **Total exposure** | | **8,508** | **7,396** |
| **Total loan loss allowances (incl. provisions for risks from the lending business)** | | **3,827** | **2,939** |
| **Total collateral** | | **3,698** | **3,004** |

93.6.1. FORBEARANCE

For the first time, Hypo Alpe Adria determined customer agreements that are part of the "forbearance measures" as defined by the European Securities and Markets Authority (ESMA) retroactively from 2013. Hypo Alpe Adria is currently working intensively on the improvement of its reporting capabilities (on-site workshops, refinement of definitions, etc.). Hypo Alpe Adria is also working towards the implementation of a fixed process for the calculation and evaluation of forbearance cases. In this respect, credit principles, credit processes themselves and the core banking systems must be revised.

All customers who found themselves in financial difficulties were included in the calculation for 2013 (Non Performing, Watch Loan and Watch List customers); they were reviewed in respect of the following criteria:

- Modification of original contractual conditions due to financial difficulties (this also includes prolonging existing loans, reprogramming, partial write-offs, the reduction in the interest rate margin, breaches of contract tolerated by the bank, etc.)
- Complete or partial refinancing approved on the basis of the customer suffering financial difficulties (including new business)

Particularly in the calculation of the initial portfolio, Hypo Alpe Adria was faced with challenges posed by changes to the core banking systems and the associated technical restrictions as well as the availability of data, particularly in the case of portfolio transfers. For the reasons stated above, the following tables reflect current knowledge at group level.

The following charts provide an overview of forbearance at Hypo Alpe Adria for the financial years 2012 and 2013.

EUR m

| | OPENING balance 1.1.2013 | Change | CLOSING balance 31.12.2013 |
|---|---|---|---|
| **Loans and advances (LAR + AFS + HTM)** | **5,865** | **-32** | **5,833** |
| to public sector (central governments) | 14 | 9 | 23 |
| to credit institutions | 2 | 10 | 11 |
| to non credit institutions (financial institutions) | 242 | -39 | 203 |
| to corporate clients | 5,178 | -31 | 5,148 |
| to retail clients | 429 | 19 | 447 |
| **Other financial assets** | **38** | **0** | **38** |
| **TOTAL FORBORN ASSETS** | **5,903** | **-32** | **5,871** |
| **Off-balance exposure** | **132** | **32** | **163** |

Forbearance exposure was as follows in 2013:

EUR m

| | Neither past due nor impaired | Past due but not impaired (> 0 days) | Impaired | CLOSING balance 31.12.2013 |
|---|---|---|---|---|
| **Loans and advances (LAR + AFS + HTM)** | **761** | **410** | **4,662** | **5,833** |
| to public sector (central governments) | 18 | 0 | 6 | 23 |
| to credit institutions | 0 | 0 | 11 | 11 |
| to non credit institutions (financial institutions) | 7 | 13 | 184 | 203 |
| to corporate clients | 627 | 342 | 4,178 | 5,148 |
| to retail clients | 109 | 55 | 283 | 447 |
| **Other financial assets** | **0** | **0** | **38** | **38** |
| **TOTAL FORBORN ASSETS** | **761** | **410** | **4,700** | **5,871** |

93.6.2. LIQUIDATED COLLATERAL

In the 2013 financial year, collateral amounting to around EUR 194.5 million was liquidated (bail-out purchases) (2012: EUR 143.4 million). Of this, around EUR 68.6 million (2012: EUR 53.5 million) related to bail-out purchases by banks and EUR 125.9 million (2012: EUR 89.9 million) related to assets repossessed by leasing companies.

## (94) Participation risk

### 94.1. Definition

In addition to counterparty risks from the credit business, equity risks from equity investments can also incur (shareholder risks). These include potential losses from equity provided, liability risks (e.g. letters of comfort) or profit/loss transfer agreements (loss absorption).

### 94.2. General requirements

Prior to 2009, Hypo Alpe Adria (or a subsidiary) had invested in companies that either served to expand its business spectrum, provide services for the bank or function as purely financial participations to achieve its business objectives. The year 2012 was characterised by the ongoing restructuring measures at Hypo Alpe Adria leading to portfolio rationalisation and to disposals in individual cases.

The handling of participation risks is governed by the Group Participation Policy. The policy governs in particular the differentiation between equity investments that are strategic and non-strategic/similar to loans/act as substitutes for credit. Another objective is to ensure the development of a uniform process for equity investments at Hypo Alpe Adria and at its strategic or non-strategic shareholdings across the group, as well as to describe the investment process, steering and reporting in more detail.

Hypo Alpe Adria influences the business and risk policy of associated companies through its representation on shareholder and supervisory committees.

In addition, all equity investments are monitored for results and risk on a continuous basis.

### 94.3. Risk measurement

Hypo Alpe Adria uses the PD / LGD approach pursuant to paragraph 72 SolvaV for measuring the participation risk for the ICAAP.

94.3.1. RISK CONTROL AND MONITORING

Hypo Alpe Adria has, in the Group Credit Risk Control division, its own independent central unit with the authority to set guidelines on all methods and processes connected with the management of equity risk. The operational implementation of risk controlling instruments is the responsibility of the business units in charge.

Strategic equity investments are integrated into the annual strategy and planning process of Hypo Alpe Adria. Representation on shareholder and supervisory committees allows Hypo Alpe Adria to exert influence over business and risk policies.

When it acts as a provider of equity capital or a lender of capital, the group evaluates the additional risks, especially those arising from its status as a lender of capital.

## (95) Country risk

### 95.1. Definition

Country risk is the risk that a business partner in a given country, or the government of the country itself, fails to meet its obligations in a timely manner or does not meet them at all due to governmental directives or economic/political problems.

For example, country risks may arise from a possible deterioration of national economic conditions, a political or social collapse, nationalisation or expropriation of assets, non-recognition of cross-border liabilities on the part of the government, exchange controls, payment or delivery prohibitions, moratoria, embargos, wars, revolutions or coups in the respective countries.

### 95.2. General requirements

As part of its business activities and in pursuit of its long-term strategy, Hypo Alpe Adria knowingly assumes country risks that are limited in size.

### 95.3. Risk measurement

Country risk is measured in relation to the exposure relevant to country risk for each country and takes the respective external country rating and the country's specific LGD and PD in accordance with SolvaV into account.

Exposure related to country risk is composed of all non-EMU cross-border transactions for which a currency mismatch between the currency of the debtor country and the account currency (the currency in which the business transaction is conducted) exists.

The IRB approach for companies, banks and countries as outlined in the Austrian Solvency Regulation is used in order to quantify country risk. The country risk determined by this method is offset with equity capital.

### 95.4. Risk limitation

Country risk is limited by setting limits, which are calculated on the basis of ratings and a risk-oriented grouping of countries. All countries are subject to limits, with the respective limit discussed and approved by the Management Board.

Cross-border transactions by the group are subject to these limits, with direct financing (refinancing, capital) by subsidiaries subject to separate controls that emanate directly from the Executive Board.

### 95.5. Risk control and monitoring

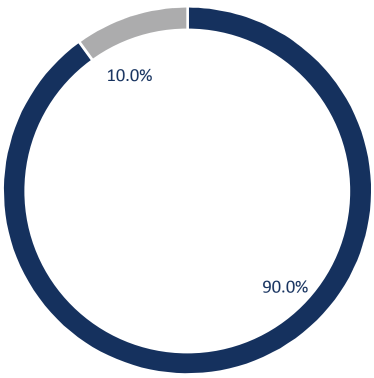
Central Group Credit Risk Control monitors adherence to the respective country limits on a monthly basis, and reports breaches directly to the Executive Board as part of regular country limit utilisation reporting. Ad hoc reports (e.g. GIIPS) are also prepared when required.

### 95.6. Portfolio overview – country risk

Exposure by country rating:
The share of exposure in countries with ratings above 3A amounts to 90% (2012: 83.9%).

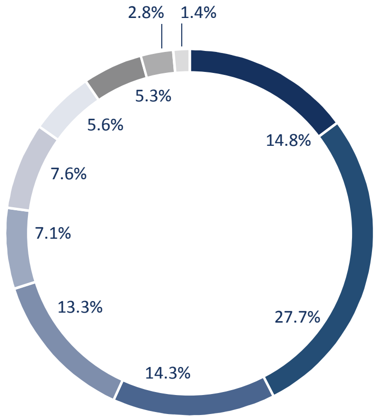
As a consequence, roughly EUR 2.8 billion of the exposure as at the end of 2013 (2012: EUR 5.7 billion) was in countries with a rating of 1A to 2E. This is in accordance with Hypo Alpe Adria's strategy of conducting business in its core SEE market. The following charts shows exposure by country rating and the top 10 countries by exposure for the year 2013.

**Exposure country rating breakdown**
in percent




| | |
|---|---|
| ■ | 1A-2E |
| ■ | 3A-4E |

**Top 10 countries by exposure in 2013**
in percent




| 2013 | 2012 | |
|---|---|---|
| 14.8% | 24.9% | Austria |
| 27.7% | 24.2% | Croatia |
| 14.3% | 12.4% | Slovenia |
| 13.3% | 12.3% | Italy |
| 7.1% | 7.0% | Serbia |
| 7.6 % | 6.7% | Bosnia and Herzegovina |
| 5.6% | 5.5% | Germany |
| 5.3% | 3.4% | Great Britain |
| 2.8% | 2.3% | Montenegro |
| 1.4% | 1.3% | France |

Top 10 countries by exposure:
The top 10 countries' share in overall volume stands at 91.0% (2012: 88.1%). As was the case in 2012, Austria and Croatia account for the largest share. Hypo Alpe Adria's strategy is to focus on the core markets in the SEE network.

### 95.7. Hypo Alpe Adria country portfolios

Hypo Alpe Adria's activities in the GIIPS states (Greece, Ireland, Italy, Portugal and Spain) are kept to a minimum. The only exception is Italy, where the group supports and funds a subsidiary in the wind-down portfolio, Hypo Alpe-Adria-Bank Italy.

The country limits for all the GIIPS states are currently frozen at Hypo Alpe Adria. An exception is made for Italy where transactions within Hypo Alpe Adria may continue to be carried out.

As the SEE region is Hypo Alpe Adria's core market – through its subsidiaries, Hypo Alpe Adria is present primarily in Croatia, Serbia, Montenegro and Bosnia and Herzegovina – the group is monitoring economic developments in these countries and the forecasts for their economies for 2014 even more closely. This is being done through close monitoring by the subsidiaries involved and through the group holding company, so that they can react swiftly to changes in market conditions.

GDP (gross domestic product) in SEE decreased in 2013 by roughly 1.0% (2012: -1.9%.) At the time of writing, the assumptions are for a further slight decline in GDP for this region of 0.1% in 2014. However, Hypo Alpe Adria expects growth of 1.1% in 2015.

As extensively discussed in the group management report, mainly Serbia (close economic connections with Greece) and Bosnia and Herzegovina are affected by high unemployment, which will not reduce in 2014.

In summary, it can be said that the economies of the SEE country markets will experience a slowdown in 2014, representing an increased challenge to Hypo Alpe Adria in the current year. The group will address this challenge with stringent monitoring of customer accounts and portfolios, renewed efforts in processing collections and non-performing loans, with the result that assets requiring liquidation will be sold in such a way as to preserve value, even in this difficult market environment.

## 95.8. Side-note: GIIPS

The table below shows only the direct exposure (securities and customer business) as at 31 December 2013 to central banks, states, regions and credit institutions.

EUR m

| Breakdown by country and risk segment | | Total fair value 2013 | Total fair value 2012 |
|---|---|---|---|
| **Greece** | State and central bank | 0.0 | 0.0 |
| | Regions and municipalities | 0.0 | 0.0 |
| | Banks | 0.0 | 0.0 |
| | **Total** | **0.0** | **0.0** |
| **Ireland** | State and central bank | 0.0 | 0.0 |
| | Regions and municipalities | 0.0 | 0.0 |
| | Banks | 39.2 | 58.3 |
| | **Total** | **39.2** | **58.3** |
| **Italy** | State and central bank | 93.3 | 100.4 |
| | Regions and municipalities | 31.0 | 30.5 |
| | Banks | 69.6 | 88.9 |
| | **Total** | **193.9** | **219.8** |
| **Portugal** | State and central bank | 0.0 | 0.0 |
| | Regions and municipalities | 20.0 | 20.0 |
| | Banks | 15.6 | 14.9 |
| | **Total** | **35.6** | **34.9** |
| **Spain** | State and central bank | 0.0 | 0.0 |
| | Regions and municipalities | 50.1 | 50.2 |
| | Banks | 137.3 | 125.0 |
| | **Total** | **187.4** | **175.3** |
| **Total** | | **456.1** | **488.3** |

The following sections give a short overview of the economic and political status in the individual, relevant GIIPS:

### 95.8.1. GREECE

Hypo Alpe Adria has no exposure to Greece.

### 95.8.2. ITALY

In the first half of 2013, Italy's political landscape was dominated by the general election at the end of February, which ended in a stalemate. The resulting coalition negotiations proved to be extremely problematic, until a new government (coalition of the social-democratic PS party and conservative PDL party) was formed under the leadership of social democrat Enrico Letta.

In the third quarter, the political situation escalated after the PDL threatened to pull out of the coalition and cause a new general election to be held. In late September, Silvio Berlusconi ordered his party's ministers to resign from government. Surprisingly, all ministers distanced themselves from Berlusconi's decision and declared their willingness to continue to support the government. In a subsequent vote of confidence a clear majority was achieved. Together with 60 former PDL members, minister of the interior Angelino Alfano formed the "New Centre-Right" as a splinter group from Berlusconi's Forza Italia party and ensured that his party would remain a key component of the coalition.

In economic terms, Italy saw the first signs of stabilisation and recovery over the course of the year. Positive signs from Italian industry came in the summer with the news that production increased. Armed with a multibillion-euro economic stimulus package, the government intends to inject momentum into the national economy (target: creation of 30,000 new jobs, removal of red tape, etc.). Retail sales rose again for the first time in a while, and both consumer confidence and the business climate barometer improved better than expected. The macroeconomic index also improved. Tax revenue rose in the first half of 2013 by 5%.

Following the approval of the economic plan to boost foreign investment, the Italian cabinet passed a number of additional measures to ensure that the national deficit would not increase above the EU-defined threshold of 3%.

Italy was able to escape from recession in the third quarter of 2013 for the first time in over two years. For 2014, the government forecasts economic growth of below 1%. According to the European Commission, new borrowing in 2013 is likely to stand at 3%

At the end of December, the 2014 budget was finally approved by the senate (including tax reductions, amongst other measures). A package worth EUR 1.5 billion aimed at tackling unemployment was also passed.

At the end of the year, an increase in the business climate index was also recorded.

The development of the Italian bond market over the course of 2013 can also be seen as positive. After a brief rise immediately after the general election and during the governmental crisis at the end of September/early October, yields on Italian bonds fell successively to the current level of 4% for ten-year sovereign bonds (as at January 2014).

For these reasons, Hypo Alpe Adria did not consider there to be an impairment requirement on its exposure to Italy at the time of writing.

95.8.3. IRELAND

Following the granting of EUR 85 billion worth of financial aid by the European Union and the International Monetary Fund (IMF) in November 2010, Ireland has succeeded in meeting all defined budgetary targets by means of an extensive and rigorous austerity drive, thus regaining the trust of the markets. In March 2013, Ireland was able to make a successful return to the capital markets by issuing a ten-year bond. The country was repeatedly highlighted as the perfect model for GIIPS countries in 2013.

In the second quarter of the year, Ireland managed to escape recession by recording economic growth of 0.4%. It was able to continue this positive tendency in the third quarter (GDP growth 1.5% up on same period the previous year). All in all, the Irish economy grew for the third year in succession. Growth is set to continue in 2014, with figures of 1.7% and 2.5% forecast for 2014 and 2015 respectively. Ireland is also aiming to cut the rate of unemployment to 11.7% by 2015. One positive sign of life came from the construction industry, while exports also increased and a moderate rise in private consumption was also recorded (+0.9% in September 2013). Ratings agency Moody's awarded also rewarded the country for its positive development. Ireland is also benefitting from the perception that its government is reliable and stable.

At the end of the year, Ireland became the first crisis-hit economy to officially leave the eurozone bailout programme.
The Irish government presented a programme to foster growth and employment until 2020 ("A Strategy for Growth"), which aims to support the unemployed with individual job-seeking services and greater incentives to return to the employment market.

From 2014 onwards, the Irish government intends to finance itself exclusively through the markets.
Following Moody's decision to raise Ireland's rating to Baa3 (back to investment grade level + outlook: positive) in mid-January 2014, yields on Irish sovereign bonds fell sharply. For example, the coupon on five-year bonds fell to its lowest level since 2006. The rating upgrade was justified by accelerated economic growth as well as ongoing budgetary consolidation.

For these reasons, Hypo Alpe Adria did not consider there to be an impairment requirement on its exposure to Ireland at the time of writing.

95.8.4. PORTUGAL

Portugal's strict programme of austerity was continued in 2013. Compliance with requirements concerning budgetary consolidation continued to be subject to strict monitoring by the ECB, IMF and the European Commission. In the first half of 2013, the government passed a range of new cost-cutting measures in social services, repeated its commitment to achieving all of the goals set out in the bail-out programme and announced further consolidation measures totalling EUR 4.7 billion for the period between 2014 and 2016.

Portugal's national deficit stood at EUR 3.9 billion in the first half of the year, far below the EUR 6.0 billion deficit agreed with its international lenders. A slight decline in the unemployment rate was observed for the first time in two years.

However, in their latest review of the country's reforms (November 2013), the ECB, European Commission and the IMF reiterated that Portugal is continuing to implement its programme according to schedule. Rating agency Moody's also noted that Portugal's financial situation had improved and that the government was committed to pushing through the consolidation of the national budget. As a result, no further rating downgrade was performed, and in fact the outlook for Portugal's rating was raised to "stable".

GDP growth was able to be recorded in the second and third quarters of the year, after over two years of recession. A slight rise in domestic demand was seen as a reason for this.

In 2014, Portugal is expected to record positive growth again after three years of negative growth figures (growth of 0.8% and 1.5% in 2015). Exports are set to provide the greatest growth momentum, while domestic demand is also forecasted to increase. Portugal is also earmarked for a return to the capital market in June 2014. The national deficit is to be cut to 4% of gross domestic product. Another ambitious austerity programme worth some EUR 3.9 billion was approved in order to reach this goal. This programme includes cutting civil servants' pay, increasing the working hours per week in the public sector and cutting healthcare spending. Corporation tax is also set to be reduced by 2% per year to provide a further boost to the economy and make Portugal one of Europe's most competitive countries by 2016.

The first bond issues of 2014 indicate that investors have faith in Portugal's ability to pay back its debt. Yields on benchmark ten-year bonds fell to their lowest level since 2010 (approx. 5.2%). Standard & Poor's announced that Portugal's credit rating would no longer be subject to strict observation.

For these reasons, Hypo Alpe Adria did not consider there to be an impairment requirement on its exposure to Portugal at the time of writing.

95.8.5. SPAIN

Despite the implementation of fundamental reforms (employment and pension reforms, bank consolidation) by the Spanish government, the country continued to find itself in recession in the first half of 2013.

One positive sign was that reforms introduced of the last few years (the stable government has an absolute majority in the House of Representatives and the senate) have led to a substantial improvement in Spain's competitiveness. In real terms, unit labour costs have been declining since 2010 and are therefore having a positive effect on exports. Spain's international trading activities regained some ground in the first half of 2013, with exports rising year on year by 9.4%. At EUR 1.4 billion, Spain's trade balance recorded a surplus for the first time in 30 years.

A certain degree of stability and solidity returned to the employment market from midway through the year. The unemployment rate fell marginally for the first time since early 2007.

The end of the third quarter also signalled the end of two years of Spanish recession. Between July and September, GDP rose by 0.1% (reason: rising exports and a boom in tourism of 7.7% in the summer season), while in August the country recorded a current account surplus for the fourth month in succession and, in September, retail sales rose for the first time in three years. Industrial firms also saw production rise for the first time in 30 months, and new vehicle registrations also increased.

In early November, ratings agency Fitch determined the country's outlook as "stable" due to considerable progress in reforms to the employment market, the pension system, the national budget and the financial sector. Recovery can also be seen in the banking sector. Major Spanish banks have posted significant profit increases and the "oversized" Spanish financial system now appears to be a thing of the past. International lenders have also noted that Spain's banking sector reforms are still on track. Christine Lagarde, head of the IMF, noted that Spanish banks were stable and healthy thanks to stronger capital buffers and sector restructuring.

Ratings agencies Standard & Poor's and Moody's also upgraded Spain's outlook from negative to stable, justifying the decision with the gradual improvement in the economic climate.

In late December, Spain officially declared that it would not require any further aid from the European Stability Mechanism (ESM) bail-out fund. Furthermore, a surprisingly significant decrease in unemployment was also reported, and a considerable rise in the purchasing managers' index. The development of the private economic and the increase in industrial productivity are two further positive signs.

On the capital market, investor confidence is returning gradually; currently (January 2014), yields on ten-year sovereign bonds stand at 3.7% (summer 2012: 7.5%) and are therefore at their lowest level since December 2009.

For these reasons, Hypo Alpe Adria did not consider there to be an impairment requirement on its exposure to Spain at the time of writing.

### 95.9. Side-note: Croatia, Hungary, Slovenia, Ukraine and Cyprus

95.9.1. CROATIA
The table below shows only the direct exposure (securities and customer business) as at 31 December 2013 to central banks, states, regions and credit institutions.

EUR m

| Breakdown by country and risk segment | | Total fair value 2013 | Total fair value 2012 |
|---|---|---|---|
| **Croatia** | State and central bank | 837.4 | 1,027.6 |
| | Regions and municipalities | 47.9 | 45.9 |
| | Banks | 80.6 | 32.3 |
| | **Total** | **966.0** | **1,105.7** |

Even after Croatia joined the European Union mid of 2013there has not been any improvement in the financial situation. Croatia continues to be stuck in the mire of recession, not least because the lack of necessary reforms by the Croatian government – above all in healthcare, education and public services – is having a negative effect on investment and GDP. In 2012 and 2013, Croatia recorded declines in GDP of 0.2% and 1.1% respectively. A further decline of 0.7% is anticipated in 2014, with a national deficit of over 5%, meaning that measures to counteract the budgetary deficit can be expected.

The rate of unemployment in Croatia rose from 15.9% in 2012 to 17.6% in 2013, and a further increase to 18.8% is expected in 2014. Inflation fell from 3.4% (2012) to 2.4% (2013), however a slight rise in inflation to 2.6% is forecast for 2014 due to an increase in VAT and the adjustments to energy and tobacco taxes required by the EU.

In the tourism sector, an increase of 5% (year on year) was recorded by the central statistical office for the period from January to October 2013. This positive development is fostered by the Croatian government's tourism development strategy, which aims to make the country one of the top 20 most competitive countries worldwide in the tourism sector by 2020. However, the rise in VAT at the end of 2013 could weaken the country's competitiveness when it comes to tourism and investment.

Net profit in the Croatian banking sector fell by 42.5% – predominantly as a result of a fall in net interest income (due to a lack of new business, a rise in interest-free lending and the cutting of active interest rates) and increased risk provisions. In view of the more problematic macroeconomic conditions, private customer business also stuttered, which made further debt reduction in both retail and the corporate sector harder. The repayment of foreign debt, a real decline in household incomes and rising unemployment are also threatening growth in deposits.

For 2014, mainly because of regulatory and legislative changes (such as the passing of a law for strategic investment, access to EU subsidies and a government programme for public-sector investments) a slight increase is expected in both tourism and in terms of exports. There should also be some positive developments in Croatian industry. In this regard, the Croatian government has presented a strategic plan with the aim of boosting industrial production by 2.85%, creating 85,000 jobs and increasing productivity by 69% by 2020. The liberalisation of Serbian trade at the beginning of 2014 should also prove beneficial to Croatian companies, particularly those in the food sector.

For these reasons, Hypo Alpe Adria did not consider there to be an impairment requirement on its exposure to Croatia at the time of writing.

95.9.2. HUNGARY
The table below shows only the direct exposure (securities and customer business) as at 31 December 2013 to central banks, states, regions and credit institutions.

EUR m

| Breakdown by country and risk segment | | Total fair value 2013 | Total fair value 2012 |
|---|---|---|---|
| **Hungary** | State and central bank | 26.2 | 25.6 |
| | Regions and municipalities | 0.0 | 0.0 |
| | Banks | 1.3 | 29.3 |
| | **Total** | **27.4** | **54.9** |

After the Hungarian economy contracted in 2012 (1.4% of GDP), the gross domestic product rose for the first time again in the second quarter of 2013 by 0.5%.

Hungary's current focus is on reducing its debt. Its debt ratio stands at roughly 79% of GDP, which is around the European average. A total of 1.0 million new jobs are set to be created over the next ten years and the country intends to become one of the most competitive economies in Europe by restructuring its legal frameworks.

Thanks to a number of tax increases and the introduction of some much-disputed new levies, state revenue has risen sharply over the past two years. Hungarian exports have also developed positively over the past two years.

In June 2013, Hungary was left out of the Excess Deficit Procedure (EDP) for the first time since joining the EU and, in mid-August, it also paid back the final instalment on the bail-out package granted by the EU and the IMF. Prior to this, there were repeated "differences of opinion" between the IMF and Prime Minister Viktor Orbán, who had complained that the IMF was exerting inappropriate influence on his country's economic policy.

In the autumn forecast unveiled at the end of November, the European Commission put Hungary's expected deficit at 2.9% of GDP in 2013 and 3% of GDP for 2014. Economic growth is expected to increase further in the next couple of years. A highly qualified workforce, good infrastructure and low taxes mean that Hungary can expect further foreign investment, particularly in the production industry. Another positive aspect is the fact that the improved economic situation led to a further decline in unemployment (from 11.8% in March 2013 to 9.3% at the end of November 2013).

For these reasons, Hypo Alpe Adria did not consider there to be an impairment requirement on its exposure to Hungary at the time of writing.

95.9.3. SLOVENIA

The table below shows only the direct exposure (securities and customer business) as at 31 December 2013 to central banks, states, regions and credit institutions.

EUR m

| Breakdown by country and risk segment | | Total fair value 2013 | Total fair value 2012 |
|---|---|---|---|
| **Slovenia** | State and central bank | 184.4 | 218.4 |
| | Regions and municipalities | 75.3 | 80.8 |
| | Banks | 25.3 | 24.8 |
| | **Total** | **285.0** | **324.0** |

Slovenia, long considered a model for Eastern European transition countries (EU member since 2004) continues to struggle with economic issues which have largely been caused by an oversized banking sector loaded with non-performing loans, excessive government intervention in the economy (roughly 50% state-controlled) and outdated employment market structures. Due to its strong reliance on exports, Slovenia has also suffered from the global economic downturn over the past few years.

Around halfway through the year, Slovenia began to implement the crisis measures resolved by the EU. These included increasing VAT to 22%, intensifying the fight against the shadow economy and cutting public-sector pay. Furthermore, the privatisation of 15 state-owned companies (either via direct investment or via state-owned funds in companies such as Adria Airways, Elan, Ljubljana Airport and Telekom Slovenije) was agreed and a debt ceiling integrated into the Slovenian constitution.

One positive factor is that recession was able to be curbed in the third quarter. Economic output will continue to be affected by declining domestic demand (in spite of general stabilisation), however a major decline in GDP was prevented by an increase in export demand (exports rose by 4.9%). According to a forecast published by the European Commission in early November, Slovenia's national debt stood at 63.2% of GDP.

After winning a vote of confidence in November, the Slovenian parliaments approved budgets for 2014 and for 2015. The budgets aim to reduce the national deficit to 2.9% (2014) and then 2.4% (2015). After the presentation of the results of the bank stress test (December 2013), it became clear that Slovenia is capable of cleaning up its banking sector (capital shortfall of EUR 4.8 million) without being forced to resort to partners in the European Union. In other words, it can begin privatising state-owned banks once non-performing loans have been housed in a bad bank.

At the start of 2014, yields on Slovenian bonds fell to their lowest level since May 2011 at roughly 4.6% (June 2013: 6.8%). For these reasons, Hypo Alpe Adria did not consider there to be an impairment requirement on its exposure to Slovenia at the time of writing.

95.9.4. UKRAINE

Due to the political crisis in Ukraine that came to a head in first quarter of 2014 and saw the Crimean peninsula declare independence – with the new transitional government in Kiev enjoying the backing of the EU and the USA –, Hypo Alpe-Adria-Bank International AG believes that there will be a further downturn in the payment behaviour of customers. The tense economic situation in Ukraine is also reflected by downgrades from all three ratings agencies to Caa3/CCC/CCC, outlook: negative.

Hypo Alpe Adria has a leasing subsidiary in Ukraine with an exposure of EUR 29.7 million (2012: EUR 40.3 million). Of this exposure, EUR 28.9 million constitutes non-performing loans (2012: EUR 36.1 million). These are offset by existing provisions of EUR 19.4 million (2012: EUR 24.1 million). From the other subsidiary units (not including refinancing) there is a Ukraine exposure of EUR 2.8 million (2012: EUR 4.7 million).

For these reasons, Hypo Alpe Adria did not consider there to be any further impairment requirement on its exposure to Ukraine at the time of writing. Hypo Alpe Adria will continue to monitor the situation in Ukraine and, if necessary, take further action.

95.9.5. CYPRUS
Hypo Alpe Adria has no exposure to Cyprus.

## (96) Concentration risk

Concentration risks within a loan portfolio result from the uneven distribution of loans and advances to individual borrowers and/or group of borrowers. These also include concentrations of loans and advances in individual industry sectors, geographic regions as well as concentration from an uneven distribution of collateral providers.
As a result, Hypo Alpe Adria analyses, measures and steers the following concentration risks:

- Counterparty default concentrations
- Industry sector concentrations
- Geographic concentrations
- Collateral concentrations

Counterparty, industry sector and collateral concentrations are measured and managed within the context of the regular ICAAP calculations.

Additional risk capital requirements arising from risk concentrations are calculated using the Herfindahl Hirschman Index (HHI) and an add-on factor, which changes depending on the type of concentration.

## (97) Market price risk

### 97.1. Definition
Market risks consist of potential losses arising from a change in market prices. Hypo Alpe Adria classifies market price risks according to the risk factors in changes to interest rates, credit spread, currency, volatility and equity risks, as well as risks from alternative investments. Hypo Alpe Adria pays particular attention to identifying, measuring, analysing and managing market risk; the organisational division Group Market Risk Control is responsible for all market risks at group level.

Market price risks may result from securities (and products similar to securities), money and foreign currency products, derivatives, exchange rate hedges and results hedging, assets similar to equity or from management of assets and liabilities.

In addition to market risks, market liquidity risks may also be incurred if, in the event of low market demand, the bank is unable to liquidate trading positions during liquidity shortfalls (or due to risk-based offsetting requirements) in the short term. For existing positions, these are taken into account as part of the risk limitations for market risks.

### 97.2. General requirements
The bank develops its market risk strategy on the basis of strategy discussions with the relevant treasury units. Resolutions on the combined business and risk strategy at group level are passed exclusively in the Group Asset Liability Committee (Group ALCO).

### 97.3. Risk measurement
Hypo Alpe Adria calculates its market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99%. The main instrument used in this process is the Monte Carlo simulation with exponentially weighted volatilities and correlations derived from a history of 250 days. For the purpose of determining the economic market risk capital tied up in the risk-bearing capacity calculation, values are scaled to the uniform confidence level of 99.9%, assuming liquidation over a specific time period for each risk factor.

The models calculate potential losses taking into account historic market fluctuations (volatilities) and market context (correlations). In the year under review, the calculation of specific interest risk was further refined, also taking into account the increased significance of credit spread risks in the current market situation.

While the VaR that is determined for monitoring requirements is used to forecast potential losses under normal market conditions, future-oriented analyses using extreme assumptions are also carried out. Market positions are subjected to exceptional market price changes, crisis situations and worst case scenarios as part of so-called “stress tests”, and analysed for hazardous risk potentials using the simulated results. The stress scenarios are monitored for appropriateness and adjusted if required. Back-testing will be performed on the methods and models for defined market risk factors and portfolios at group level and the results presented in Hypo Alpe Adria's monthly market risk report.

The interest rate risk in the banking book is determined as a present value risk, as are all market risks at Hypo Alpe Adria. The risk of interest rate changes in the banking book is for the most part integrated into ongoing risk monitoring of market risk controlling as per value at risk.

Contractual cancellation rights are modelled as an option, and flow into the risk calculation. All stochastic positions are accounted for in accordance with internal models.

The method parameters for until further notice (UFN) product modelling are based on an elasticity concept.
In line with Basel II specifications, a 200-basis-point interest rate shock scenario is calculated for the interest rate risk in the banking book. The present value changes calculated in relation to the regulatory equity lie well below the so-called "outlier criterion". In addition, a large number of possible market fluctuations can be calculated and illustrated through a calculation of standard, forward, historic and extreme scenarios.

### 97.4. Risk limitation

A limit for market risk of 8.5% of the risk capital (including strategic market risk) has been set for Hypo Alpe Adria. This defined risk capital represents the maximum loss for assuming market risks.

The allocation of capital for market risk is carried out based on a defined limit application process, after deduction of a market risk limit reserve, and is determined by setting risk-factor limits for the individual market risk factors (interest risk, currency risk, equity risk (client default and investments), credit spread risk (liquid and illiquid), volatility risk and alternative investment risk). Furthermore, differentiation of these risk factor limits is made by assigning them to defined sub-portfolios. The risk and loss thresholds defined for risk mitigation act as an early-warning system to show any negative developments in the limit system early on.

### 97.5. Risk steering and monitoring

As part of the reporting process to the group's Executive Board, the value-at-risk and performance figures for the trading book, banking book investments and market risk steering figures as well as the corresponding risk capital view are submitted on a daily basis. Should limits be exceeded, there are escalation processes defined up to the level of the Executive Board.

The Board also receives a separate monthly report on the actual market risk situation for Hypo Alpe Adria, as well as on back-testing and stress test results, with a commentary on potentially significant developments as part of the market risk report as well as a quarterly report on the development of market risk limits.

The control of interest rate risk is carried out on an institutionalised basis in compliance with the regulatory requirements related to interest rate risk statistics. The Asset Liability Committee – which consists of the group's Executive Board as well as key staff in Treasury, Risk Management, Financial Controlling and Accounting – meets on a regular basis to analyse and decide on measures related to balance sheet structure and liquidity steering. In addition to group-level monitoring and steering, all subsidiaries and subsidiary portfolios are also monitored and steered.

### 97.6. Overview – market risk

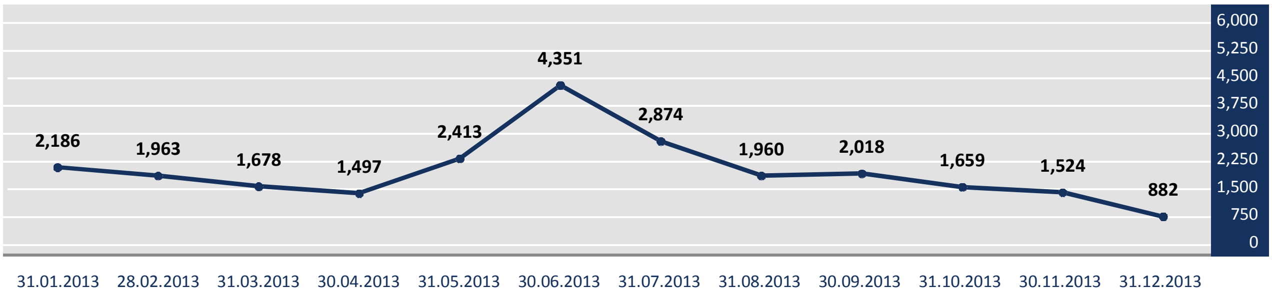
97.6.1. INTEREST RATE RISK

The chart below shows the progression of interest rate risk (including the interest rate risk of the trading book) for Hypo Alpe Adria in 2013 (comparable VaR figure as at 31 December 2012 EUR 0.91 million).

The interest rate gap profile for Hypo Alpe Adria contains all interest rate relevant on- and off-balance-sheet items with their next interest rate fixing date. The stochastic cash flows are illustrated with uniform group standards and with local models for country-specific transactions. All interest rate gap profiles of local banks, local leasing companies and Brush companies are consolidated at group level and combined into the group interest rate gap profile. All interest-bearing balance sheet items are taken as the basis for calculating interest-rate risk and thus for limiting risk. Non-interest-bearing items are not included in the calculation, but are taken into account in other risk types such as equity risk.

Development in interest rate risk for Hypo Alpe Adria in 2013:

**Interest Rate Risk (Trading Book + Banking Book) – VaR (99%, 1 day)**
EUR thousand

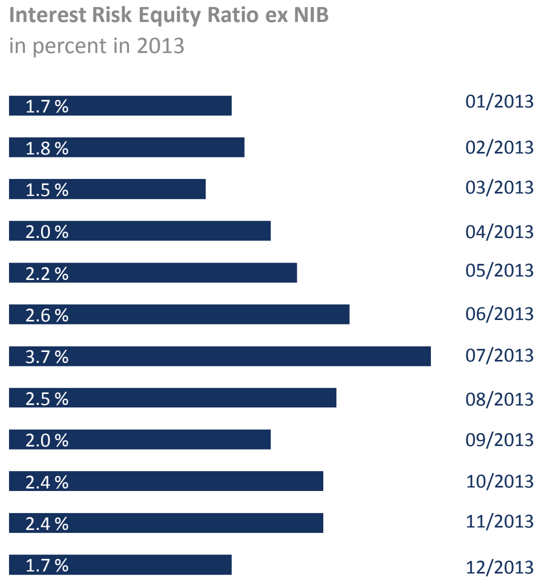



The methodology of the interest risk calculation is oriented to the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics. Initially, interest risks per defined currency are determined on the basis of the group interest rate gap profile; a second step calculates the risk equity ratio as a percentage of equity capital.

The regulatory limit of 20% and the internal limit of 15% were not even close to being reached or exceeded at any point in the year (the interest risk equity ratio ex NIB as at 31 December 2012 came to 2.0%).

The main instruments used to control the interest rate gap profile are derivatives, which establish a hedging relationship for both assets and liabilities in the form of effective micro-hedges or portfolio hedges, thereby mitigating interest rate risk.

Interest risk equity ratio ex NIB in percent in 2013:

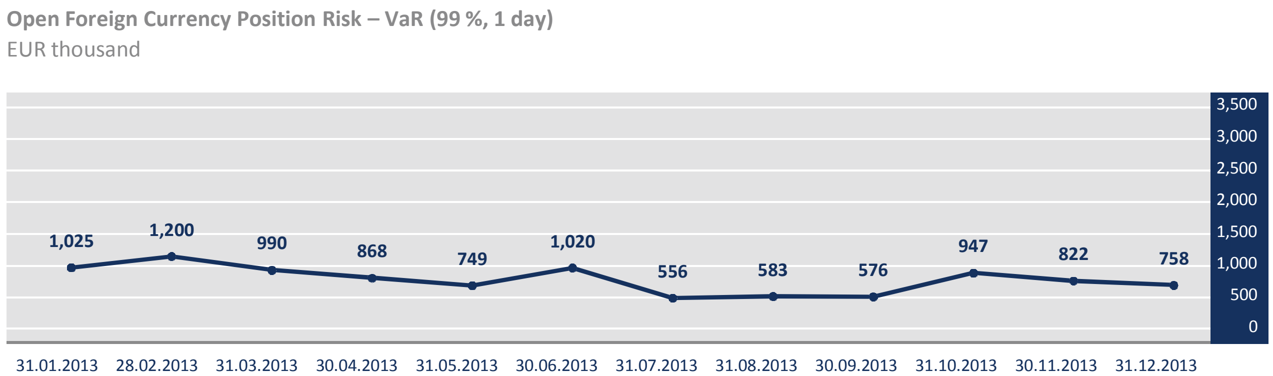



Regulatory requirements state that the proportion of interest rate risk – in the form of the standardised 200-bp rise in directly relevant interest-bearing positions (excluding non-interest-bearing (NIB) positions) – in equity may not exceed 20%. An internal limit for the interest risk equity ratio of a maximum of 15% has been set; however, this has only been sparingly used because of the positive offsetting effects in the interest rate gap profiles. Non-interest-bearing (NIB) positions do not therefore affect interest in the interest rate gap profiles – this conforms to modern international standards and guidelines such as the German minimum requirements for Risk Management (MaRisk).

97.6.2. FOREIGN CURRENCY RISK

The data base for determining the value at risk for foreign currency risks at the group level of Hypo Alpe Adria is based on the figures in the OeNB report and contains operational business activities. Foreign currency risk thereby covers the entire FX risk of Hypo Alpe Adria. The main risk drivers for foreign currency risk at Hypo Alpe Adria are the UAH and USD currencies. The value at risk for this foreign currency risk was approximately EUR 0.76 million per day as at 31 December 2013 (value at risk as at 31 December 2012 EUR 0.66 million), at a confidence level of 99%.

Changes in foreign currency risk at Hypo Alpe Adria in 2013:



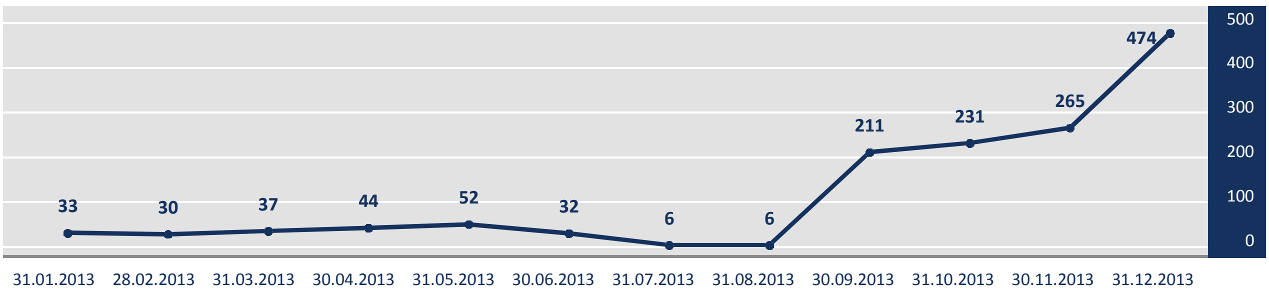

In addition to the foreign currency risk from operational business activities, there is an additional foreign currency risk at Hypo Alpe Adria from the consolidation of the strategic investments of Hypo Alpe-Adria-Bank International AG in Hypo Alpe-Adria-Bank a.d. Beograd and Hypo Alpe-Adria-Bank d.d. Zagreb, which has been recognised in the Hypo Alpe Adria open foreign exchange position since 1 October 2013 and is therefore no longer reported separately.

97.6.3. EQUITY RISK

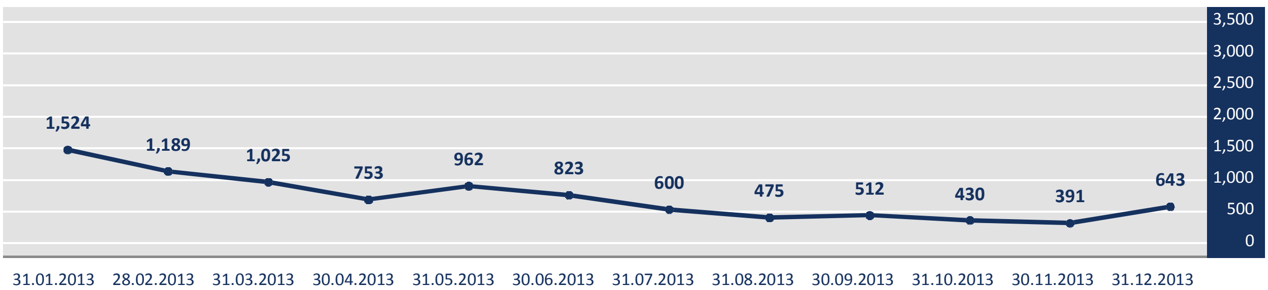
The share capital held in the group is susceptible to market (price) risks, which arise from the uncertainty surrounding of the future value of these shares. Hypo Alpe Adria makes a distinction between equity risks, which arise from liquidating collateral related to credit risk transactions, where liquidation is not currently possible for reasons of illiquidity or because of regulations or agreements (client default), and equity risks from an investment viewpoint (investments). The largest proportion of the risk lies in the share portfolio in the banking book investments of Hypo Alpe-Adria-Bank d.d. Slovenia and Hypo Alpe-Adria-Bank International AG. The value at risk for the equity risk (client default) at Hypo Alpe Adria amounted to EUR 0.64 million as at 31 December 2013 (value at risk as at 31 December 2012 EUR 0.82 million) with a one-day holding period and a confidence level of 99% and EUR 0.47 million (value at risk as at 31 December 2012 EUR 0.03 million) for the equity risk from an investment viewpoint. In line with the risk strategy, no further increase in share positions from an investment viewpoint is planned in Hypo Alpe Adria.

Changes in equity price risk in Hypo Alpe Adria in 2013:

**Equity Risk – Investments – VaR (99 %, 1 day)**
EUR thousand



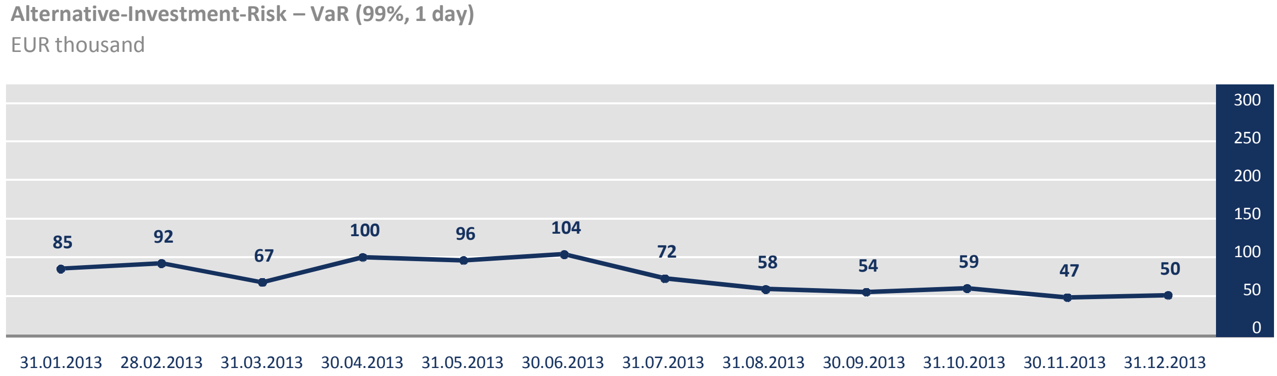

**Equity Risk – Client Default – VaR (99 %, 1 day)**
EUR thousand




97.6.4. ALTERNATIVE INVESTMENT RISK

The alternative investment risk within Hypo Alpe Adria stood at EUR 0.05 million at year-end 2013 with a 1-day value at risk and 99% confidence level (value at risk as at 31 December 2012 EUR 0.07 million). In line with the current risk strategy, the alternative investments book contains a wind-down portfolio – there are sales orders already in place for all investments in the alternative investments book of Hypo Alpe Adria.

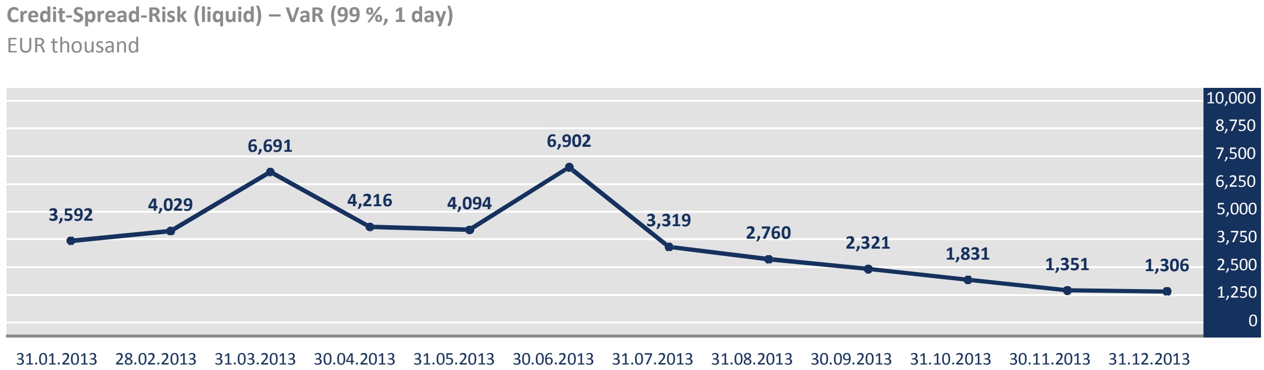
Changes in the alternative investment risk of Hypo Alpe Adria in 2013:

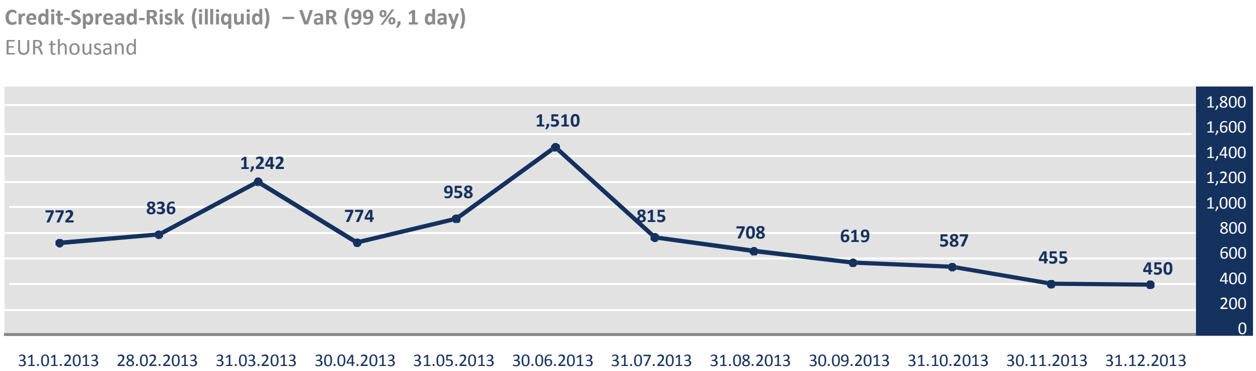



97.6.5. CREDIT SPREAD RISK

The liquid credit spread risk within Hypo Alpe Adria stood at EUR 1.31 million at year-end 2013 with a 1-day value at risk and 99% confidence level (value at risk as at 31 December 2012 EUR 4.27 million) – the illiquid credit spread risk stood at EUR 0.45 million at year-end 2013 (value at risk as at 31 December 2012 EUR 0.82 million). As a result, credit spread risk represents the main market risk driver at Hypo Alpe Adria. The most important influencing factor is the liquidity reserves in the form of securities in Hypo Alpe-Adria-Bank International AG. Consequently, there is very limited scope for reducing risk from these positions.

Changes in credit spread risk in Hypo Alpe Adria in 2013:



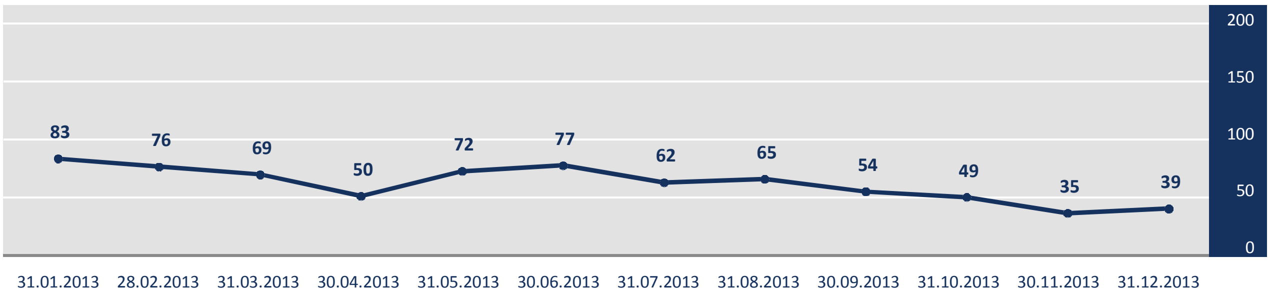



97.6.6. VOLATILITY RISK

The volatility risk for Hypo Alpe Adria stood at EUR 0.04 million at year-end 2013 with a 1-day value at risk and 99% confidence level (value at risk as at 31 December 2012 EUR 0.07 million). Volatility risk is defined within Hypo Alpe Adria as the risk of changes in the present value of open option positions held by the treasury unit caused by a change in implicit volatility.

Change in volatility risk in Hypo Alpe Adria in 2013:

**Volatility Risk – VaR (99 %, 1 day)**
EUR thousand




## (98) Liquidity risk

### 98.1. Definition

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

### 98.2. General requirements

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

Liquidity steering and management at group level are the responsibility of the Group Balance Sheet Management & Treasury division of Hypo Alpe Adria. It is here that the steering of situational and structural liquidity, and the coordination of funding potential at group level, takes place. The local treasury units are responsible for operational liquidity steering and liquidity offsets. At group level, liquidity risk controlling is the responsibility of the Group Market Risk Control division of Hypo Alpe Adria, and of the respective risk control unit at local level. It is here that risk measurement and mitigation as well as timely and consistent reporting are carried out.

Hypo Alpe Adria has in place emergency liquidity planning that has been set out in writing. It sets out the processes, and control or hedging instruments which are required to avert imminent crises or tackle acute crises. In the event of a liquidity crisis, the top priorities of the bank are to rigorously maintain the ability to pay and to prevent damage to the bank's reputation.

### 98.3. Risk measurement

The main methodological tool for measuring, analysing, monitoring and reporting on liquidity risk within Hypo Alpe Adria is the liquidity overview. It is used to compare liquidity gaps resulting from deterministic and modelled future payment flows and the realisable liquidity coverage potential in strictly defined maturity bands.

The liquidity potential quantifies the capacity of the bank – in amounts and dates – to procure liquid funds at the earliest possible opportunity and at favourable terms and conditions. It highlights options regarding the coverage of liquidity gaps, and hence all liquidity risks related to payment flows. The most important components of liquidity potential (counterbalancing capacity) are as follows:

- Free access to central bank and interbank funds
- ECB-eligible securities
- Issue potential in the cover register

- Senior bond issues
- Subsidised loans
- Securitisation potential

In addition to the normal scenario, other scenario analyses conducted under stress conditions, such as name crises (rating deterioration, reputation risks) as well as market crises (restrictive funding options on capital markets, increased cash flow outflow as well as transfer limits), supplement the risk measurement spectrum.

On the basis of the liquidity overviews, key indicators are determined for the different scenarios, which allow a compact assessment of the liquidity situation.

For the purpose of limiting structural liquidity, present value losses in the event of an increase in the funding spread caused by a rating deterioration are compared in the risk-bearing capacity calculation to the economic equity. In addition, an internal NSFR limit restricts the structural liquidity risk.

### 98.4. Risk controlling

A bundle of different liquidity reserves ensures that Hypo Alpe Adria maintains its ability to pay even during crisis situations. They are subjected to different stresses in order to maintain an overview of available liquidity resources through the respective units even during crisis situations.

Moreover, the bank holds its own liquidity buffer for stress situations, composed of ECB-eligible securities and securities that can be quickly liquidated.

There has been a change in the method of reporting liquidity potential or rather counterbalancing capacity at Hypo Alpe Adria since the previous year – total liquidity potential as at 31 December 2012 stood at EUR 1.48 billion.
In 2013, counterbalancing capacity at Hypo Alpe Adria was structured as follows:

EUR thousand

| Liquidity Buffer | Hypo Alpe Adria countable |
|---|---|
| High Quality Securities (incl. Credit Claims) | 1,508,275 |
| Central Bank Reserves | 1,860,513 |
| Cash | 77,154 |
| **Counterbalancing Measures** | **Hypo Alpe Adria countable** |
| Other liquefiable Assets (short-, medium term) | 97,496 |
| Intragroup Liquidity Support | 0 |
| Committed/Required Credit Lines | 0 |
| New Issuance | 0 |
| Securitization | 0 |
| Covered Pool Potential | 0 |
| **Total Counterbalancing Capacity** | **3,543,437** |

Liquidity controlling for the group is carried out both at a local level, in particular for HRK and RSD, as well as centrally for the group through the group holding.

A cash flow statement composed of deterministic, stochastic and forecast data forms the basis of this process. Short-term forecast data is elicited directly from client transactions by the sales units for the purposes of short-term controlling, while planned budget information is used for medium-term controlling.

Any occurring gaps are compared to the liquidity potential – a well diversified bundle of liquidity reserves available for liquidity management. The liquidity reserves are subjected to a regular review and to stress situations, depending on the market situation (as described above).

Besides structural controlling, care is also taken to ensure that general regulatory requirements for the different group countries are adhered to; in Austria this includes meeting the minimum reserve as well as first and second grade liquidity reserves and, from 2015, compliance with the required LCR.

### 98.5. Risk monitoring

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

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

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

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

**98.6. Overview – liquidity situation**

Overall, the liquidity situation of Hypo Alpe Adria International AG in 2013 was characterised by over-liquidity. At no time was it necessary to access liquidity reserves; instead, all liabilities were met using current cash flows. Capital market activities were therefore not necessary in 2013.

Following years of primary funds growth (2010, 2011 and 2012), Hypo Alpe Adria saw a decline in primary funds that can be summarised as follows:

- Outflow of primary funds in Italy due to EU resolution.
- The SEE network remained constant in the first half of 2013. From midway through the year, after the announcement of the EU ruling and the reduction of interest rates on deposits at SEE subsidiaries, the development turned negative with increased outflows in the third quarter of 2013
- The volume of primary funds fell in comparison to the 2012 financial statements as a direct result of the sale of Hypo Alpe-Adria Bank AG (Hypo Austria).

In 2013, capital measures totalling EUR 1.75 billion were carried out by the owner, the Republic of Austria. Through repayments on subsidiaries' lines of credit and capital measures, the liquidity position at year-end 2013 came to around EUR 2 billion. For 2014, an adequate liquidity position can also be expected on the basis of the anticipated inflows and outflows (excluding repayments on Bayern LB/Austrian law on equity substitution (EKEG) credit of around EUR 2.3 billion).

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

- Current accounts, call money and cash collaterals are due on the next working day.
- Dead stock cash flows (primary funds) are excluded (only legal due date is decisive) and are also set as due on the next working day.
- Equity components, accruals, impairment write-downs and positions not relevant to liquidity are not represented.
- EKEG-relevant liabilities to Bayern LB (EUR 2.3 billion) are included and reported in the shortest maturity band.

On 3 April 2014, the ECB Governing Council decided to suspend Hypo Alpe-Adria-Bank International AG from its monetary refinancing transactions and the ECB's refinancing facilities. The ECB Governing Council referred to the breaching of regulatory capital requirements as the reason for the move. Hypo Alpe-Adria-Bank International AG does not currently use any of the ECB's refinancing facilities, so this is not expected to have any negative effect on the bank's liquidity situation. The suspension only affects the Austrian parent company (Hypo Alpe-Adria-Bank International AG), and not local subsidiaries abroad.

EUR m

| At 31 December 2013 | 1 Y 2014 | 2 Y 2015 | 3 Y 2016 | 4 Y 2017 | 5 Y 2018 | > 5 Y (> 2018) | Total |
|---|---|---|---|---|---|---|---|
| Financial liabilities* | | | | | | | |
| Liabilities to credit institutions | 3,104 | 527 | 299 | 242 | 26 | 88 | 4,286 |
| Liabilities to customers | 3,371 | 759 | 568 | 997 | 311 | 308 | 6,315 |
| Liabilities evidenced by certificates | 1,551 | 2,501 | 1,737 | 3,545 | 363 | 250 | 9,946 |
| Other liabilities | 125 | 0 | 0 | 0 | 0 | 0 | 125 |
| Subordinated capital and hybrid capital | 15 | 24 | 215 | 586 | 10 | 1,084 | 1,934 |
| **Total** | **8,166** | **3,811** | **2,820** | **5,371** | **709** | **1,730** | **22,607** |

*relevant to liquidity

**Maturities of financial liabilities**
as of 31 December 2013 in EUR m


At 31 December 2012, liabilities relevant to liquidity at Hypo Alpe Adria came to EUR 29.29 billion.

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

The due date analysis for derivatives covers interest rate swaps, cross currency swaps and FX swaps and is divided into portfolios relevant for steering:

- Banking book: hedge transactions on the asset side of the balance sheet (e.g. fixed rate bonds)
- Market Risk Steering ALM: hedge transactions to steer the interest rate gap profile
- Market Risk Steering B2B: back-to-back transactions by Hypo Alpe-Adria-Bank International AG on the basis of the hedge requirement of individual subsidiaries
- Market Risk Steering FVO: hedge transactions under the fair value option
- Market Risk Steering FX: derivatives to hedge foreign exchange risks and to manage liquidity in foreign currencies
- Market Risk Steering HA: hedge transactions in the course of hedge accounting

EUR m

| At 31 December 2013 | 1 Y 2014 | 2 Y 2015 | 3 Y 2016 | 4 Y 2017 | 5 Y 2018 | > 5 Y (> 2018) | Total |
|---|---|---|---|---|---|---|---|
| **Net cash flow from derivatives** | | | | | | | |
| Banking book | -31 | -30 | -22 | -11 | -8 | -12 | -114 |
| Market Risk Steering ALM | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Market Risk Steering B2B | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Market Risk Steering FVO | 20 | 20 | 18 | 14 | -1 | -19 | 52 |
| Market Risk Steering FX | 2 | -189 | 0 | -30 | -36 | 0 | -252 |
| Market Risk Steering HA | 226 | 202 | 144 | 98 | -2 | -72 | 597 |
| **Total** | **217** | **4** | **141** | **71** | **-46** | **-102** | **284** |

* relevant to liquidity

The majority of the derivatives are used for hedge transactions; the net cash flow is therefore diametrically opposed to the cash flows from the underlying transactions. At 31 December 2012, cash flows from derivatives relevant to liquidity at Hypo Alpe Adria came to EUR 853 million.

## (99) Operational risk

Hypo Alpe Adria defines operational risk (“OpRisk”) as the risk of incurring losses due to the inappropriateness or failure of internal processes, systems, people or external factors. This definition includes legal risks as well as risks to reputation, but not strategic risks.

The aim of operational risk management at Hypo Alpe Adria is the use of a “proactive approach” (risk management) instead of a “reactive approach” (managing losses). Consolidated subsidiaries must implement operational risk on the basis of the Basel II standard approach (“STA”) as part of the project agreements. Operational risks are identified and evaluated, so that suitable measures for the prevention, reduction, transfer or acceptance of risks, including priorities for the implementation of safety and protection measures, can be defined.

For this reason, all banking and leasing subsidiaries, as well as any other subsidiaries included in the consolidated group, are taken into account in every aspect of operational risk management.

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

The OpRisk responsibility of sub-organisations of the subsidiaries is the responsibility of the subsidiary concerned.

In order to ensure that synergy effects are achieved, arrangements have been made with Group Legal Services that the operational risk management software (“Inform”) will also include legal cases, including those which are not associated with OpRisk. The advantage of this approach is that it enables the creation of a common platform for the exchange of information between the different areas.

The strategy for operational risk is supported by different instruments and methods. In principle, these methods are used to identify and evaluate risks. Measures to limit damages must be planned on the basis of the results.

The operational risk management software (“Inform”) forms the platform for implementing the appropriate instruments at Hypo Alpe Adria.
The following methods are used to support the strategy:

- Loss database for the systematic data capture of operational risks throughout the organisation
- Qualitative instruments such as scenario analyses and risk inventories to determine and evaluate the risks within business processes
- Regular reports as an instrument for communicating significant operational risks to the Executive Board

The current threshold for the reporting of losses within Hypo Alpe Adria has been set at EUR 5,000. All losses, from 1 January 2006 onwards, must be recorded.

### OpRisk 2013 milestones and results

The focus of OpRisk in 2013 was the analysis of activities carried out in previous years concerning the precise development of risk avoidance measures. In cooperation with process management, weaknesses and potential for improvement are identified, processes are adapted and employees trained.

In 2013, efforts were centred on raising awareness. A group-wide e-learning concept was rolled out in September. The response from this concept will be used for the precision management of local training courses.

In the second quarter of 2013, a significant operational risk case was determined in Italy. A task force has been created to deal with these cases and, from an internal control system (ICS) perspective, the insufficient processes are identified, responsibilities are determined and weaknesses are eliminated.

Another focus was put on training local Operational Risk Officers, who were assigned to functions. They were provided with local training, in cooperation with local risk managers.

The flow of information to management was intensified further. A committee dealing with issues is set up every quarter and meets regularly. Any unresolved issues are discussed with those in charge, with the results presented to management. These committees – both at country- and group-level – meet quarterly; country-level committees send status reports to the group. Results are discussed in workshops and the information is shared with the relevant departments (Audit, Compliance, ICS, etc.).

In 2014, another focus will be on establishing a sustainable ICS and OpRisk in wind-down units.

### (100) Object risk

At Hypo Alpe Adria, object risk covers all possible losses that may arise from fluctuations in the market values of movable equipment and real estate held by Hypo Alpe Adria. Real estate risks arising from collateral for mortgages (residual risk) are not taken into account as these are already covered by credit risk.

Hypo Alpe Adria Group aims to reduce object risk exposures by proactively selling the assets in question in a timely manner. The market and/or carrying amounts of the assets in question serve as the basis for the measurement of object risk.

Capital requirements are calculated using the standardised approach. This states that the market value is multiplied by a risk weighting of 100% and then by a weighting factor. This factor was raised from the regulatory level of 8% to 10% in 2013 to make the regulatory level more conservative.

### (101) Other risks

Hypo Alpe Adria considers the following risk types as "Other risks":
- Strategic risk
- Capital risk
- Reputation risk
- Business risk

In the risk-bearing capacity calculation, 3% of the risk capital required – as stated in the risk strategy (for all other risk types) – is held as a buffer for "Other risks".

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

In 2013, group-wide analysis was carried out on the subject of interest rate directives. 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 detected 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. Internal investigations are currently being carried out in other group units to check for parallel circumstances. If similar cases are determined, claims under civil law resulting from potential criminal conduct would be pursued against the corresponding opposing parties.

b) Interest rate adjustments contrary to the terms of the agreement

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 and / or components of currency contracts following judicial decisions or changes to statutory provisions

Over the past ten years there has been an increase in private customers who concluded foreign currency loans or foreign currency leasing agreements (especially in CHF). These agreements are now often the subject of customer complaints and are also the subject of legal disputes on an increasing basis (particularly in Croatia). The majority of these legal disputes are initiated by consumer protection associations. One point of complaint is the lack of information provided to the customer and that the customer is not made aware of the potential consequences of such agreements when they were concluded or beforehand. Another allegation is that the interest rate adjustment clauses ran contrary to the terms of the agreement. At the time of writing, a number of first-instance verdicts have been issued on the subject. However, these verdicts provide no reliable assessment of the outcome of the legal dispute or the associated financial implications at the current time.

### (103) Legal risks

Please refer to note (129.3.2) 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.

### (104) Tax risks relating to tax audits

Tax audits are currently being conducted by tax authorities both in Austria and other group countries. Provisions have already been booked in the consolidated financial statements as at 31 December 2013 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

### (105) Analysis of remaining maturity

| Analysis of remaining maturity as at 31.12.2013 | thereof : due on demand | up to 3 months |
|---|---|---|
| Cash and balances at central banks | 2,312.7 | 0.0 |
| Loans and advances to credit institutions | 1,475.8 | 173.9 |
| Risk provisions on loans and advances to credit institutions | –8.2 | 0.0 |
| Loans and advances to customers | 5,885.1 | 1,365.4 |
| Risk provisions on loans and advances to customers | –2,329.3 | –148.0 |
| Trading assets | 12.5 | 0.0 |
| Derivative financial instruments | 3.7 | 21.2 |
| Financial investments – designated at fair value through profit or loss | 0.0 | 0.0 |
| Financial investments – available for sale | 0.0 | 347.4 |
| Financial investments – held to maturity | 0.0 | 2.6 |
| Investments in companies accounted for at equity | 0.0 | 0.0 |
| Investment properties | 0.0 | 0.0 |
| Intangible assets | 0.0 | 0.0 |
| Tangible assets | 0.0 | 0.0 |
| Tax assets | 0.0 | 7.2 |
| thereof current tax assets | 0.0 | 7.2 |
| thereof deferred tax assets | 0.0 | 0.0 |
| Assets classified as held for sale | 0.0 | 1.5 |
| Remaining other assets | 130.0 | 92.2 |
| Risk provisions on loans and advances on other assets | –35.3 | –0.3 |
| **Total** | **7,446.9** | **1,863.2** |
| Liabilities to credit institutions | 3,231.9 | 229.0 |
| Liabilities to customers | 1,276.4 | 1,208.4 |
| Liabilities evidenced by certificates | 249.6 | 852.7 |
| Derivative financial instruments | 0.1 | 6.6 |
| Provisions | 0.0 | 18.3 |
| Tax liabilities | 0.0 | 0.5 |
| thereof current tax liabilities | 0.0 | 0.5 |
| thereof deferred tax liabilities | 0.0 | 0.0 |
| Liabilities included in disposal groups classified as held for sale | 0.0 | 0.0 |
| Remaining other liabilities | 25.6 | 96.3 |
| Subordinated capital | 0.0 | 240.8 |
| Hybrid capital | 0.0 | 0.0 |
| **Total** | **4,783.7** | **2,652.7** |

The remaining term of maturity is the period between the end of the reporting period and the expected payment date for the loan or liability. Where loans or liabilities fall due in partial amounts, the remaining maturity is reported separately for each partial amount. The maturity analysis is made according to the carrying amount.

The liabilities to financial institutions that are due daily and the liabilities evidenced by certificates include financing granted by a former owner in the amount of EUR 2,378.7 million (2012: EUR 2,374.5 million) that falls under the Equity Substitution Act (EKEG). Reporting for the previous year was adjusted accordingly in the analysis of remaining maturity.

EUR m

| | from 3 months to 1 year | Total up to 1 year | from 1 year to 5 years | over 5 years | Total over 1 year | Total |
|---|---|---|---|---|---|---|
| | 0.0 | **2,312.7** | 0.0 | 0.0 | **0.0** | **2,312.7** |
| | 61.5 | **1,711.3** | 330.9 | 45.3 | **376.1** | **2,087.4** |
| | 0.0 | **–8.2** | –0.1 | 0.0 | **–0.1** | **–8.3** |
| | 2,538.2 | **9,788.7** | 5,707.5 | 3,792.7 | **9,500.2** | **19,289.0** |
| | –253.1 | **–2,730.4** | –630.4 | –464.3 | **–1,094.7** | **–3,825.1** |
| | 0.0 | **12.5** | 0.0 | 0.0 | **0.0** | **12.5** |
| | 11.5 | **36.4** | 762.3 | 271.3 | **1,033.6** | **1,070.1** |
| | 0.0 | **0.0** | 189.9 | 315.3 | **505.2** | **505.2** |
| | 687.9 | **1,035.3** | 1,129.4 | 256.8 | **1,386.2** | **2,421.5** |
| | 0.1 | **2.7** | 41.8 | 39.3 | **81.1** | **83.7** |
| | 1.4 | **1.4** | 4.5 | 0.0 | **4.5** | **5.9** |
| | 0.0 | **0.0** | 241.9 | 873.4 | **1,115.3** | **1,115.3** |
| | 0.2 | **0.2** | 2.2 | 13.9 | **16.1** | **16.3** |
| | 0.0 | **0.0** | 63.2 | 197.6 | **260.8** | **260.8** |
| | 33.5 | **40.7** | 83.9 | 2.1 | **86.0** | **126.7** |
| | 33.5 | **40.7** | –12.6 | 0.9 | **–11.7** | **29.0** |
| | 0.0 | **0.0** | 96.5 | 1.2 | **97.7** | **97.7** |
| | 96.0 | **97.5** | 0.0 | 0.0 | **0.0** | **97.5** |
| | 130.2 | **352.4** | 114.0 | 222.2 | **336.2** | **688.6** |
| | –1.2 | **–36.8** | –4.4 | 0.0 | **–4.4** | **–41.2** |
| | **3,306.3** | **12,616.4** | **8,036.7** | **5,565.5** | **13,602.2** | **26,218.6** |
| | 55.9 | **3,516.8** | 873.6 | 274.9 | **1,148.5** | **4,665.3** |
| | 1,518.0 | **4,002.8** | 1,960.8 | 157.3 | **2,118.2** | **6,120.9** |
| | 455.2 | **1,557.6** | 8,820.7 | 17.5 | **8,838.2** | **10,395.8** |
| | 4.3 | **11.1** | 326.6 | 439.6 | **766.2** | **777.3** |
| | 118.9 | **137.3** | 49.1 | 5.1 | **54.3** | **191.5** |
| | 1.8 | **2.3** | 5.8 | 6.6 | **12.4** | **14.8** |
| | 1.8 | **2.3** | 0.0 | 0.0 | **0.0** | **2.3** |
| | 0.0 | **0.0** | 5.8 | 6.6 | **12.4** | **12.4** |
| | 5.6 | **5.6** | 0.0 | 0.0 | **0.0** | **5.6** |
| | 59.3 | **181.2** | 14.3 | 77.2 | **91.4** | **272.7** |
| | 0.2 | **241.0** | 271.4 | 1,402.5 | **1,673.8** | **1,914.8** |
| | 0.0 | **0.0** | 0.0 | 1.2 | **1.2** | **1.2** |
| | **2,219.2** | **9,655.6** | **12,322.3** | **2,381.9** | **14,704.2** | **24,359.8** |

| Analysis of remaining maturity as at 31.12.2012* | thereof : due on demand | up to 3 months |
|---|---|---|
| Balances at central banks | 2,873.2 | 0.0 |
| Loans and advances to credit institutions | 1,373.4 | 254.1 |
| Risk provisions on loans and advances to credit institutions | –2.9 | 0.0 |
| Loans and advances to customers | 3,186.5 | 1,943.9 |
| Risk provisions on loans and advances to customers | –2,012.9 | –300.2 |
| Trading assets | 1.3 | 0.1 |
| Derivative financial instruments | 7.2 | 67.3 |
| Financial investments – designated at fair value through profit or loss | 0.0 | 33.7 |
| Financial investments – available for sale | 0.0 | 296.5 |
| Financial investments – held to maturity | 0.0 | 3.0 |
| Investments in companies accounted for at equity | 0.0 | 0.0 |
| Investment properties | 0.0 | 0.0 |
| Intangible assets | 0.0 | 0.0 |
| Tangible assets | 0.0 | 0.0 |
| Tax assets | 0.0 | 1.1 |
| thereof current tax assets | 0.0 | 1.2 |
| thereof deferred tax assets | 0.0 | 0.0 |
| Assets classified as held for sale | 0.0 | 0.0 |
| Remaining other assets | 2.8 | 127.4 |
| Risk provisions on loans and advances on other assets | –1.3 | 0.0 |
| **Total** | **5,427.2** | **2,426.8** |
| Liabilities to credit institutions | 3,133.5 | 400.3 |
| Liabilities to customers | 2,084.2 | 1,397.8 |
| Liabilities evidenced by certificates | 249.4 | 849.9 |
| Derivative financial instruments | 0.1 | 4.7 |
| Provisions | 7.0 | 17.3 |
| Tax liabilities | 0.0 | 4.6 |
| thereof current tax liabilities | 0.0 | 4.6 |
| thereof deferred tax liabilities | 0.0 | 0.0 |
| Liabilities included in disposal groups classified as held for sale | 0.0 | 0.0 |
| Remaining other liabilities | 5.8 | 149.4 |
| Subordinated capital | 0.0 | 230.4 |
| Hybrid capital | 0.0 | 0.0 |
| **Total** | **5,480.0** | **3,054.4** |

* Previous year's figures for 2012 were adjusted.

EUR m

| | from 3 months to 1 year | Total up to 1 year | from 1 year to 5 years | over 5 years | Total over 1 year | Total |
|---|---|---|---|---|---|---|
| | 0.0 | **2,873.2** | 0.0 | 0.0 | **0.0** | **2,873.2** |
| | 124.4 | **1,752.0** | 172.1 | 69.0 | **241.1** | **1,993.1** |
| | 0.0 | **–3.0** | 0.0 | 0.0 | **0.0** | **–3.0** |
| | 2,908.5 | **8,038.9** | 6,908.9 | 9,453.7 | **16,362.6** | **24,401.5** |
| | –302.8 | **–2,616.0** | –239.8 | –214.4 | **–454.2** | **–3,070.2** |
| | 0.0 | **1.4** | 0.1 | 0.0 | **0.1** | **1.5** |
| | 8.6 | **83.1** | 1,030.2 | 312.7 | **1,343.0** | **1,426.1** |
| | 6.7 | **40.4** | 92.4 | 650.6 | **743.0** | **783.4** |
| | 526.7 | **823.2** | 1,452.5 | 412.6 | **1,865.2** | **2,688.3** |
| | 5.0 | **8.0** | 41.4 | 41.1 | **82.5** | **90.5** |
| | 0.0 | **0.0** | 7.3 | 0.1 | **7.4** | **7.4** |
| | 0.0 | **0.0** | 244.9 | 1,034.2 | **1,279.2** | **1,279.2** |
| | 0.0 | **0.0** | 23.7 | 21.0 | **44.7** | **44.6** |
| | 0.0 | **0.0** | 113.2 | 278.8 | **392.0** | **392.0** |
| | 16.1 | **17.3** | 17.9 | 41.8 | **59.7** | **77.0** |
| | 16.1 | **17.3** | 1.1 | 0.0 | **1.1** | **18.4** |
| | 0.0 | **0.0** | 16.9 | 41.8 | **58.6** | **58.6** |
| | 0.0 | **0.0** | 0.0 | 0.0 | **0.0** | **0.0** |
| | 175.8 | **306.0** | 329.4 | 194.3 | **523.7** | **829.7** |
| | 0.0 | **–1.3** | –9.2 | 0.0 | **–9.2** | **–10.5** |
| | **3,469.2** | **11,323.1** | **10,185.1** | **12,295.5** | **22,480.6** | **33,803.7** |
| | 129.0 | **3,662.8** | 1,293.4 | 296.3 | **1,589.7** | **5,252.5** |
| | 2,345.7 | **5,827.7** | 2,030.0 | 548.2 | **2,578.2** | **8,405.9** |
| | 1,751.7 | **2,851.0** | 10,984.7 | 1,000.1 | **11,984.8** | **14,835.8** |
| | 3.6 | **8.5** | 311.9 | 461.6 | **773.5** | **781.9** |
| | 79.6 | **104.0** | 12.5 | 11.7 | **24.1** | **128.1** |
| | 13.4 | **18.0** | 19.0 | 3.2 | **22.1** | **40.1** |
| | 13.4 | **17.9** | 0.2 | 0.0 | **0.2** | **18.1** |
| | 0.0 | **0.1** | 18.8 | 3.2 | **21.9** | **22.0** |
| | 0.0 | **0.0** | 0.0 | 0.0 | **0.0** | **0.0** |
| | 123.9 | **279.1** | 30.3 | 118.2 | **148.5** | **427.6** |
| | 268.4 | **498.8** | 346.5 | 1,111.9 | **1,458.4** | **1,957.3** |
| | 0.0 | **0.0** | 0.0 | 6.0 | **6.0** | **6.0** |
| | **4,715.5** | **13,250.0** | **15,028.2** | **3,557.1** | **18,585.3** | **31,835.3** |

## (106) Finance leases

Receivables under finance lease are included in loans and advances to credit institutions and to customers; they break down as follows:

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Minimum lease payments (agreed instalments + guaranteed residual value)** | **4,325.9** | **5,218.6** |
| **Non guaranteed residual value (+)** | **436.5** | **518.9** |
| **Gross investment value (=)** | **4,762.4** | **5,737.5** |
| up to 1 year | 1,031.6 | 1,120.4 |
| from 1 year to 5 years | 1,772.1 | 2,079.5 |
| over 5 years | 1,958.7 | 2,537.6 |
| **Unrealized financial income (interest) (-)** | **–725.0** | **–996.0** |
| up to 1 year | –126.1 | –170.7 |
| from 1 year to 5 years | –333.5 | –444.6 |
| over 5 years | –265.4 | –380.7 |
| **Net investment value (=)** | **4,037.4** | **4,741.5** |

The cumulated risk provision on uncollectable outstanding minimum leasing payments from finance lease for 2013 amounts to EUR 454.3 million (2012 adjusted: EUR 454.8 million).

The total amount of contingent payment of rents from finance lease contracts recognised as income in the reporting period was EUR 9.0 million (2012: EUR 23.1 million).

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Present value of non guaranteed residual values | 436.5 | 518.9 |
| up to 1 year | 30.8 | 28.6 |
| from 1 year to 5 years | 69.1 | 75.4 |
| over 5 years | 336.6 | 414.9 |
| **Present value of minimum lease payments** | **3,600.9** | **4,222.6** |
| up to 1 year | 874.6 | 921.1 |
| from 1 year to 5 years | 1,369.6 | 1,559.5 |
| over 5 years | 1,356.8 | 1,742.0 |

The net investments from finance leases also include the present value of the non-guaranteed residual value.
Leased assets corresponding to finance leases break down as follows:

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Real-estate leases | 2,986.4 | 3,215.1 |
| Vehicle leases | 458.1 | 654.0 |
| Boat leases | 107.2 | 121.4 |
| Other movables | 485.6 | 751.0 |
| **Total** | **4,037.4** | **4,741.5** |

## (107) Operating leases

The future minimum lease payments from non-terminable operating leases are as follows for each of the years shown below:

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| up to 1 year | 81.2 | 62.2 |
| from 1 to 5 years | 219.3 | 207.6 |
| over 5 years | 94.3 | 134.2 |
| **Total** | **394.8** | **404.0** |

The breakdown of minimum lease payments from non-terminable operating leases, by leased assets, is as follows:

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Real-estate leases | 340.6 | 328.1 |
| Vehicle leases | 21.3 | 38.9 |
| Boat leases | 3.4 | 7.0 |
| Other movables | 29.4 | 30.0 |
| **Total** | **394.8** | **404.0** |

Contingent lease payments from operating leases recorded as income in the reporting period totalled EUR 4.0 million (2012: EUR 3.8 million).

## (108) Borrowing costs

Borrowing costs arising in relation to qualified assets as per IAS 23 are capitalised together with manufacturing costs. In financial year 2013, no borrowing costs were capitalised (2012: EUR 0.3 million at a financing cost rate of 1.4%).

## (109) Development costs

In the 2013 financial year, Hypo Alpe Adria capitalised development costs of EUR 0.7 million (2012: EUR 0.6 million) for self-generated software as defined in IAS 38 "Intangible assets".

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Development costs capitalised during the period | 0.7 | 0.6 |

### (110) Assets/liabilities in foreign currencies

The following balance sheet amounts are in foreign currency denominations:

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Assets | 8,929.0 | 10,834.9 |
| Liabilities | 5,433.6 | 6,964.1 |

The majority of the difference between the respective sums is hedged through foreign exchange swaps (currency swaps and cross-currency swaps) and foreign exchange forwards.

### (111) Fiduciary transactions

The sum of fiduciary transactions at the end of the reporting period which are not shown in the statement of financial position was as follows:

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Loans and advances to customers | 54.1 | 73.2 |
| **Fiduciary assets** | **54.1** | **73.2** |
| Liabilities to credit institutions | 35.9 | 73.2 |
| Liabilities to customers | 18.1 | 0.0 |
| **Fiduciary liabilities** | **54.1** | **73.2** |

### (112) Repurchase agreements

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

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Liabilities to credit institutions | 230.4 | 300.8 |
| Liabilities to customers | 0.0 | 0.0 |
| **Repurchase agreements** | **230.4** | **300.8** |

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Loans and advances to credit institutions | 0.0 | 1.8 |
| Loans and advances to customers | 12.9 | 2.9 |
| **Reverse repurchase agreements** | **12.9** | **4.8** |

### (113) Assets given as collateral

Assets with a value of EUR 470.6 million (2012 adjusted: EUR 530.3 million) were provided to third parties as collateral for own debts. These are mainly cash collaterals given as security related to derivatives. Further, securities of EUR 1,175.2 million (2012: EUR 971.7 million) were deposited with the Oesterreichische Nationalbank (OeNB) for possible refinancing. The corresponding assets continue to be recognised in Hypo Alpe Adria's balance sheet.

EUR m

| | 31.12.2013 | 31.12.2012* |
|---|---|---|
| Liabilities to credit institutions | 470.6 | 528.2 |
| Liabilities to customers | 0.0 | 2.1 |
| **Total** | **470.6** | **530.3** |

*Previous year's figures for 2012 were adjusted.

Securities in the amount of EUR 126.2 million (2012: EUR 152.7 million) were loaned through securities transactions.

### (114) Subordinated assets

The following assets shown in the statement of financial position are subordinated assets:

EUR m

| | 31.12.2013 | 31.12.2012* |
|---|---|---|
| Loans and advances to customers | 2.5 | 6.8 |
| Financial investments – available for sale | 45.1 | 48.4 |
| **Total** | **47.6** | **55.2** |

*Previous year’s figures for 2012 were adjusted.

### (115) Contingent liabilities and other off-balance-sheet liabilities

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

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Contingent liabilities** | **508.5** | **724.8** |
| from bills of exchange transferred for settlement | 0.2 | 0.4 |
| from credit guarantees | 260.7 | 431.2 |
| from letters of credit | 31.2 | 20.1 |
| from other guarantees | 200.8 | 249.2 |
| from other contingent liabilities | 15.6 | 23.8 |
| **Other liabilities** | **482.4** | **877.4** |
| from irrevocable credit commitments | 472.8 | 861.3 |
| from other liabilities | 9.6 | 16.1 |
| **Total** | **990.9** | **1,602.2** |

Other liabilities include liabilities due to the purchase or construction of investment properties and tangible assets totalling EUR 6.2 million (2012: EUR 14.6 million).

### (116) Liability for commitments issued through the "Pfandbriefstelle"

As a member of the Mortgage Bond Division of the Austrian State Mortgage Banks (Pfandbriefstelle), Hypo Alpe-Adria-Bank International AG in accordance with section 2 (1) of the Austrian Pfandbriefstelle Act (PfBrStG) is jointly liable with the other members for all the Pfandbriefstelle's liabilities. This liability applies equally for all other member institutions and their legal successors as listed in section 1 (2) of the articles of association of the Pfandbriefstelle. For liabilities of the Pfandbriefstelle which arose before 2 April 2003, or after 2 April 2003 with a term not beyond 30 September 2017, the guarantors (the State of Carinthia) of the member institutions are according to section 2 (2) of the PfBrStG equally jointly liable. In the audit report for the Pfandbriefstelle setting out the legal obligations on liabilities, the value of the liabilities to be covered by the guarantors was put at approximately EUR 6.2 billion as at the reporting date 31 December 2013 (2012: EUR 7.6 billion). After taking account of the funds taken up by the Pfandbriefstelle and forwarded to Hypo Alpe-Adria-Bank International AG in the amount of EUR 1.2 billion (2012: EUR 2.0 billion), the resulting amount which must be reported in accordance with section 237 Z (8a) of the Austrian Commercial Code comes to EUR 4.9 billion (2012: EUR 5.6 billion). The values for the previous year as at 31 December 2012 still include the subsidiary bank Hypo Alpe-Adria-Bank AG (Austria) which was sold in December of 2013.

## (117) Breakdown of securities admitted to stock exchange trading

EUR m

| | 31.12.2013 | 31.12.2012* |
|---|---|---|
| **Trading assets** | | |
| Bonds and other fixed-interest securities | 6.1 | 1.3 |
| thereof listed | 6.1 | 1.3 |
| thereof unlisted | 0.0 | 0.0 |
| Shares and other non-fixed-interest securities | 0.0 | 0.1 |
| thereof listed | 0.0 | 0.0 |
| thereof unlisted | 0.0 | 0.1 |
| Treasury bills, eligible for refinancing with central banks | 6.4 | 0.0 |
| thereof listed | 0.0 | 0.0 |
| thereof unlisted | 6.4 | 0.0 |
| **Financial investments – designated at fair value through profit or loss** | | |
| Bonds and other fixed-interest securities | 197.1 | 185.2 |
| thereof listed | 70.0 | 68.6 |
| thereof unlisted | 127.1 | 116.6 |
| Shares and other non-fixed-interest securities | 18.4 | 19.1 |
| thereof listed | 1.9 | 1.8 |
| thereof unlisted | 16.6 | 17.3 |
| **Financial investments – available for sale** | | |
| AFS-shares in affiliated, non-consolidated companies (>50%) | 26.4 | 11.0 |
| thereof listed | 0.0 | 0.0 |
| thereof unlisted | 26.4 | 11.0 |
| Other participations (associated companies 20% –50%) | 1.3 | 2.8 |
| thereof listed | 0.0 | 0.0 |
| thereof unlisted | 1.3 | 2.8 |
| Participations without intension for sale (under 20%) | 1.6 | 6.6 |
| thereof listed | 0.0 | 0.0 |
| thereof unlisted | 1.6 | 6.6 |
| Bonds and other fixed-interest securities | 1,420.4 | 1,510.1 |
| thereof listed | 1,288.6 | 1,408.5 |
| thereof unlisted | 131.8 | 101.6 |
| Shares and other non-fixed-interest securities | 31.3 | 40.8 |
| thereof listed | 19.3 | 27.7 |
| thereof unlisted | 12.0 | 13.2 |
| Treasury bills, eligible for refinancing with central banks | 916.4 | 1,114.8 |
| thereof listed | 542.6 | 630.4 |
| thereof unlisted | 373.9 | 484.4 |
| **Financial investments – held to maturity** | | |
| Bonds and other fixed-interest securities | 83.7 | 85.5 |
| thereof listed | 83.7 | 83.3 |
| thereof unlisted | 0.0 | 2.3 |

*Previous year's figures for 2012 were adjusted.

## (118) Restructuring expenses

The restructuring expenses comprise the following elements:

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012* |
|---|---|---|
| Restructuring provisions | –13.5 | –6.5 |
| Other restructuring costs | –0.4 | –0.1 |
| Release of not fully used restructuring provisions | 0.2 | 7.1 |
| **Total** | **–13.7** | **0.5** |

* Previous year's figures for 2012 were adjusted.

In the 2013 financial year, restructuring provisions were formed for companies that were defined as wind-down units as a result of the EU investigations and are legally obliged to pay severance.

## (119) Audit expenses

The following fees were incurred by the audit company Ernst & Young in the period under review:

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Audit fees for the annual financial statements** | **–2.4** | **–2.4** |
| expenses for the current year | –2.4 | –2.3 |
| expenses relating to the previous year | 0.0 | –0.1 |
| **Fees for other services** | **–0.2** | **–0.2** |
| other assurance services | 0.0 | –0.1 |
| tax consultancy | 0.0 | 0.0 |
| other services | –0.2 | –0.1 |
| **Total services** | **–2.6** | **–2.7** |

The audit expenses incurred in the 2013 financial year include the net audit fee (excluding value-added tax) as well as the related cash expenditures. In addition to the services invoiced by the appointed auditor of the consolidated financial statements, Ernst & Young Wirtschaftsprufungsgesellschaft m.b.H. (Vienna), invoices for services rendered directly by other companies within the Ernst & Young network to Hypo Alpe-Adria-Bank International AG or to its subsidiaries have been included in the total sum.

The expenses for the audit of the consolidated financial statements relate to costs for auditing the (local) annual financial statements, the group reporting packages of the subsidiaries audited by Ernst & Young, as well as the costs of the consolidated financial statement itself.

## (120) Measurement categories in accordance with IAS 39

The statement of financial position as at 31 December 2013 is broken down into the following measurement categories in accordance with IAS 39:

EUR m

| | LAR / LAC | HFT | FVO | AFS | HTM | HFT (Fair Value Hedges) | 31.12.2013 |
|---|---|---|---|---|---|---|---|
| Cash and balances at central banks | 2,188.5 | | | 124.2 | | | 2,312.7 |
| Loans and advances to credit institutions | 2,087.4 | | | | | | 2,087.4 |
| Loans and advances to customers | 19,289.0 | | | | | | 19,289.0 |
| Impairment on financial instruments – at cost (risk provision) | –3,874.6 | | | | | | –3,874.6 |
| Trading assets | | 12.5 | | | | | 12.5 |
| Derivative financial instruments | | 249.8 | 103.8 | | | 716.5 | 1,070.1 |
| Financial investments – afvtpl | | | 505.2 | | | | 505.2 |
| Financial investments – afs | | | | 2,421.5 | | | 2,421.5 |
| Financial investments – htm | | | | | 83.7 | | 83.7 |
| Other assets | 105.5 | | | | | | 105.5 |
| **Total financial assets** | **19,795.8** | **262.3** | **609.0** | **2,545.7** | **83.7** | **716.5** | **24,013.0** |
| Liabilities to credit institutions | 4,375.5 | | 289.8 | | | | 4,665.3 |
| Liabilities to customers | 6,111.8 | | 9.2 | | | | 6,120.9 |
| Liabilities evidenced by certificates | 10,023.8 | | 371.9 | | | | 10,395.8 |
| Derivative financial instruments | | 498.3 | 45.2 | | | 233.7 | 777.3 |
| Subordinated capital | 1,886.6 | | 28.2 | | | | 1,914.8 |
| Hybrid capital | | | 1.2 | | | | 1.2 |
| Other liabilities | 95.9 | | 0.0 | | | | 95.9 |
| **Total financial liabilities** | **22,493.6** | **498.3** | **745.5** | **0.0** | **0.0** | **233.7** | **23,971.1** |

Abbreviations:

| | |
|---|---|
| lar: | loans and receivable |
| lac: | liabilities at cost |
| hft: | held for trading |
| fvo: | designated at fair value through profit and loss |
| afvtpl: | at fair value through profit or loss (fair value option) |
| afs: | available for sale |
| htm: | held to maturity |

The statement of financial position as at 31 December 2012 was broken down into the following measurement categories in accordance with IAS 39:

EUR m

| | LAR / LAC | HFT | FVO | AFS | HTM | HFT (Fair Value Hedges) | 31.12.2012 |
|---|---|---|---|---|---|---|---|
| Cash and balances at central banks | 2,748.8 | | | 124.4 | | | 2,873.2 |
| Loans and advances to credit institutions | 1,993.1 | | | | | | 1,993.1 |
| Loans and advances to customers | 24,401.5 | | | | | | 24,401.5 |
| Impairment on financial instruments – at cost (risk provision) | –3,083.7 | | | | | | –3,083.7 |
| Trading assets | | 1.5 | | | | | 1.5 |
| Derivative financial instruments | | 53.2 | 152.0 | | | 1,220.9 | 1,426.1 |
| Financial investments – afvtpl | | | 783.4 | | | | 783.4 |
| Financial investments – afs | | | | 2,688.3 | | | 2,688.3 |
| Financial investments – htm | | | | | 90.5 | | 90.5 |
| Other assets | 146.5 | | | | | | 146.5 |
| **Total financial assets** | **26,206.1** | **54.7** | **935.4** | **2,812.7** | **90.5** | **1,220.9** | **31,320.2** |
| Liabilities to credit institutions | 4,934.3 | | 318.2 | | | | 5,252.5 |
| Liabilities to customers | 8,266.6 | | 139.3 | | | | 8,405.9 |
| Liabilities evidenced by certificates | 14,445.7 | | 390.2 | | | | 14,835.9 |
| Derivative financial instruments | | 314.6 | 109.6 | | | 357.7 | 781.9 |
| Subordinated capital | 1,929.9 | | 27.3 | | | | 1,957.3 |
| Hybrid capital | | | 6.0 | | | | 6.0 |
| Other liabilities | 117.6 | | 0.0 | | | | 117.6 |
| **Total financial liabilities** | **29,694.1** | **314.6** | **990.7** | **0.0** | **0.0** | **357.7** | **31,357.1** |

*Previous year's figures for 2012 were adjusted.

Abbreviations:

| | |
|---|---|
| lar: | loans and receivables |
| lac: | liabilities at cost |
| hft: | held for trading |
| fvo: | designated at fair value through profit and loss |
| afvtpl: | at fair value through profit or loss (fair value option) |
| afs: | available for sale |
| htm: | held to maturity |

## (121) Loans and advances and financial liabilities designated at fair value

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

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

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

EUR m

| | 31.12.2013 | 31.12.2012* |
|---|---|---|
| Loans and advances to customers and credit institutions | 289.6 | 579.1 |
| Bonds and other fixed-interest securities | 197.1 | 185.2 |
| Shares and other non-fixed-interest securities | 18.4 | 19.1 |
| **Total** | **505.2** | **783.4** |
| Liabilities to credit institutions | 289.8 | 318.2 |
| Liabilities to customers | 9.2 | 139.3 |
| Liabilities evidenced by certificates | 371.9 | 390.2 |
| Subordinated capital | 28.2 | 27.3 |
| Hybrid capital | 1.2 | 6.0 |
| **Total** | **700.3** | **881.1** |

*Previous year's figures for 2012 were adjusted.

The valuation result from the application of the fair value option comes to a total of EUR 55.1 million (2012: EUR -6.5 million) (see note (47) Result from financial investments – designated at fair value through profit or loss).

As at 31 December 2013, the maximum default risk for loans and advances designated at fair value recognised in profit or loss was EUR 241.7 million (2012: EUR 513.7 million). The change in the fair value that is attributable to changes in the credit rating was EUR 7.1 million in the 2013 financial year (2012: EUR 4.6 million); since the designation, the cumulated change amounts to EUR 4.2 million (2012: EUR -2.9 million). The fair value changes attributable to changes in the credit rating were determined by calculating differences, comparing the fair value based on the credit rating spreads at the end of the reporting period to that at the beginning of the reporting period.

The fair value of the issued financial liabilities takes into account the credit risk of the group, with the exception of the liabilities evidenced by certificates in the amount of EUR 364.7 million and the subordinated capital of EUR 27.8 million, which are issued with third-party collateral security that cannot be separated, so that the third-party credit risk is taken into account in determining the fair value. The fair value of these financial liabilities is determined with the help of a valuation method. One such method takes account of the credit risk through discounting the contractually determined payment flows of the liability using a risk-adjusted interest rate curve, which shows the interest rate level at which the group could issue similar instruments as at the end of the reporting period.

For the financial liabilities designated at fair value, the total change in fair value due to own credit risk in the 2013 financial year is EUR 36.1 million (2012: EUR -32.2 million); the cumulative fair value change as at 31 December 2013 due to changes in own credit risk is EUR 134.9 million (2012: EUR 103.5 million).

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Cumulative changes in fair value | 134.9 | 103.5 |
| Fair-value-change in reporting year | 36.1 | –32.2 |

The repayment sum as at 31 December 2013 is EUR 716.0 million (2012 adjusted: EUR 820.7 million), and therefore EUR 16.9 million higher than the amount shown in the statement of financial position as at 31 December 2013 (2012: EUR 54.3 million lower than the amount shown in the statement of financial position).

The repayment sum as at 31 December 2013 compared to the amount shown in the statement of financial position is as follows:

EUR m

| | Repayment amount | Total | Difference |
|---|---|---|---|
| Liabilities to credit institutions | 300.0 | 289.8 | 10.2 |
| Liabilities to customers | 10.0 | 9.2 | 0.8 |
| Liabilities evidenced by certificates | 378.1 | 371.9 | 6.2 |
| Subordinated capital | 27.8 | 28.2 | –0.3 |
| **Total** | **716.0** | **699.1** | **16.9** |

The difference as at 31 December 2012 was as follows:

EUR m

| | Repayment amount | Total | Difference |
|---|---|---|---|
| Liabilities to credit institutions | 294.6 | 318.2 | –23.6 |
| Liabilities to customers | 142.6 | 139.3 | 3.3 |
| Liabilities evidenced by certificates | 355.5 | 390.2 | –34.7 |
| Subordinated capital | 28.0 | 27.3 | 0.7 |
| **Total** | **820.7** | **875.0** | **–54.3** |

The repayment sum equates to the sum that the group must repay at the earliest possible due date set down in the contracts. If the amount due to be repaid has not been determined (as is the case, for example, with perpetuals), the amounts for these financial instruments will not be recognised.

## (122) Net gains or losses on financial instruments

The net gains and losses on financial instruments by category are as follows:

EUR m

| | | | | 1.1. - 31.12.2013 |
|---|---|---|---|---|
| | Net interest income | Valuation and Sale | Risk provisions for loans and advances | Other comprehensive income (OCI) |
| Loans and receivables | 847.4 | 0.4 | -1,362.1 | |
| Trading assets | 219.4 | 4.2 | | |
| Financial investments – designated at fair value through profit or loss | 8.9 | 15.6 | | |
| Financial investments – available for sale | 51.6 | -9.0 | | 11.0 |
| Financial investments – held to maturity | 4.6 | -2.6 | | |
| Financial liabilities measured at amortized cost | -622.5 | 0.0 | | |
| Financial liabilities measured at fair value through profit or loss | -28.3 | 39.5 | | |
| **Total** | **481.0** | **48.2** | **-1,362.1** | **11.0** |

EUR m

| | Net interest income | Valuation and Sale | Risk provisions for loans and advances | 1.1.-31.12.2012 Other comprehensive income (OCI) |
|---|---|---|---|---|
| Loans and receivables | 1,078.6 | 4.5 | -308.5 | |
| Trading assets | 229.6 | 14.1 | | |
| Financial investments – designated at fair value through profit or loss | 15.3 | 28.7 | | |
| Financial investments – available for sale | 65.9 | -10.1 | | 79.3 |
| Financial investments – held to maturity | 2.8 | -0.1 | | |
| Financial liabilities measured at amortized cost | -758.9 | 97.9 | | |
| Financial liabilities measured at fair value through profit or loss | -24.7 | -35.3 | | |
| **Total** | **608.5** | **99.7** | **-308.5** | **79.3** |

## (123) Fair value disclosures

The fair value is the price that would be collected for the sale of an asset or paid for the transfer of a debt in an ordinary transaction between market participants on the valuation date. The following fair value hierarchy is based on the origin of the 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.

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

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 recover-able amount, either by a significant amount or over a longer period of time.

**Derivative**
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. The fair value is de-

termined 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.

**Hedge accounting**
Within the scope of hedge accounting, Hypo Alpe Adria uses only fair value hedges to hedge the market values of financial instruments. Loans and advances hedged according to IAS 39 are reported in the statement of financial position in accordance with the hedged fair value, i.e. the carrying amount plus the change of the market value attributable to the hedged part of the loan. The hedge serves above all to minimise the market value risk caused by interest rate changes.

With regard to hedging risks arising from interest rate changes, no separate calculation of the fair value was carried out.
As the carrying amount of unhedged fixed interest loans and advances according to IAS 39 remains unaffected by market changes, this produces a difference between the fair value and the carrying amount, which is determined by means of a capital value-oriented valuation method.

For this purpose, Hypo Alpe Adria established the expected series of payments for each financial instrument and discounted it with a discounting rate based on market data.
The end of the period under review is considered the time of reclassification between various levels of the fair value hierarchy.

### 123.1. Fair value of financial instruments carried at fair value

The table below shows the allocation of financial instruments carried at fair value according to their level in the fair value hierarchy (see note (123) Fair value disclosures).

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** |

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

| 31.12.2012* | Level I – from active market | Level II - based on market assumptions | Level III - based on non-market assumptions | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Trading assets | 1.5 | 0.0 | 0.0 | 1.5 |
| Derivative financial instruments | 0.0 | 1,254.7 | 171.3 | 1,426.1 |
| Financial investments – designated at fair value through profit or loss | 0.0 | 1.7 | 781.6 | 783.4 |
| Financial investments – available for sale | 2,278.6 | 318.7 | 94.6 | 2,691.8 |
| **Total** | **2,280.0** | **1,575.2** | **1,047.5** | **4,902.7** |
| **Liabilities** | | | | |
| Liabilities to credit institutions | 0.0 | 0.0 | 318.2 | 318.2 |
| Liabilities to customers | 0.0 | 0.0 | 139.3 | 139.3 |
| Liabilities evidenced by certificates | 0.0 | 81.7 | 308.5 | 390.2 |
| Derivative financial instruments | 0.0 | 739.9 | 42.0 | 781.9 |
| Subordinated capital | 0.0 | 0.3 | 27.0 | 27.3 |
| Hybrid capital | 6.0 | 0.0 | 0.0 | 6.0 |
| **Total** | **6.0** | **821.9** | **835.1** | **1,662.9** |

* Previous year's figures for 2012 were adjusted.

The previous allocation of levels was reviewed in conjunction with an external advisor as part of the process of implementing IFRS 13. This has resulted in a change to the classification of assets and liabilities held as at 31 December 2012 and primarily relates to an increase in allocations to the Level III category.

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

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 column "Total gains/losses" contains both income and expenses from financial instruments which were held as at 31 December 2013, as well as from financial instruments which are no longer on the books as at 31 December 2013. The gains/losses on derivative financial instruments are reported in the result of financial assets designated at fair value through profit and loss, the result of hedge accounting and the trading result; the remaining items are reported on the income statement or under equity according to their category. A loss of EUR -106.8 million (2012: EUR -2.2 million) was incurred on the financial instruments held as at 31 December 2013. It 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.

A total of EUR 9.6 million was reclassified from Level III to Level II (2012: EUR 1.8 million) since a larger number of market price sources is available. Due to the restricted availability of external market values, a total of EUR 8.1 million was reclassified from Level I to Level III in 2013 (2012: EUR 66.0 million).

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

The reconciliation of the assets reported in Level III as at 31 December 2012 was as follows:

in EUR Mio.

| 31.12.2012 | 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 | 175.2 | –5.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.2 | 171.3 |
| Financial investments – designated at fair value through profit or loss | 717.4 | 0.2 | 0.0 | 0.0 | 0.0 | 65.8 | –1.8 | –0.0 | 781.7 |
| Financial investments – available for sale | 95.6 | 1.2 | –0.1 | –0.1 | –3.1 | 0.2 | –0.0 | 0.9 | 94.6 |
| **Total** | **988.2** | **–3.6** | **–0.1** | **–0.1** | **–3.1** | **66.0** | **–1.8** | **2.0** | **1,047.6** |

The opening values of the Level III table were adjusted due to the changes in level assignments of assets and liabilities held as at 31 December 2012.

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

The approved 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, the 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 the 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 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 (swaption prices, market prices, FX rates) are used for the valuation of such cash flows.

123.1.2. 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 estimated 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.

123.1.3. 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**

HAA 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 collaterised 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.

### 123.1.4. 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:

EUR m

| 31.12.2013 | Fair value - drawn all unobservable input parameters to the lowest end of the range | Fair value - drawn all unobservable input parameters to the lowest end of the range |
|---|---|---|
| **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** |

## 123.2. Fair value of financial instruments not recognised at fair value

The carrying amounts of recognised financial instruments and assets not reported at fair value are compared to the respective fair values below:

EUR m

| | | | | | | | | 31.12.2013 |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Carrying amount of current financial instruments and liabilities | Carrying amount of non-current financial instruments and liabilities | 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 |
| Other financial investments – 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** | **9,938.5** | **9,843.5** | **95.0** | **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** |

EUR m

| | | | 31.12.2012 |
|---|---|---|---|
| | Fair value | Carrying amount | Difference |
| **Assets** | | | |
| Loans and advances to credit institutions | 1,990.1 | 1,990.1 | 0.0 |
| Loans and advances to customers | 21,361.8 | 21,331.3 | 30.5 |
| Financial investments – held to maturity* | 91.8 | 90.5 | 1.3 |
| Other financial investments – investment properties | 1,195.4 | 1,365.5 | –170.1 |
| **Total** | **24,639.1** | **24,777.4** | **–138.3** |
| **Liabilities** | | | |
| Liabilities to credit institutions | 5,239.2 | 5,252.5 | –13.3 |
| Liabilities to customers | 8,058.8 | 7,971.6 | 87.2 |
| Liabilities evidenced by certificates | 14,523.7 | 14,422.5 | 101.2 |
| Subordinated capital | 1,622.9 | 1,929.9 | –307.0 |
| **Total** | **29,444.6** | **29,576.5** | **–131.9** |

* Previous year's figures for 2012 were adjusted.

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, the 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 appraisers. If no market-based estimate exists, the fair value is estimated based on the income approach.

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

## (124) Offsetting

The following table shows the reconciliation of gross amounts to the offset net amounts, separately for all recognised financial assets and liabilities. The amounts that are subject to a legally enforceable global netting or similar agreement but have not been offset in the financial statements are disclosed as well.

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **ASSETS** | **Derivative financial instruments** | |
| Gross amounts of recognised financial instruments | 1,065.8 | 1,379.1 |
| Carrying amounts of financial instruments not able to be netted | 0.0 | 0.0 |
| **a) Gross amounts of recognised financial instruments (I and II)** | **1,065.8** | **1,379.1** |
| b) Amounts that are set off for financial instruments I | 0.0 | 0.0 |
| **c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)** | **1,065.8** | **1,379.1** |
| d) Master netting arrangements (that are not included in b) | | |
| Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II) | 368.1 | 429.8 |
| Amounts related to financial collateral (including cash collateral); | 0.0 | 0.0 |
| **e) Net amounts of financial instruments I and II (c-d)** | **697.6** | **949.3** |

*Financial instruments I: financial assets and liabilities that are already offset on the balance sheet.
Financial instruments II: financial instruments that are subject to a netting agreement but are not offset on the balance sheet.

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **LIABILITIES** | **Derivative financial instruments** | |
| Gross amounts of recognised financial instruments | 776.7 | 780.8 |
| Carrying amounts of financial instruments not able to be netted | 0.0 | 0.0 |
| **a) Gross amounts of recognised financial instruments (I and II)** | **776.7** | **780.8** |
| b) Amounts that are set off for financial instruments I | 0.0 | 0.0 |
| **c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)** | **776.7** | **780.8** |
| d) Master netting arrangements (that are not included in b) | | |
| Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II) | 368.1 | 429.8 |
| Amounts related to financial collateral (including cash collateral); | 0.0 | 0.0 |
| **e) Net amounts of financial instruments I and II (c-d)** | **408.5** | **350.9** |

*Financial instruments I: financial assets and liabilities that are already offset on the balance sheet.
Financial instruments II: financial instruments that are subject to a netting agreement but are not offset on the balance sheet.

Master agreements are concluded with business partners for offsetting derivatives transactions, so that positive and negative market values of the derivates contracts covered by the master agreements can be offset against each other. Since such offsetting cannot be performed in the ordinary course of business but only in case of termination (e.g. insolvency), these are not offset on the balance sheet.

## (125) Derivative financial instruments

The following business had not yet been transacted at the reporting date:

EUR m

| | | | 31.12.2013 Fair values | | | 31.12.2012 Fair values |
|---|---|---|---|---|---|---|
| | Nominal amounts | Positive | Negative | Nominal amounts | Positive | Negative |
| **a) Interest- related transactions** | | | | | | |
| **OTC-products** | **14,328.8** | **1,060.8** | **486.0** | **14,162.9** | **1,341.0** | **459.1** |
| - interest rate swaps | 14,234.5 | 1,060.2 | 485.2 | 14,066.4 | 1,340.3 | 458.3 |
| - forward rate agreements | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - interest options | 2.2 | 0.0 | 0.0 | 2.5 | 0.0 | 0.0 |
| - caps, floors | 85.6 | 0.4 | 0.8 | 77.6 | 0.3 | 0.8 |
| - other interest derivatives | 6.5 | 0.3 | 0.0 | 16.4 | 0.4 | 0.0 |
| **b) Currency-related transactions** | | | | | | |
| **OTC-products** | **4,865.9** | **9.3** | **291.3** | **4,485.3** | **84.9** | **322.9** |
| - currency swaps | 1,043.9 | 6.1 | 287.1 | 1,225.7 | 72.2 | 320.8 |
| - cross currency swaps | 3,734.0 | 2.8 | 3.9 | 3,011.9 | 11.8 | 1.7 |
| - forward exchange contracts – purchases | 43.7 | 0.2 | 0.0 | 123.8 | 0.3 | 0.0 |
| - forward exchange contracts – sales | 43.7 | 0.2 | 0.3 | 121.3 | 0.0 | 0.4 |
| - currency swaptions | 0.6 | 0.1 | 0.0 | 2.6 | 0.6 | 0.0 |

The majority of derivative transactions serve the purpose of hedging fluctuations related to interest rates, foreign currency rates or market values. In most cases, micro-hedges are used to directly hedge individual transactions under assets and liabilities. With regard to the disclosure and measurement of the derivatives, see notes (13) Financial instruments: Recognition and Measurement and (16) Hedge accounting.

## (126) Related party disclosures

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

EUR m

| As at 31.12.2013 | Parent | Affiliated companies | Joint Ventures | Key management personnel |
|---|---|---|---|---|
| **Assets** | **108.3** | **120.1** | **47.3** | **0.7** |
| Loans and advances to customers | 108.3 | 137.2 | 47.3 | 0.7 |
| Risk provisions on loans and advances | 0.0 | –54.1 | 0.0 | 0.0 |
| Other assets | 0.0 | 37.0 | 0.0 | 0.0 |
| **Liabilities** | **27.4** | **14.0** | **0.8** | **1.4** |
| Liabilities to customers | 0.0 | 13.7 | 0.8 | 1.1 |
| Provisions | 21.3 | 0.0 | 0.0 | 0.3 |
| Other financial liabilities | 6.1 | 0.0 | 0.0 | 0.0 |
| Subordinated capital | 0.0 | 0.3 | 0.0 | 0.0 |
| **Liabilities arising from guarantees** | **0.0** | **1.8** | **0.0** | **0.0** |
| Guarantees issued by the group for related party | 0.0 | 1.8 | 0.0 | 0.0 |
| Guarantees received by the group from related party | 0.0 | 0.0 | 0.0 | 0.0 |

EUR m

| As at 31.12.2012 | Parent | Affiliated companies* | Joint Ventures | Key management personnel |
|---|---|---|---|---|
| **Assets** | **124.6** | **187.1** | **119.9** | **1.6** |
| Loans and advances to customers | 110.9 | 184.6 | 122.0 | 1.5 |
| Risk provisions on loans and advances | –0.4 | –46.4 | –2.2 | 0.0 |
| Other assets | 14.1 | 49.0 | 0.0 | 0.1 |
| **Liabilities** | **8.3** | **11.6** | **0.0** | **4.4** |
| Liabilities to customers | 0.0 | 11.1 | 0.0 | 4.2 |
| Provisions | 2.0 | 0.1 | 0.0 | 0.2 |
| Other financial liabilities | 6.2 | 0.0 | 0.0 | 0.0 |
| Subordinated capital | 0.0 | 0.4 | 0.0 | 0.0 |
| **Liabilities arising from guarantees** | **0.0** | **3.9** | **0.0** | **0.0** |
| Guarantees issued by the group for related party | 0.0 | 3.9 | 0.0 | 0.0 |
| Guarantees received by the group from related party | 0.0 | 0.0 | 0.0 | 0.0 |

*Previous year's figures for 2012 were adjusted.

Expenses in the amount of EUR -5.6 million (2012: -2.0 million) were recorded in the 2013 financial year for uncollectible receivables and doubtful accounts with related parties (non-consolidated investment companies).

Key management personnel is defined as Executive Board members of subsidiary banks and of significant leasing companies as well as the second level of management of Hypo Alpe-Adria-Bank International AG. Relationships with other related parties are included as well. Relationships with companies accounted for at equity are shown in the table under the item affiliated companies.

In addition, at the end of the reporting period there are business relations with publicly-owned organisations, to an extent common to the banking industry.

The relationships with members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG are shown in note (136) Relationships with members of the executive bodies.

The following expenses were incurred in addition to the charges incurred during the course of normal business activities that are due to the Republic of Austria, which as the sole owner assumes a position of control over the company, and its directly attributable legal entities:

EUR m

| | 1.1. - 31.12.2013 | 1.1. - 31.12.2012 |
|---|---|---|
| Bank tax Austria | –22.8 | –22.1 |
| Fees for Government Guaranteed subordinated bonds | –53.3 | –2.8 |
| Fees for Government Guaranteed bonds (other) | –4.3 | –8.0 |
| Fees for Guarantees | –18.2 | –19.6 |
| Penalty claim | –4.0 | –5.0 |
| **Total** | **–102.5** | **–57.4** |

## (127) Participation capital

As a result of the resolution passed at the general shareholders' meeting for Hypo Alpe-Adria-Bank International AG on 30 May 2011 to reduce share capital and the resolution passed at the extraordinary shareholders' meeting for Hypo Alpe-Adria-Bank International AG held on 30 June 2011 to convert some of the participation capital into share capital, the Tier 1-eligible participation capital held in Hypo Alpe-Adria-Bank International AG and subscribed by the Republic of Austria on 29 December 2008 now amounts to EUR 275,111,072.56 (18,000 participation certificates each with a value of EUR 15,283.94848). Under section 23 (3) (8) of the Austrian Banking Act (BWG) there is no obligation to make back-payments of dividends on participation capital.

At the shareholders' meeting on 13 December 2013, the bank's Executive Board was authorised to issue participation capital at a face amount up to EUR 800.0 million. On the same date, the Republic of Austria as the sole buyer subscribed to participation capital of EUR 800.0 million. The purchase price was paid to an account of the bank on 18 December 2013. Therefore the participation capital subscribed by the Republic of Austria totals EUR 1,075,111,072.56 on the reporting date of 31 December 2013.

On the basis of the issue agreement and by applying section 102 BWG (the transition provision of Directive (EC) No. 575/2013 has to be observed), the Republic of Austria is in principle entitled to exchange the participation capital subscribed in 2008 for no-par bearer shares of Hypo Alpe-Adria-Bank International AG at a conversion price to be determined in accordance with the conditions of the participation certificates.

The participation capital subscribed to by the previous owners in the course of the change in ownership of Hypo Alpe-Adria-Bank International AG which became effective on 29 December 2009, after the allocation of losses in 2011 and the capital reduction, currently has a value of EUR 64,428,867.95. According to the conditions for subscribing to the issue of participation capital in 2009, the holders of participation capital will be entitled to a dividend of 6.0 % p.a. for the first time in the 2013 financial year, provided that this is covered by net income after movements in reserves of Hypo Alpe-Adria-Bank International AG and the payment of dividends on the participation capital totalling EUR 1,075,111,072.56 held by the Republic of Austria, and provided that the relevant resolution has been passed by the Boards.

Participation capital totalling EUR 1,139,539,940.51 is reported in the consolidated financial statements of Hypo Alpe-Adria-Bank International AG as a separate item under equity. Payments of dividends relating to participation capital will be shown as appropriation of profits and not as interest expense. The basis of assessment for the payment of dividends is the separate financial statements for Hypo Alpe-Adria-Bank International AG in accordance with UGB/BWG and the prerequisite is sufficient annual profit after movement in reserves. There cannot be any distributions on participation capital since there is no such net income.

## (128) Statutory guarantee

The legal guarantee of the State of Carinthia for all commitments of Hypo Alpe-Adria-Bank International AG is a statutory guarantee pursuant to section 1356 of the Austrian Civil Code (ABGB) and covers all commitments entered into before 3 April 2003 as well as all commitments entered into between 3 April 2003 and 1 April 2007 whose terms does not extend beyond 30 September 2017. The State will not guarantee any commitments entered into after 1 April 2007. The terms of the guarantee are regulated in the Carinthian State Holding Law (K-LHG).

A guarantee commission agreement between the State of Carinthia and Hypo Alpe-Adria-Bank International AG provides for a guarantee commission of 1 per mille p.a. of the amount guaranteed to be paid. Availing itself of the contractually agreed right to termination, notice was given by Hypo Alpe-Adria-Bank International AG to terminate the guarantee commission agreement as at 31 December 2011, whereby the contractual obligation to pay the guarantee commission would cease as from 2012. Irrespective of the termination of this contractual guarantee commission agreement, the state guarantee provided for in law in section 5 of the Carinthian State Holding Law (K-LHG) applies. The supervisory commissioner of the Carinthian State holding company will continue to be given access to all relevant information at the bank.

Divergent legal positions exist between the bank and the State of Carinthia on the guarantee commission for the year 2011, which has not been paid by the bank to date. For now the bank has issued a waiver of the defence of limitation (until 31 December 2015) to the state. In exchange the State of Carinthia has obligated itself not to sue the bank for the time being.

The sums for which the State of Carinthia is liable as at 31 December 2013 are as follows:

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Hypo Alpe-Adria-Bank International AG | 12,195.5 | 13,931.4 |
| Hypo Alpe-Adria-Bank AG (Austria) | -* | 998.4 |
| **Total** | **12,195.5** | **14,929.8** |

*) Due to the sale of Hypo Alpe-Adria-Bank AG (Austria) in December of 2013, it is no longer included in the listing of liability sums as at 31 December 2013.

## (129) Important proceedings

### 129.1. EU proceeding

Hypo Alpe Adria concluded the EU state-aid investigation in 2013.

Following the capital measures at Hypo Alpe-Adria-Bank International AG instituted by the Republic at the end of 2012 (EUR 500.0 million capital increase and the issuing of a state-guaranteed bond in the amount of EUR 1.0 billion), the European Commission imposed conditions (Behavioural Measures) with a decision dated 5 December 2012; the Behavioural Measures came into force on 1 January 2013. These mainly relate to the management of 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.

Following a request by the European Commission, the previous EU restructuring plan up was fundamentally revised and working-level meetings between Vienna and Brussels were re-organised. The meetings related to the specific final form of those anticipated obligations relating to the schedule of sale and market presence the fulfilment of which was likely to be required as part of the implementation of the European Commission's final decision. In line with that decision dated 3 September 2013, the acquisition of new lending and leasing customers was ceased and the bank allocated to wind-down activities. Operating units in the Balkan states were further developed as part of more intensive voting and governance guidelines as required by the European Commission's "behavioural measures".

On 3 September 2013, the European Commission published its final decision on the investigation regarding the state aid provided to Hypo Alpe Adria. This was based on the final restructuring plan, which was presented by the bank at the end of June 2013. The new business requirements must be complied with until the bank has been reprivatised. The plan provides for the reprivatisation of the SEE network banks by mid-2015. The sale (closing) of the Austrian subsidiary – required by mid-2014 – was completed in 2013 in compliance with the European Commission's sale deadline. The Italian banking subsidiary was also allocated to the wind-down segment as at 1 July 2013. The redacted resolution prepared by the shareholder and the European Commission was published in October 2013. An independent Monitoring Trustee will continue to monitor compliance with the EU restructuring plan as well as the imposed behavioural measures.

### 129.2. Proceedings relating to BayernLB

Hypo Alpe-Adria-Bank International AG, together with experts, has thoroughly analysed whether the financing extended to Hypo Alpe Adria by the former shareholder BayernLB since 2008 constitutes an equity-substituting shareholder's loan. On the basis of this and other investigations, the criteria for a qualification as replacement equity as stated in the law on equity substitution (Eigenkapitalersatz-Gesetz, EKEG) are seen to be met in all. Following section 14 EKEG, a mandatory suspension of repayments applies regarding these financing lines granted by BayernLB. Accordingly, repayments on the relevant funds have to be suspended until a sustainable restructuring of Hypo Alpe Adria has been achieved and reclaiming by BayernLB is not permitted until such time. Payments already made on the majority of received funds have to be reclaimed from BayernLB. The outstanding loans amount to some EUR 2.3 billion. Moreover, Hypo Alpe-Adria-Bank International AG has also made repayments and interest rate payments totalling approximately EUR 2.5 billion on the loans granted by BayernLB since 2008.

BayernLB has filed an application for a declaratory judgement at the District Court of Munich I regarding the BayernLB equity replacement loans. Hypo Alpe-Adria-Bank International AG considers the suit to be unfounded and has contested the judgement. BayernLB has since converted the claim as one for payment. The first oral hearing was held on 25 November 2013; the bank is awaiting a court-commissioned legal expertise on the Austrian EKEG. 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 billion (including ancillary claims).

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; this is expected to continue until autumn 2014 at the least.

## 129.3. Other proceedings

129.3.1. PROCEEDINGS RELATING TO THE STATE OF CARINTHIA
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 loss allocated to the participation capital is invalid and the entitlement of the participant involved to future interest payments 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; Hypo Alpe-Adria-Bank International AG was permitted to respond to the appeal in good time. The Supreme Court has yet to reach its decision.

129.3.2. PROCEEDINGS RELATING TO LOANS AND PARTICIPATIONS
At the end of 2010, a borrower filed a lawsuit against Hypo Alpe-Adria-Bank d.d., Zagreb, and against Hypo Alpe-Adria-Bank International AG. The action was only formally brought against Hypo Alpe-Adria-Bank International AG in November 2012. The plaintiff argues that the project related to the loan, the financing of a hotel in Croatia, should have received further financing/financing sufficient for its completion, above and beyond the credit lines previously granted. The plaintiff's claim is targeted at compensation for damages as well as loss of earnings; the amount in dispute is around EUR 130.0 million. Hypo Alpe Adria assumes that there is no basis whatsoever for this lawsuit in view of the borrower's previous violations of the contract and the improper use of funds which led to the termination of the credit lines. The complaint was answered in due time. A committee of creditors for one of the joint plaintiffs, which has since become insolvent, has withdrawn this complaint. The cases against the other joint plaintiffs continue.

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 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 withdrew the claim at the first hearing.

Forensic investigations have been underway at AAP Liechtenstein in Liquidation since the end of 2012; these were conducted by liquidator E&Y Zürich under the direction of members of the administrative board and with the aid of Group Forensics (HBInt). 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 50 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 Croatian banking csubsidiary urrently assumes that the decision will be totally reversed in the second instance. If the first instance court judgement is confirmed, the banks concerned can appeal to the Supreme Court. It is still impossible to say how long the proceedings will last. It is likely that the Croatian banking subsidiary will be confronted with thousands of individual lawsuits in the event that the judgment of the first-instance court is finally upheld. Two lawsuits have already been filed against Hypo Alpe-Adria-Bank d.d by consumers who took out a CHF mortgage loan. However, these proceedings initiated by consumer representatives were interrupted before a final decision was reached. The new consumer protection law which entered into effect as at 1 January 2014 will have 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 Hypo Alpe-Adria-Bank a.d. Beograd involving bank customers concerning interest rate increases based on intransparent contactual clauses, the unilateral right of the bank to change interest rates and the granting of foreign currency loans. In three cases the first-instance courts ruled in favour of the customer, and one decision was in favour of Hypo Alpe-Adria-Bank a.d. Beograd. The bank appealed against the first three rulings. In total, almost 50 lawsuits were filed against the bank in connection with CHF mortgage loans in 2013. One proceeding is a class action which also involves two other banks in Serbia. Many of the pending proceedings have already been settled in or out of court. 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). 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 389 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, 17 decisions in the first instance have been issued, one in favour of the bank and 15 in favour of the customers (one decision was partly in favour of the bank). The bank has appealed against all 16 decisions and the outcome remains to be seen. 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 98 court cases in connection with CHF foreign currency loans. As in Bosnia and Herzegovina, the plaintiffs challenged the contractual unilateral right of the bank to change interest rates. To date, three decisions have been made against the bank. One is a first-instance decision against which the bank can appeal and two involve convictions by final court judgement. On the other hand, the foreign currency clauses in the loan agreements were said to be unlawful. In the majority of cases, both charges are brought forward. In such cases, the court in the first instance has ruled twice in favour of the bank. In one case the court's wording was partially in favour of the bank. The foreign currency clause was ruled as lawful, but the unilateral right to adjust interest rates was dismissed as unlawful. 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. The further course of the procedures remain 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 comprising 232 borrowers (filed on 17 May 2013) and one individual lawsuit. 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. To date, a first hearing has not yet been scheduled. 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 233 plaintiffs, the bank can refer to signed confirmation that the customers were informed of the risks relating to the foreign currency clause when the contract was concluded.

Regardless of this, the bank is closely following the aforementioned cases. A negative outcome would not only entail subsequent law suits from other borrowers, but would also damage public opinion and thereby have an impact on other pending proceedings against Alpe Adria banks in neighbouring countries. The bank has set aside a provision of some EUR 4.4 million for the above-mentioned class action.

In addition, the subsidiary bank in Italy has been confronted with the fact that long-running interest rate adjustment clauses in leasing agreements were applied incorrectly for the benefit of the bank, resulting in higher obligations for customers. This case only applies 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. A process was also launched immediately to provide financial compensation for affected customers and personnel put in place to process these individual cases. By the end of the year external experts had revealed other minor cases of malversion during recent investigations; the audit is still underway.

129.3.3. PROCEEDINGS RELATING TO INVESTORS AND EXPERTS
In April 2012, an investor filed a claim at the Regional Court in Klagenfurt against Hypo Alpe-Adria-Bank International AG asserting damages, warranty claims and made an application for a declaratory judgement. Specifically, the plaintiff calls for the repayment of the nominal value (including statutory interest on arrears) of a supplementary capital bond issued by Hypo Alpe-Adria-Bank International AG and redeemed in April 2011 at no value due to the statute on loss allocation contained in section 23 (7) (3) BWG. The plaintiff also calls for the payment of interest due on the bond from April 2009 to April 2011, including statutory interest on arrears. Hypo Alpe-Adria-Bank International AG takes the view that the redemption of the bond at no value upon reaching final maturity was correct (see also note (131) Servicing of subordinated capital). The first hearing at the Regional Court in Klagenfurt was only held in December 2013 due to multiple judge changes. At these hearings, it was decided to delegate the case to the Commercial Court in Vienna.

In legal correspondence dated 23 September 2013, two investors filed a case against Hypo Alpe-Adria-Bank International AG in relation to the hybrid capital issued via two companies in Jersey. They claimed an alleged breach of contract in connection with the “HLH preference shares”. No judicial assertion or details of the alleged claims as to reasons or amount have yet been given.

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 reversed the decision and returned it to the first instance for a new hearing. An appeal was filed against this ruling. The Supreme Court has yet to rule on the issue. 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.

129.3.4. 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 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 above-mentioned 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. Preliminary hearings were held between 24 February and 19 March 2014; the taking of evidence started on 12 May 2014 and is likely to last until the end of 2014.

## (130) 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 the 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). The European Commission provisionally approved the initial guarantee agreement on 19 July 2011 until a final decision would have been taken on the overall state-aid given to the bank. Furthermore the European Commission was informed in advance of the possibility of extending the guarantee agreement. The final decision of the European Commission dated 3 September that concluded the investigations into state aid gave final approval to the initial guarantee and of the extension of the guarantee agreement that had been correctly reported to the European Commission.

## (131) Servicing of subordinated capital

### 131.1. Supplementary capital

Hypo Alpe-Adria-Bank International AG has in the past issued supplementary capital pursuant to section 23 (7) BWG, which in accordance with supervisory regulations has been allocated to own capital funds. According to the restrictions laid down in section 23 (7) (2) of the BWG, interest can only be paid out “if it is covered by the annual profits (before movements in reserves)”. As the separate financial statements of Hypo Alpe-Adria-Bank International AG as at 31 December 2007 to 2011 did not meet this criterion, following formal adoption of the financial statements, interest on the supplementary capital issues of the credit institution could not be paid out.

The financial statements for Hypo Alpe-Adria-Bank International AG as at 31.12.12 and 2013 also did not meet this criterion, and consequently interest on the supplementary capital issues made by Hypo Alpe-Adria-Bank International AG could not be paid out. According to the specific legal provisions, payment of interest may only be resumed when formally approved financial statements for Hypo Alpe-Adria-Bank International AG establish that sufficient annual profits (before movements in reserves) have been shown. Hypo Alpe-Adria-Bank International AG assumes that there will be an obligation to make payments of interest for the preceding periods of non-payment.

In accordance with section 23 (7) (3) of the BWG, supplementary capital prior to liquidation may only be paid back after proportionate deductions have been made for net losses reported during its term. This means that the losses must be allocated in proportion to the paid-in capital in accordance with section 23 (3) BWG and to the supplementary capital (pari passu) of the supplementary capital bond in question. The loss allocation must be applied not only in the case of redemption at term but also in the event of early repayment by giving notice on the issue or through a early buy-back of the issue. Please refer, in this connection, to the claim brought against Hypo Alpe-Adria-Bank International AG by an investor in April 2012 for the payment of the nominal value plus all non-paid interest charges relating to a supplementary capital bond, which reached final maturity in April 2011 and was redeemed at no value because of the loss allocation applicable to it (see note (129.3) Other proceedings).

Taking into account the loss allocation required by law, a total loss in relation to the remaining supplementary capital issues by Hypo Alpe-Adria-Bank International AG has been stated. Statistics (net loss for the year based on the figures as at the balance sheet date) and a dynamic perspective (when including forecasts) assume that investors would see a total loss, which becomes more likely the shorter the residual maturity of the bond in question. On the basis of the significant change in forward-looking assessment, future cash flows to investors had to be adjusted in 2012 so that no further positive supplementary capital was reported and, pursuant to IAS 39 and IAS 8, the supplementary capital measured at amortised cost was impaired.

### 131.2. Hybrid capital

Hypo Alpe Adria has in the past made a total of two issues of subordinated hybrid capital, with no obligation to re-margin interest (Hypo Alpe-Adria Jersey Ltd. for a nominal value of EUR 75.0 million and Hypo Alpe-Adria (Jersey) II Ltd. for a nominal value of EUR 150.0 million). Both issues are essentially for an unlimited term, although the issuer has a unilateral right to terminate.

The primary criterion for servicing the outstanding hybrid capital issues is sufficient "distributable funds" as defined in the issue conditions; the secondary criterion is that there is no short-fall on the limits set for the group's own capital funds.

As the separate financial statements for Hypo Alpe-Adria-Bank International AG as at 31 December 2013 prepared in accordance with UGB/BWG show a clear loss (prior to movements in reserves), the main prerequisite for servicing hybrid capital is not met, and thus may not be carried out.

Hypo Alpe Adria may therefore not undertake to pay out interest on hybrid capital until such time as the separate financial statements of Hypo Alpe-Adria-Bank International AG in accordance with UGB/BWG show annual profits, which then require the servicing of the hybrid capital in accordance with the issue conditions with regard to "distributable funds". As there is no supervisory regulatory obligation to re-margin missed interest payments, the payments with regard to this hybrid capital do not apply and are therefore not shown as interest expense in the consolidated income statement.

As part of a buyback in February 2012, hybrid capital totalling approx. EUR 165.0 million (from both issues) was taken out of the market. The take-up quota was more than 70 %. Approximately EUR 60 million of hybrid capital is still on the market.

The hybrid capital of Hypo Alpe-Adria Jersey Ltd. measured at amortised cost (nominal value: EUR 36.5 million) was assessed in the same way as the supplementary capital. As no more payments are expected on this instrument in the future, this was valued at zero in the consolidated financial statements. The hybrid capital of Hypo Alpe-Adria (Jersey) II Ltd. (nominal value: EUR 23.4 million) is measured at fair value; the valuation here is based on the market price at the balance sheet date.

**131.3. Subordinated liabilities**

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

Hypo Alpe-Adria-Bank International AG placed a subordinated bond of EUR 1.0 billion with institutional investors on 6 December 2012. This bond has a term of ten years and a coupon of 2.375% p.a. on the nominal value. The Republic of Austria has given an unconditional and irrevocable guarantee, and has received the necessary provisional approval of the European Commission. The European Commission authorised the guarantee from a state-aid perspective in its resolution dated 3 September 2013. In exchange for the guarantee, Hypo Alpe Adria has undertaken to pay the Republic of Austria a guarantee fee calculated following a European Commissionscheme

## (132) Own capital funds as defined by the BWG

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

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Core capital (Tier 1)** | **1,808.3** | **2,022.1** |
| Paid-in capital | 2,808.6 | 1,308.6 |
| Reserves (incl. non-controlling interests in equity) | 828.5 | 774.4 |
| Funds for general banking risks | 0.7 | 153.7 |
| Intangible assets | –11.8 | –33.0 |
| Deduction net loss, material negative results | –1,817.8 | –181.6 |
| **Supplementary elements (Tier 2)** | **904.1** | **1,011.0** |
| Supplementary capital | 0.0 | 0.0 |
| Subordinated capital | 904.1 | 1,011.0 |
| **Deductions pursuant to Section 23 –13 BWG** | **–6.7** | **–9.0** |
| **Tier 3 (reclassified Tier 2 capital)** | **34.1** | **33.0** |
| **Own capital funds according to BWG** | **2,739.8** | **3,057.1** |
| **Own capital funds requirement according to BWG** | **1,473.8** | **1,883.2** |
| **Surplus capital/shortage** | **1,266.0** | **1,173.9** |
| Coverage | 185.9% | 162.3% |

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Risk-weighted basis for assessment in acc. with section 22 of the BWG (banking book)** | **16,643.6** | **21,323.5** |
| thereof 8% minimum own funds requirements | 1,331.5 | 1,705.9 |
| Own funds requirement – securities trading book | 6.0 | 8.1 |
| Own funds requirement – open foreign exchange position | 28.1 | 24.9 |
| Own funds requirement – operational risk | 108.2 | 144.3 |
| **Total own capital funds requirement** | **1,473.8** | **1,883.2** |

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Assessment basis banking book (risk-weighted)** | **16,643.6** | **21,323.5** |
| Tier 1 ratio | 10.8% | 9.5% |
| Own capital funds ratio | 16.5% | 14.3% |
| **Assessment basis incl. market and operational risk** | **18,422.2** | **23,540.1** |
| Tier 1 ratio | 9.8% | 8.6% |
| Own capital funds ratio | 14.9% | 13.0% |

In the 2013 financial year, Hypo Alpe-Adria-Bank International AG as the ultimate holding company of Hypo Alpe Adria was not consistently in compliance with the minimum own funds requirements as defined by the BWG, both as an individual institution and as a group. At the June, July and August month-end, the equity ratios for the individual institution were 1.63%, 1.49% and 0.79%, and for the group 7.62%, 7.94 % and 7.36 %, falling below the statutory minimum requirement of 8.0 %. Compliance with the law was restored with the owner's corporate action in the amount of EUR 700.0 million in September of 2013. Corporate actions in the amounts of EUR 250.0 million in the form of a shareholder contribution and EUR 800.0 million in the form of participation capital were carried out in November and December of 2013.

However, the need for additional risk provisioning and reductions in the value of investments in the SEE network manifested themselves within the value elucidation period for the preparation of the separate financial statements of Hypo Alpe-Adria-Bank International AG in accordance with UGB/BWG. This in turn meant that the minimum own funds requirements were once again not met as at 31 December 2013. The total capital ratio for the individual institution fell to 1.87 % as a result (Tier 1 ratio: 1.25 %). Therefore a resolution for further capital increase by the owner in the amount of EUR 750.0 million was passed by the shareholders' meeting on 9 April 2014.

A corresponding provision was recognised in the 2013 consolidated financial statements for the impending penalties incurred according to section 97 (1) BWG due to non-compliance.

### (133) Portfolio transfers in the SEE network and in the banks in Italy and Austria

The aim of re-privatising the marketable units is preceded by the portfolio transfers currently taking place within the context of the group "Brush" project. Following the portfolio transfers in the 2011 financial year, when group units in Slovenia, Bosnia and Herzegovina, and Montenegro outsourced their non-performing loan portfolios to other group companies, this was then also implemented in Croatia, Austria and Italy as planned in 2012. While the portfolio transfers in Croatia took the form of "synthetic" transfers, those in Austria and Italy took the form of a demerger, which led to the actual transfer of assets from the Austria subsidiary's spun-off portfolio to Hypo Alpe-Adria-Bank International AG (Austria) and the spun-off part of the Italian bank was split off and transferred to Hypo Alpe-Adria-Leasing s.r.l. (Italy). A portfolio in Montenegro was transferred at the end of 2012 by means of a true sale and the assets transferred from the local bank to a subsidiary of the Montenegrin leasing unit.

At the beginning of 2013 another portfolio transfer totalling EUR 0.7 billion (gross exposure) was conducted. It concerned a Slovenian leading portfolio. This represented a further step towards focusing the Slovenian leasing company on the core business "movables".

Legal provisions in Serbia do not permit synthetic portfolio transfers as in Croatia, Bosnia and Herzegovina, and Slovenia; instead, portfolios here must be disposed of by legal contract. Legal amendments to allow the transfers of portfolios were implemented in Serbia at the end of 2012.

In 2013 portfolio transfers of around EUR 0.3 billion (gross exposure) were conducted in Slovenia, a volume of EUR 0.2 billion (gross exposure) in Croatia, around EUR 0.08 billion (gross exposure) in Montenegro and approx. EUR 0.2 billion (gross exposure) in Serbia. Another portfolio adjustment is scheduled in Bosnia and Herzegovina and Serbia in mid 2014.

A direct portfolio sale of retail and SME exposures to third parties with an expected volume of some EUR 0.4 billion is underway. It involves portfolios in Slovenia, Croatia, Serbia and Montenegro.

### (134) Employee data

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Employees at closing date (Full Time Equivalent – FTE) | 6,008 | 6,576 |
| Employees average (FTE) | 6,574 | 7,371 |

### (135) Expenses for severance payments and pensions

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

EUR thousand

| | 31.12.2013 | | 31.12.2012 | |
|---|---|---|---|---|
| | Severance Payments | Pensions | Severance Payments | Pensions |
| Key management personnel | 108.0 | 11.4 | 595.8 | 0.0 |
| Other employees | 1,008.2 | 247.3 | 1,411.9 | 92.2 |
| Members of Executive Board | 31.5 | 86.1 | 35.0 | 0.0 |
| **Total** | **1,147.7** | **344.8** | **2,042.7** | **92.2** |

Expenses for severance payments and pensions contain contributions to defined contribution plans totalling EUR 0.9 million (2012: EUR 0.9 million).

## (136) Relationship with members of the executive bodies

### 136.1. Advances, loans and guarantees in respect of members of the executive bodies

Until it was sold, all transactions relating to members of the Executive and Supervisory Boards were carried out through the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG, Klagenfurt am Wörthersee. As Hypo Alpe-Adria-Bank AG was excluded from the scope of consolidation as at 19 December 2013 due to its disposal, all relationships with it are classified as a relationship with a third-party bank.

The financial relationship of Hypo Alpe Adria to the members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG is as follows:

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Loans and advances** | **0.0** | **20.2** |
| Supervisory Board | 0.0 | 20.2 |
| **Liabilities** | **0.0** | **1,275.2** |
| Executive Board | 0.0 | 819.1 |
| Supervisory Board | 0.0 | 456.1 |

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **At end of previous period** | **20.2** | **335.0** |
| New loans issued during the period | 0.0 | 0.0 |
| Amount owing to bank recorded on the balance sheet | 0.0 | 0.0 |
| Amount received by the bank | 0.0 | 0.0 |
| Changes to Executive bodies | 0.0 | –314.8 |
| Credit repaid during the period | 0.0 | 0.0 |
| Changes to the consolidated Group | –20.2 | 0.0 |
| **At end of period** | **0.0** | **20.2** |
| Interest income | 0.0 | 0.4 |

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **At end of previous period** | **1,275.2** | **869.3** |
| Deposits received during the period | 0.0 | 523.9 |
| Changes to Executive bodies | 0.0 | –13.7 |
| Deposits paid out during the period | 0.0 | –104.2 |
| Changes to the consolidated Group | –1,275.2 | 0.0 |
| **At end of period** | **0.0** | **1,275.2** |
| Interest expenses on liabilities | 0.0 | 14.2 |

### 136.2. Breakdown of remuneration received by members of the executive bodies of the group's parent company

Remuneration received by the members of the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG for carrying out their functions, received from this or from another group company, is as follows:

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Executive Board** | **2,218.9** | **2,474.4** |
| thereof ongoing payments | 2,218.9 | 2,474.4 |
| **Supervisory Board** | **227.1** | **127.5** |
| **Remuneration of former members of the Executive and Supervisory Board and their surviving dependents** | **512.6** | **463.8** |
| thereof related to termination | 0.0 | 0.0 |
| thereof payments after termination | 512.6 | 463.8 |
| **Total** | **2,958.5** | **3,065.7** |

The members of the Executive Board and Supervisory Board are stated in note (137) Executive bodies.

## (137) Executive bodies

1 January to 31 December 2013

### Supervisory Board

**Chairman of the Supervisory Board**
Johannes DITZ, until 3 June 2013
Klaus LIEBSCHER, member from 30 April 2013
Chairman from 21 June 2014

**Deputy Chairman of the Supervisory Board**
Rudolf SCHOLTEN

**Members of the Supervisory Board**
Helmut DRAXLER
Alois STEINBICHLER
Ludwig SCHARINGER, from 21 June 2013
Adolf WALA, from 30 April 2013

**Delegated by the Works Council**
Gerhard PLIESCHNIG, Chairman of the Works Council
Richard JOHAM

### Federal Supervisory Authorities

**State Commissioner**
Alexander PESCHETZ

**Deputy State Commissioner**
Monika HUTTER

### Trustees

**Trustee:**
Alexander PESCHETZ, Federal Ministry of Finance

**Deputy Trustee:**
Jakob KÖHLER, Federal Ministry of Finance

### Executive Board

Gottwald KRANEBITTER, Chairman, until 31 August 2013
Wolfgang EDELMÜLLER, Deputy Chairman
Johannes PROKSCH, Member of the Executive Board
Rainer SICHERT, Member of the Executive Board

For more details on the changes to the composition of the Executive Board and the Supervisory Board, please refer to note (140) Events after the balance sheet date.

## (138) Material subsidiaries as at 31 December 2013

# HYPO ALPE-ADRIA-BANK INTERNATIONAL AG

### SEE NETWORK

**Austria:**
- Hypo SEE Holding AG, Klagenfurt/WS

**Slovenia:**
- HYPO ALPE-ADRIA-BANK d.d., Ljubljana
- HYPO LEASING[1] d.o.o., Ljubljana 25/75 %

**Croatia:**
- HYPO ALPE-ADRIA-BANK d.d., Zagreb
- HYPO ALPE-ADRIA-LEASING d.o.o., Zagreb

**Bosnia and Herzegovina:**
- Hypo Alpe-Adria-Bank A.D., Banja Luka 99,777 %
- Hypo Alpe-Adria-Leasing d.o.o., Banja Luka 99,777 %
- HYPO ALPE-ADRIA-BANK d.d., Mostar 99,9985 %

**Serbia:**
- HYPO ALPE-ADRIA-BANK AD, Belgrade 99,9990 %

**Montenegro:**
- HYPO ALPE-ADRIA-BANK[2] A.D., Podgorica 99,88/0,12%

### OTHER BANKS

**Italy:**
- HYPO ALPE-ADRIA-BANK S.P.A., Udine 99,9998 %

### ASSET RESOLUTION - FINANCIALS

**Austria:**
- HETA Asset Resolution GmbH, Klagenfurt/WS
- HYPO ALPE-ADRIA-LEASING GmbH, Klagenfurt/WS
- HETA Real Estate GmbH, Klagenfurt/WS

**Slovenia:**
- TCV d.o.o.,[1] Ljubljana 25/75 %
- TCK d.o.o.,[1] Ljubljana 25/75 %

**Croatia:**
- HYPO-LEASING KROATIEN d.o.o., Zagreb
- HYPO ULAGANJA d.o.o., Zagreb
- H-ABDUCO d.o.o., Zagreb

**Bosnia and Herzegovina:**
- HETA d.o.o., Sarajevo
- BORA d.o.o., Banja Luka

**Serbia:**
- HYPO ALPE-ADRIA-LEASING DOO, Belgrade
- HYPO ALPE-ADRIA-RENT DOO, Belgrade
- HYPO DEVELOPMENT DOO, BELGRADE
- HETA REAL ESTATE D.O.O., BELGRADE

**Italy:**
- HYPO ALPE-ADRIA-LEASING S.r.l., Udine

**Bulgaria:**
- HYPO ALPE-ADRIA-LEASING[3] OOD, Sofia 99,87/0,13 %
- HYPO ALPE-ADRIA AUTOLEASING[3] OOD, Sofia 99,78/0,22 %

**Montenegro:**
- HYPO ALPE-ADRIA-LEASING D.O.O., Podgorica
- HYPO ALPE-ADRIA-DEVELOPMENT, D.O.O., PODGORICA

**Macedonia:**
- HYPO ALPE-ADRIA-LEASING DOOEL, Skopje

**Hungary:**
- HYPO Alpe-Adria-Leasing Zrt., Budapest

**Ukraine:**
- HYPO ALPE-ADRIA-LEASING TOV, Kiev

**Germany:**
- HYPO ALPE-ADRIA-LEASING GmbH, Munich

### ASSET RESOLUTION - OTHER

**Austria:**
- CEDRUS Handels- und Beteiligungs GmbH, Klagenfurt/WS
- HYPO ALPE-ADRIA BETEILIGUNGEN GMBH, Klagenfurt/WS
- Hypo Alpe-Adria-Immobilien GmbH, Klagenfurt/WS
- PROBUS Real Estate GmbH, Vienna

**Croatia:**
- REZIDENCIJA SKIPER d.o.o.,[4] Savudrija
- GRAND HOTEL LAV d.o.o., Podstrana

**Serbia:**
- ZAJEDNIČKI INFORMACIONI SISTEM, DOO BELGRADE

Participations without additional percentage are direct or indirect 100 % participations of HYPO ALPE-ADRIA-BANK INTERNATIONAL AG (HBInt.)

1) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of the minority share of 25 % of HYPO LEASING d.o.o. Ljubljana as well as of TCK d.o.o. and TCV d.o.o.; 75 % is owned by HETA Asset Resolution GmbH.
2) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of 99,88 % of HYPO ALPE-ADRIA-BANK A. D., Podgorica; 0,12 % are owned by HETA Asset Resolution GmbH.
3) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of the majority share of the two bulgarian leasingcompanies; the small minority share is owned by HETA Asset Resolution GmbH.
4) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of the majority share of 75 % of REZIDENCIJA SKIPER d.o.o.; the minority share of 25 % is owned by HYPO ALPE-ADRIA-BETEILIGUNGEN GmbH.

## (139) Scope of consolidation

The consolidated group of companies as defined in IFRS as at 31 December 2013 include the following direct and indirect subsidiaries of Hypo Alpe-Adria-Bank International AG using the full consolidation method:

| Company | Registered office | Ownership (direct) in % | Ownership (indirect)in % | closing date | Type |
|---|---|---|---|---|---|
| Alpe Adria Privatbank AG in Liquidation | Vaduz | 100.0 | 100.0 | 31.12.2013 | KI |
| Alpe Adria Snow Fun Park Grundstücks GmbH | Wittenburg | 100.0 | 100.0 | 31.12.2013 | FI |
| Alpe-Adria nekretnine d.o.o. | Zagreb | 100.0 | 100.0 | 31.12.2013 | SU |
| Alpe-Adria poslovodstvo d.o.o. | Zagreb | 100.0 | 100.0 | 31.12.2013 | FI |
| Alpe-Adria-Projekt GmbH | Munich | 100.0 | 100.0 | 31.12.2013 | FI |
| BLOK 67 ASSOCIATES DOO BEOGRAD | Belgrade - Novi Beograd | 100.0 | 100.0 | 31.12.2013 | SU |
| BORA d.o.o. Banja Luka | Banja Luka | 100.0 | 100.0 | 31.12.2013 | NDL |
| BRODARICA POSLOVNI CENTAR d.o.o. | Zagreb | 100.0 | 100.0 | 31.12.2013 | SU |
| Carinthia I Limited | St. Helier - Jersey | 100.0 | 51.0 | 31.12.2013 | FI |
| Carinthia II Limited | St. Helier - Jersey | 100.0 | 51.0 | 31.12.2013 | FI |
| CEDRUS Handels- und Beteiligungs GmbH | Klagenfurt am Wörthersee | 100.0 | 100.0 | 31.12.2013 | NDL |
| DOHEL d.o.o. | Sesvete | 100.0 | 100.0 | 31.12.2013 | SU |
| EPSILON GRAĐENJE d.o.o. | Zagreb | 100.0 | 100.0 | 31.12.2013 | SU |
| GRAND HOTEL LAV d.o.o. | Podstrana | 100.0 | 100.0 | 31.12.2013 | SU |
| H-ABDUCO d.o.o. | Zagreb | 100.0 | 100.0 | 31.12.2013 | NDL |
| HBInt Credit Management Limited | St. Helier - Jersey | 51.0 | 51.0 | 31.12.2013 | FI |
| HETA Asset Resolution Germany GmbH | Munich | 100.0 | 100.0 | 31.12.2013 | FI |
| HETA Asset Resolution GmbH | Klagenfurt am Wörthersee | 100.0 | 100.0 | 31.12.2013 | FI |
| HETA d.o.o. Sarajevo | Sarajevo | 100.0 | 100.0 | 31.12.2013 | FI |
| HETA REAL ESTATE D.O.O. BELGRAD | Belgrade | 100.0 | 100.0 | 31.12.2013 | NDL |
| HETA Real Estate GmbH | Klagenfurt am Wörthersee | (99.0/1.0) | 100.0 | 31.12.2013 | NDL |
| HTC ENA d.o.o. | Ljubljana | 100.0 | 100.0 | 31.12.2013 | SU |
| HYPERIUM DOOEL Skopje | Skopje | 100.0 | 100.0 | 31.12.2013 | SU |
| Hypo Alpe-Adria (Jersey) II Limited | St. Helier - Jersey | 100.0 | 100.0 | 31.12.2013 | SU |
| Hypo Alpe-Adria Jersey Limited | St. Helier - Jersey | 100.0 | 100.0 | 31.12.2013 | SU |
| HYPO Alpe-Adria Leasing Zrt. | Budapest | 100.0 | 100.0 | 31.12.2013 | FI |
| HYPO ALPE-ADRIA-AUTOLEASING OOD | Sofia | (99.78/0.22) | 100.0 | 31.12.2013 | FI |
| Hypo Alpe-Adria-Bank A.D. Banja Luka | Banja Luka | (99.78/0.22) | 99.8 | 31.12.2013 | KI |
| HYPO ALPE-ADRIA-BANK A.D. PODGORICA | Podgorica | (99.88/0.12) | 100.0 | 31.12.2013 | KI |
| HYPO ALPE-ADRIA-BANK AD BEOGRAD | Beograd | 100.0 | 100.0 | 31.12.2013 | KI |
| HYPO ALPE-ADRIA-BANK d.d. | Ljubljana | 100.0 | 100.0 | 31.12.2013 | KI |
| HYPO ALPE-ADRIA-BANK d.d. | Mostar | 100.0 | 100.0 | 31.12.2013 | KI |
| HYPO ALPE-ADRIA-BANK d.d. | Zagreb | 100.0 | 100.0 | 31.12.2013 | KI |
| HYPO ALPE-ADRIA-BANK S.P.A. | Udine | 100.0 | 100.0 | 31.12.2013 | KI |
| HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH | Klagenfurt am Wörthersee | 100.0 | 100.0 | 31.12.2013 | NDL |
| HYPO ALPE-ADRIA-DEVELOPMENT D.O.O. PODGORICA | Podgorica | 100.0 | 100.0 | 31.12.2013 | FI |
| Hypo Alpe-Adria-Immobilien GmbH | Klagenfurt am Wörthersee | 100.0 | 100.0 | 31.12.2013 | NDL |
| HYPO ALPE-ADRIA-INVEST d.d. | Zagreb | 100.0 | 100.0 | 31.12.2013 | FI |
| HYPO ALPE-ADRIA-LEASING d.o.o. | Zagreb | 100.0 | 100.0 | 31.12.2013 | FI |
| HYPO ALPE-ADRIA-LEASING D.O.O. - PODGORICA | Podgorica | 100.0 | 100.0 | 31.12.2013 | FI |

| Company | Registered office | Ownership (direct) in % | Ownership (indirect)in % | closing date | Type |
|---|---|---|---|---|---|
| Hypo Alpe-Adria-Leasing d.o.o. Banja Luka | Banja Luka | 100.0 | 99.8 | 31.12.2013 | FI |
| HYPO ALPE-ADRIA-LEASING DOO BEOGRAD | Belgrade | 100.0 | 100.0 | 31.12.2013 | FI |
| HYPO ALPE-ADRIA-LEASING DOOEL Skopje | Skopje | 100.0 | 100.0 | 31.12.2013 | FI |
| HYPO ALPE-ADRIA-LEASING GMBH | Klagenfurt am Wörthersee | 100.0 | 100.0 | 31.12.2013 | FI |
| HYPO ALPE-ADRIA-LEASING OOD | Sofia | (99.87/0.13) | 100.0 | 31.12.2013 | FI |
| HYPO ALPE-ADRIA-LEASING S.r.l. | Udine | 100.0 | 100.0 | 31.12.2013 | FI |
| HYPO ALPE-ADRIA-LEASING TOV | Kiev | 100.0 | 100.0 | 31.12.2013 | FI |
| HYPO ALPE-ADRIA-NEKRETNINE d.o.o. | Zagreb | 100.0 | 100.0 | 31.12.2013 | NDL |
| HYPO ALPE-ADRIA-RENT DOO BEOGRAD | Beograd | 100.0 | 100.0 | 31.12.2013 | NDL |
| HYPO ALPE-ADRIA-Verwaltung 2011 GmbH | Munich | 100.0 | 100.0 | 31.12.2013 | FI |
| HYPO ALPE-ADRIA-ZASTUPNIK - Društvo za zastupanje u osiguranju d.o.o. | Sarajevo | 100.0 | 100.0 | 31.12.2013 | NDL |
| HYPO CENTER –2 d.o.o. | Ljubljana | 100.0 | 100.0 | 31.12.2013 | SU |
| HYPO Grund- und Bau-Leasing Gesellschaft m.b.H. | Klagenfurt am Wörthersee | (99.9/0.1) | 100.0 | 31.12.2013 | FI |
| HYPO HOUSE D.O.O. - PODGORICA | Podgorica | 100.0 | 100.0 | 31.12.2013 | NDL |
| HYPO Immobilien- und Bauconsult GmbH | Klagenfurt am Wörthersee | (99.0/1.0) | 100.0 | 31.12.2013 | FI |
| HYPO LEASING d.o.o. | Ljubljana | (75.0/25.0) | 100.0 | 31.12.2013 | FI |
| HYPO Luftfahrzeuge Leasing GmbH | Klagenfurt am Wörthersee | (99.0/1.0) | 100.0 | 31.12.2013 | FI |
| HYPO NEPREMIČNINE d.o.o. | Ljubljana | 100.0 | 100.0 | 31.12.2013 | SU |
| Hypo SEE Holding AG | Klagenfurt am Wörthersee | 100.0 | 100.0 | 31.12.2013 | SU |
| HYPO SERVICE S.R.L. | Tavagnacco | 100.0 | 100.0 | 31.12.2013 | NDL |
| HYPO Vermögensverwaltung Gesellschaft m.b.H. | Klagenfurt am Wörthersee | 100.0 | 100.0 | 31.12.2013 | SU |
| HYPO-ALPE-ADRIA-INVEST d.o.o. Mostar | Mostar | 100.0 | 100.0 | 31.12.2013 | FI |
| HYPO-Leasing Kärnten GmbH & Co KG | Klagenfurt am Wörthersee | 100.0 | 100.0 | 31.12.2013 | FI |
| HYPO-LEASING KROATIEN d.o.o. | Zagreb | 100.0 | 100.0 | 31.12.2013 | FI |
| LOMA CENTER d.o.o. | Ljubljana | 100.0 | 100.0 | 31.12.2013 | SU |
| Malpensa Gestioni Srl | Tavagnacco (Udine) | 100.0 | 100.0 | 31.12.2013 | SU |
| MM THETA d.o.o. | Ljubljana | 100.0 | 100.0 | 31.12.2013 | SU |
| MM ZETA d.o.o. | Ljubljana | 100.0 | 100.0 | 31.12.2013 | SU |
| Norica Investments Limited | St. Helier - Jersey | 51.0 | 51.0 | 31.12.2013 | FI |
| PROBUS Real Estate GmbH | Wien | 100.0 | 100.0 | 31.12.2013 | NDL |
| REZIDENCIJA SKIPER d.o.o. | Savudrija | (75.0/25.0) | 100.0 | 31.12.2013 | SU |
| SKIPER HOTELI d.o.o. | Savudrija | 100.0 | 100.0 | 31.12.2013 | SU |
| SKIPER OPERACIJE d.o.o. | Savudrija | 100.0 | 100.0 | 31.12.2013 | SU |
| Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG | Wittenburg | 100.0 | 100.0 | 31.12.2013 | FI |
| SPC SZENTEND Ingatlanforgalmazó és Ingatlanfejlesztõ Kft. | Budapest | 100.0 | 100.0 | 31.12.2013 | SU |
| TCK d.o.o. | Ljubljana | (75.0/25.0) | 100.0 | 31.12.2013 | NDL |
| TCV d.o.o. | Ljubljana | (75.0/25.0) | 100.0 | 31.12.2013 | NDL |
| TERME SPA ROGASKA D.D. | ROGAŠKA SLATINA | 100.0 | 100.0 | 31.12.2013 | SU |
| Victor Retail I d.o.o. | Sarajevo | 100.0 | 100.0 | 31.12.2013 | SU |
| X TURIST d.o.o. | Umag | 100.0 | 100.0 | 31.12.2013 | SU |

| Company | Registered office | Ownership (direct) in % | Ownership (indirect)in % | closing date | Type |
|---|---|---|---|---|---|
| Y TURIST d.o.o. | Umag | 100.0 | 100.0 | 31.12.2013 | SU |
| ZAJEDNIČKI INFORMACIJSKI SUSTAVI d.o.o. | Zagreb | 100.0 | 100.0 | 31.12.2013 | NDL |
| ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD | Novi Beograd | 100.0 | 100.0 | 31.12.2013 | NDL |

The following table shows the companies accounted for at equity:

EUR m

| Company | Registered office | Ownership (direct) in % | Ownership (indirect)in % | Carrying amount of investment as at 31.12.2012 | Share of profit for the year |
|---|---|---|---|---|---|
| Bergbahnen Nassfeld Pramollo AG | Hermagor | 29.5 | 29.5 | 6.0 | 0.2 |
| HYPO-BA Leasing Süd GmbH | Klagenfurt am Wörthersee | 50.0 | 50.0 | 1.4 | 0.1 |

Abbreviations:

| | |
|---|---|
| CI | Credit institution |
| FI | Financial institution |
| NDL | Provider of ancillary services |
| SU | Other companies |

### (140) Events after the balance sheet date

Alexander Picker was appointed as new Chairman of the Executive Board of Hypo Alpe-Adria-Bank International AG at the end of 2013 following a public tender procedure. He assumed this position with effect from 1 January 2014. Chief Risk Officer (CRO) Wolfgang Edelmüller announced on 10 January 2014 than he would resign as member of the Executive Board of Hypo Alpe-Adria-Bank International AG as at 28 February 2014. Chairman of the Executive Board Alexander Picker succeeded Wolgang Edelmüller as CRO on an interim basis. A new appointment to the position of CRO has not yet been announced.

Ludwig Scharinger left the Supervisory Board on 4 February 2014. Klaus Liebscher resigned as Chairman of the Supervisory Board as at 21 February 2014. In March 2014, Finance Minister Michael Spindelegger publically announced that an internationally renowned and experienced banking expert will assume the position of Chairman of the Supervisory Board. An appointment is expected in the second quarter of 2014.

Ongoing discussions regarding potential insolvency scenarios and subsequent uncertainty regarding the bank's going concern at the beginning of the 2014 financial year prompted Moody's to downgrade its guaranteed debt rating 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. In a separate rating action on 24 February 2014, the rating for Guaranteed Public-Sector Covered Bonds was changed from AAA to Aa2 with a review for downgrade and the rating for Unguaranteed Public-Sector Covered Bonds was lowered from Aa2 to A3 with a 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". The rating adjustment was in keeping the prior rating adjustment for the Republic of Austria.

In order to avoid negative implications from the potential insolvency of a debtor, a group company of Hypo Alpe Adria acquired the majority share of a Slovenian project company in March 2014, which is about to complete a business and residential complex in Laibach (Slovenia). The company will included in the scope of consolidation according to IFRS for the first time as at 31 March 2014.

On 18 March 2014, the Austria Federal Government resolved, on request of the Federal Minister of Finance, to implement the recommendations made by the Task Force and establish Hypo Alpe-Adria-Bank International AG as a deregulated, private wind-down company without any general state guarantees by September 2014.

As part of the Supervisory Board meeting where the auditor was present, it was determined that to finalise the financial statements according to UGB/BWG (separate financial statement) as at 31 December 2013, additional impairments would be required. As a result of the recognition of these impairments, the capital ratios are well below the regulatory minimum requirements, which ultimately led to violations of large exposure limits. The bank immediately fulfilled its obligations to inform the regulatory authorities, informing them and the owner of the violation of regulatory limits.

On 4 April 2014 the bank was informed by the Oesterreichische Nationalbank (OeNB) regarding a resolution of the Governing Council of 3 April 2014, in which the ECB excluded Hypo Alpe-Adria-Bank International AG from participating in refinancing transactions with the ECB and from using its marginal lending facility until further notice. Until further notice, the bank may not use its senior unsecured bonds as collateral for financial operations. In an ad hoc announcement of 4 April 2014, the bank communicated this and informed the public that it currently does not utilise any such refinancing facilities provided by the ECB and that no major repercussions are to be expected on the bank's liquidity situation. This measure applies to the Austrian parent company, but not to local subsidiaries in other countries. The Governing Council of the ECB cited the fact that the bank again reported that it had fallen short of regulatory capital requirements as its reason for issuing this measure.

The bank's shareholder, the Republic of Austria, resolved a capital increase of EUR 750.0 million at the general shareholders' meeting held on 9 April 2014. The payment was made on 11 April; it is currently being entered into the commercial register and is expected to be completed in April.

Klagenfurt am Wörthersee, 14 April 2014
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Alexander Picker
(Chairman)

Johannes Proksch

Rainer Sichert

# Statement of all legal representatives

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business, together with a description of the principal risks and uncertainties the group faces.

Klagenfurt am Wörthersee, 14 April 2014
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Alexander Picker
(Chairman)

Johannes Proksch

Rainer Sichert

# Auditors' Report

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of **HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt**, for the fiscal year from 1 January 2013 to 31 December 2013. These consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended 31 December 2013, and the notes.

### Management's responsibility for the consolidated financial statements and for the accounting system

The company's management is responsible for the group's accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements of section 245a of the Austrian Enterprise Code (UGB) and banking regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' responsibility and description of type and scope of the statutory audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). These standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

### Opinion

Our audit has not led to any reservations. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as at 31 December 2013, and of its financial performance and its cash flow for the fiscal year from 1 January 2013 to 31 December 2013, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Without qualifying our opinion we draw attention to the following:

- Disclosure made by the company's management in the notes to the financial statements in note (1.2) "Important Events" in which reference is made the significant shortfall with regard to capitalisation at the individual company level: The capital increase of EUR 750 million agreed on 9 April 2014, which was executed directly thereafter means the required state of affairs was achieved and continued to be met until the date of the financial statements. The joint decision of the banking regulator of January 2013 effective as at 31 December 2013 regarding minimum capitalisation requirements for the banking group was set a level of 12.4%. As also noted in the note (1.2), the Executive Board expects that this recapitalisation will allow it to meet the capitalisation requirements of the bank and banking group with regard to normal business operations until the wind-down unit announced by its owner is established in September 2014. In case value corrections are required in the future and losses are made in the course of the sale of assets, significant insecurities remain with regard to the fulfilment of regulatory capitalisation requirements; the executive board expects that the owner will provide additional capital in such a case.

- Disclosures made by the company's management in the notes to the consolidated financial statements in note (1.2) "Important Events", note (6b) "Sales activities related to the SEE network" and note (129.1.) "EU proceedings". According to the decision of the European Commission regarding the restructuring of the company made in the course of the process of providing assistance, the SEE bank network must be sold by 30 June 2015. Otherwise it must be wound down. As presented correctly by the executive board, the affected units were not in saleable state in the sense of IFRS 5 by the reporting date, 31 December 2013, which is why a valuation of the affected assets and liabilities continued to be made on the basis of ongoing business activities in the consolidated financial statements. The executive board plans to sell the SEE bank network by the deadline set but expects based on the current market constellation that the SEE bank network will be sold at a significantly lower sale price compared to the reported book value. At the time when the change to valuation according to IFRS 5 takes place or, at the latest when the SEE bank network is sold significant losses will therefore have to be recognized. There is still significant uncertainty with regard to the extent and timing of such losses.

- Disclosure relating to note (102) "Risks in the portfolio relating to historic interest rate directives". A number of legal claims have been made in Italy and the SEE region relating to interest rate adjustment that were manipulated or the result of changes that were illegal or contrary to contractual agreements. The executive board has created reserves for the expected cost, which were included in the consolidated financial statements, on the basis of a comprehensive evaluation. If the actual decisions made by the courts differ significantly from those expected by the executive board, or if further manipulations come to light, it cannot be excluded that further losses will result.

- Disclosures made by the company's management in the notes to the consolidated financial statements in note (4) "Use of Estimates and Assumptions/Uncertainties in Connection with Estimates". The quality of the loan portfolio in the SEE region depends largely on future macro-economic developments in these markets. In addition, the Executive Board expects that the majority of collaterals can be sold at market values and in the planned periods. An unfavourable change in economic conditions and/or in the real estate markets – which cannot be excluded – could have a significant influence on the asset values disclosed in the consolidated financial statements (in particular loans and advances and provisions on loans and advances), as well as on the group's equity and own capital funds. Further significant uncertainty exists with regard to the future applicable measurement criteria regarding significant parts of the loan portfolio that according to the plans of the owner will be transferred to a deregulated wind-down unit to be established until September 2014. If these criteria should differ from the current valuation principles on which the consolidated financial statements are based and which are presented in note (13) "Financial Instruments: Recognition and Measurement" (IAS 39) and note (22) "Risk provisions on loans and advances", it cannot be excluded that additional losses have to be recognized.

## Comments on the consolidated management report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the group’s position. The auditors’ report also has to contain a statement as to whether the consolidated management report is consistent with the consolidated financial statements and whether the disclosures pursuant to section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the consolidated management report is consistent with the consolidated financial statements. The disclosures pursuant to section 243a (2) UGB (Austrian Commercial Code) are appropriate.

Vienna, 14 April 2014

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

| | |
|---|---|
| Helmut Maukner<br>Wirtschaftsprüfer | Friedrich O. Hief<br>Wirtschaftsprüfer |

# Report

Hypo Alpe-Adria-Bank International AG

(UGB/BWG)

# Management Report for 2013 HYPO ALPE-ADRIA-BANK INTERNATIONAL AG

The consolidated financial statements for the group as at 31 December 2013 have been drawn up on the basis of the International Financial Reporting Standards (IFRS), as they apply in the EU, and published both in printed form and on the internet (www.hypo-alpe-adria.com). The separate financial statements for Hypo Alpe-Adria-Bank International AG have been drawn up in accordance with Austrian law (Austrian Enterprise Code (UGB)/Austrian Banking Act (BWG)). The management report which follows relates to the separate financial statements.

## 1. General economic conditions

In 2013 emerging economies were once again the biggest driving force behind global growth. In industrialised countries, austerity measures had a negative impact on economic performance last year. In the light of a further concentration of investment activity and the sustained – although more gradual – decline in consumer spending, GDP fell in the eurozone by 0.4% in 2013. Only net trade made a positive contribution to GDP last year. A degree of stabilisation of the pace of growth in Serbia, Bosnia and Herzegovina and Montenegro was offset by declining GDPs in Slovenia and Croatia, so that overall Hypo Alpe Adria's SEE countries dropped back. Altered financial conditions as part of the slowing of bond buying by the Fed ("tapering") and also unexpectedly low inflation rates played a key role in shaping the past year.

In Slovenia, GDP fell by around 2.2% in 2013. This was due in particular to the decline in consumer spending, which in turn was attributable to a rise in unemployment over the 11% mark, falling real net wages and the Government's tight budget policy. Investments also impacted on GDP development, since companies focussed on significant deleveraging in view of the ailing banking sector. It is expected that in 2014 GDP will fall by 1.4% as a result of a continued decline in consumption, austerity measures and the long-overdue restructuring of banks/businesses. Bank stress tests and asset quality reviews have furthermore revealed that the banking system has a manageable capital deficit. This means that the biggest cause of short-term uncertainty is eliminated.

Despite another solid tourist season and the brief improvement in mood after joining the EU, GDP in Croatia fell by 1.1% in 2013. This decline is attributable to the export slump after withdrawal from the CEFTA (Central European Free Trade Agreement), weak domestic demand, the weakness of industry and the debt equity ratio in the private economy. As a result of lack of budgetary discipline the Government did not adhere to three out of five Maastricht criteria, and hence the European Commission was forced to initiate proceedings against Croatia due to an excessive deficit. For 2014 a decline of 0.7% in GDP is forecast. One of the reasons for the decline will be sluggish consumption by private households. In addition dampened investment activity in the private sector, the CEFTA domino effect for SEE exports and the poor outlook for the most important trade partners are impacting on GDP development.

Serbia's rise in GDP in 2013 (2.4% as against -1.5% in the previous year) owes much in particular to the positive contribution made by net trade due to automotive and energy exports. Private consumption remains the largest vulnerability and in combination with the debt equity ratio of businesses and the resulting decline in investment prevented a stronger upturn in GDP. In 2014 it is expected that a reduced contribution by net trade will be accompanied by a slowing of growth. GDP is anticipated to grow by 1.25%. The biggest positive contribution will be made by investment projects funded with public money in the energy and traffic infrastructure sectors. The Government is avoiding a more stringent tightening of fiscal policy, and hence it may be assumed that the country will still not make use of the relief fund.

Bosnia and Herzegovina achieved positive growth with the help of higher investments and higher industrial production. Private consumption depressed the GDP. This is due to high unemployment and the decline in real net wages. Stronger consumer demand and a rise in public investments in 2014 may result in a rise of 1.3% in GDP. Net trade will depress the result slightly, since investments give a strong impetus to imports. With regard to (re-)financing, the state continues to be largely dependent on finance from international financial institutions. In our view potential political conflict in the lead-up to the general election in the second half of 2014 could constitute a downwards risk. This is particularly the case if political differences have negative consequences for the support of international financial institutions, which would lead to a decline in investment.

Montenegro continues to be strongly dependent on tourism. The sector contributed crucially to the upturn (increase of 1.6% in GDP after -2.5% in the previous year). Looking at the economy as a whole, there are indications of a gradual structural shift from the metal industry towards services sectors. However fiscal risks remain. The additional use of guarantees is likely to lead to a further loosening of fiscal policy. Tourism will continue to be the biggest contributing force for GDP growth in 2014. We also expect greater investment in the areas of tourism and energy infrastructure. In view of uncertainties relating to financing, however, we also perceive downwards risks for public investment spending.

Overall we anticipate a broadly sideways trending GDP in the key markets of Hypo Alpe Adria with slowed inflation and a stabilisation of unemployment figures.

(Economic data for 2013 are interim values)
(Source: (Hypo Research Department)

## 2. Overview of Hypo Alpe Adria

Hypo Alpe Adria was founded in 1896 in Klagenfurt and remained a typical regional bank for almost 100 years. The strategic focus of Hypo Alpe Adria's business was centred on public-sector financing activities. In the 1990s Hypo Alpe Adria began its gradual expansion into the Alps-to-Adriatic region and developed from a Carinthian regional bank into an international finance group. Hypo Alpe-Adria-Bank International AG is the management holding company for all companies in the Hypo Alpe Adria group.

As a result of years of aggressive growth with no risk limitation, over-optimistic assessments and serious operating deficiencies in all major units of the bank, Hypo Alpe Adria experienced ever greater turmoil during the global financial crisis and had to be rescued by nationalisation at the end of 2009. The Republic of Austria has been the sole owner of the bank since December 2009.

Since emergency nationalisation, the bank has undergone restructuring. The EU state aid investigations in progress since 2009 were brought to a conclusion in the 2013 financial year. After several years of intense negotiations the Commission terminated the proceedings and approved the final restructuring plan of the bank.

The plan provides for the reprivatisation of the SEE network, consisting of the countries of Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro and also a holding company in Austria, and the winding down of the remaining segments of the bank in such a way as to preserve value. An important step towards implementing the plan was the sale which occurred during last financial year of the Austrian subsidiary Hypo Alpe-Adria-Bank AG Klagenfurt/Wörthersee to investor group Anadi Financial Holding Pte. Ltd., which emerged as the higher bidder in an extensive tendering process. The next important milestone on the path to restructuring is the swift reprivatisation of the SEE network. Hypo Alpe Adria is rated in the SEE countries as a reliable partner in the financial services sector, and focuses first and foremost on serving retail customers and also on small and medium sized businesses. Following comprehensive restructuring measures in recent years this network therefore represents an attractive asset for potential investors. In accordance with the EU's requirements, the reprivatisation of the network is scheduled by mid-2015.

As at the effective date of 31 December 2013 Hypo Alpe Adria was operating around 300 branches, primarily in Slovenia, Croatia, Bosnia and Herzegovina as well as Serbia and Montenegro, and served over 1.26 million customers in this extensive Alps-to-Adriatic network. The workforce numbered around 6,000 active employees (FTE) at year's end.

## 3. Significant events in the 2013 financial year

For Hypo Alpe Adria, the 2013 financial year was shaped by work in preparation for the privatisation of the marketable entities in the SEE countries and by the sale of the Austrian subsidiary despite the prevailing difficult climate for bank sales, and also by the final decision of the European Commission in the state aid investigations that had been pending since 2009, which also had direct consequences for the valuations of assets and loans. Moreover, the prolonged public discussion and – above all – speculation about various scenarios have had a further negative impact on the bank, with customers withdrawing their deposits, for example. These circumstances ultimately led to the owner of the Austrian bank holding company, the Republic of Austria, being forced to provide the company with a total of EUR 1.75 billion of additional capital.

In April 2014 a further capital requirement in the amount of EUR 0.75 billion was notified, which was needed for the finalisation of the 2013 financial statements and also to comply with the statutory capital adequacy ratio until the forthcoming deregulation of the bank in September 2014.

These measures are consistent with the restructuring plan revised by the Republic of Austria and submitted to the European Commission, which provides for further capital measures by the owner in the years ahead and formed the basis for the final decision of the European Commission in September 2013.

### 3.1. Changes to the Executive Board and Supervisory Board of Hypo Alpe-Adria-Bank International AG (HBInt.)

As at 30 April 2013 the Supervisory Board, which had previously consisted of four members (not including employee representatives), was expanded to six members with the appointment of Klaus Liebscher and Adolf Wala. After chairman of the Supervisory Board Johannes Ditz announced his resignation with immediate effect on 3 June, the general shareholders´ meeting elected Ludwig Scharinger to the Supervisory Board on 21 June. In the Supervisory Board meeting held on the same day, Klaus Liebscher was appointed new chairman of the Supervisory Board.

On 2 July 2013 the then chairman of the Executive Board, Gottwald Kranebitter, announced that he would resign from his office with effect from the end of August. The duties of the chairman of the Executive Board were assumed by deputy chairman of the Executive Board, Wolfgang Edelmüller, pending further notice. 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. On 10 January 2014 Chief Risk Officer (CRO) Wolfgang Edelmüller announced that he would resign his membership of the Executive Board of Hypo Alpe-Adria-Bank International AG on 28 February 2014. The position of CRO which had become vacant was advertised in accordance with the Stellenbesetzungsgesetz (Austrian law on staff appointments) on 18 January 2014. Upon the departure of Wolfgang Edelmüller on 28 February 2014, chairman of the Executive Board Alexander Picker assumed the function of CRO in an interim capacity. The CRO position has not been filled to date.

On 4 February 2014 Ludwig Scharinger left the Supervisory Board. As at 21 February 2014 Karl Liebscher resigned from office as chairman of the Supervisory Board. In March 2014 Finance Minister Michael Spindelegger made a public announcement that an internationally renowned and experienced banking expert would assume the chairmanship of the Supervisory Board. The appointment is to take place within the second quarter of 2014.

### 3.2. EU state aid investigation

The Hypo Alpe Adria EU state aid investigation was brought to a conclusion in September 2013 on the basis of a final decision by the European Commission.

Under the guidanceof its sole owner, the Republic of Austria, following a request by the European Commission the previous EU restructuring plan was fundamentally revised and working-level meetings between Vienna and Brussels were re-organised. The meetings related to the specific final form of those anticipated obligations relating to the time of sale and market presence the fulfilment of which was likely to be required as part of the implementation of the European Commission's final decision, which was considered to be a prerequisite of a positive decision by the European Commission. In accordance with the Commission's decision dated 3 September 2013, the acquisition of new customers in the credit and leasing business was ceased in Italy, and the Italian banking subsidiary was assigned to wind-down activities. Furthermore, in the operative divisions in the Balkans the "behavioural measures" imposed by the European Commission were given more specific form and implemented as part of in-depth consultation appointments and Governance requirements.

On 3 September 2013 the European Commission communicated the final ruling concerning the state aid investigations of Hypo Alpe Adria. It was based on the final restructuring plan submitted by the bank at the end of June 2013. Observance of the conditions contained therein for new business is required until the time of 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, which had been scheduled prior to mid-2014 according to the plan, was already completed in 2013. In addition the Italian subsidiary was assigned to the wind-down segment. The version of the final decision drafted with the owner and the European Commission and adjusted for competition law data was published in October 2013. Observance of the restructuring plan and the "behavioural measures" imposed will continue to be monitored by an independent monitoring trustee.

### 3.3. Capital measures of the Republic of Austria in 2013

The immediate implications arising from the completion of the EU investigations for the valuation of assets and the increased need for credit risk provisions made a recapitalisation of the Austrian parent company, Hypo Alpe-Adria Bank International AG, in the total amount of EUR 1.75 billion necessary in 2013.

At the general shareholdes` meeting on 23 July 2013, a capital increase in the amount of EUR 700 million was authorised by the Republic of Austria as the bank's owner, which was effected in September 2013. Registration of the capital measure in the Commercial Register occurred on 27 September 2013.

On 29 November 2013 the deposit of a EUR 250 million shareholder contribution by the owner occurred. At the general shareholders´ meeting on 13 December 2013 the Executive Board of the bank was authorised to issue participation capital up to a nominal value of EUR 800 million. The subscription of EUR 800 million in participation capital by the purchaser, the Republic of Austria, represented by the Federal Ministry of Finance, occurred on the same day. The purchase price was deposited into an account of the bank on 18 December 2013. In March 2014 the bank communicated that further capital measures would be required for the finalisation of the 2013 annual financial statements and also for the observance of the statutory capital adequacy ratio until the planned deregulation of the bank in September 2014 (see also 3.6). On 3 April 2014 it was announced that a capital increase in the amount of EUR 750 million was to be undertaken by the sole owner. The capital measure was adopted in the course of the extraordinary general shareholders´ meeting on 9 April called for this purpose, and the deposit was made on 11 April 2014.

### 3.4. The bank's capital requirements, going concern

The EU restructuring plan of Hypo Alpe Adria reflects the ruling of the Commission on the wind-down status of the Italian banking subsidiary, the implementation of measures to assist the sale in the form of portfolio transfers and more conservative risk assessments of the SEE portfolio, and also the accelerated sale of the portfolio earmarked for wind-down. The resulting losses in the period from 2013 to 2017 relate first and foremost to expected losses on disposals arising from the sale of participations as well as increased provision for risk, and were estimated in the restructuring plan at EUR -3.58 billion (so-called "base case") up to EUR -6.33 billion (so-called "stress pessimistic case"). The recapitalisation requirement resulting from this amounts to between EUR 2.65 billion (base case) and EUR 5.40 billion (stress pessimistic case) and was authorised by the European Commission. Taking into account the additional capital measures that occurred in 2014 in the amount of EUR 0.75 billion, since that time a total of EUR 2.50 billion has been allocated, whereby still a maximum amount of EUR 2.90

billion remains available as part of the state aid already approved by the European Commission

In March 2014 the bank announced that further capital measures would be required for the finalisation of the 2013 annual financial statements and also in order to observe the statutory capital adequacy ratio until the planned deregulation of the bank in September 2014. Following clarification of the size of the capital requirements, a further capital increase in the amount of EUR 750.0 million was undertaken in April 2014. This capital measure is intended to ensure the observance of regulatory requirements up to the implementation of a planned wind-down unit, which will no longer require a banking licence and will therefore not be subject to any regulatory requirements in relation to minimum capital according to the Austrian Banking Act (BWG). With respect to the assessment of the going concern principle of Hypo Alpe Adria, the assumptions employed by the Executive Board were the same as those on which the approved restructuring plan for the group was based, and which also provide for additional capital measures in future to maintain the going concern premise and to cover the losses anticipated in the course of the wind-down of the portfolio.

### 3.5. Project on options for realisation of wind-down units

After it became possible to predict the completion of the state aid investigations of the European Commission in June 2013 and the task force appointed by the Federal Chancellor and Vice-Chancellor had pronounced a recommendation in this respect, various options for the structural implementation of the EU restructuring plan and for the optimal realisation of the assets of Hypo Alpe-Adria-Bank International AG as part of a wind-down unit were investigated in greater depth. For this purpose Hypo Alpe Adria and its owner launched the “Lux” project.

As a result of this project a document was sent out to the bank’s senior executives, which subsequently fed into a document of the task force and in which a prioritisation of the various proposed models, based on a legal and economic evaluation, was put forward.

It became apparent on 10 February 2014 that as a further consequence there would be no participation by Austrian banks in the wind-down unit and that therefore those models ought to be pursued in which the Republic remained the sole owner of the wind-down assets. In March 2014 the political decision-makers decided against the insolvency scenario which had also been examined, and stated their intention of quickly selling the SEE banking subsidiaries and implementing the winding-down of Hypo Alpe Adria via a deregulated private-sector unit by September 2014. The bank is currently engaged in implementing these requirements.

### 3.6. Forensic investigations into the past

Since its introduction as part of the line organisation, the Forensics department has been concerned with in-depth forensic investigations into the past – determination of the causes of the sudden loss of value. The Forensics department manages the task of investigating and working through the past both within Austria and abroad, reports directly to the Executive Board and works closely with the coordinator (BKO) appointed by the general shareholdes´ meeting for this purpose. It focuses on protecting, preparing and describing the results of forensic investigations. By 31 December 2013, a total of 86 cases (117 individual cases) in Austria and abroad had been reported to the relevant public prosecutors with total damages amounting to approximately EUR 1.2 billion. 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 EUR 109.0 million are being asserted.

In 2013, the Forensics department continued to focus on the following major sets of issues: “BayernLB equity”, “Consultants” and “Liechtenstein” as well as forensic investigations in the international subsidiaries, in particular Bulgaria and Italy. In addition progress was made on the issues of asset-tracing, network analysis and options for utilising forensic expertise. The world-wide search for and securing of assets from debtors of Hypo Alpe Adria constituted an additional focus in 2013. The active search for assets and their recovery will continue to be one of the central tasks of the Forensics department in the future. The ongoing forensic investigations into the Alpe-Adria Privatbank 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 binding judgements and 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 in the Forensics department includes around 6 million documents and is processed with specialised software and made available to the various stakeholders, public prosecutors, Federal Criminal Police Office, 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.

### 3.7. Italian subsidiary

The banking subsidiary in Italy is confronting the problem that for many years interest resetting clauses in leasing agreements had been incorrectly applied in favour of the bank, which led to excessive interest charges in many cases. The management of Hypo Alpe Adria and the current Administrative Board of the Italian subsidiary launched extensive internal investigations into these very skilfully concealed fraudulent activities immediately after first indications of the misconduct which began well before 2010. The forensic investigations that were launched and also the review by internal audit resulted in various criminal charges, investigations by the local financial police or the Italian banking regulators respectively and also in consequences for appointments and the organisational structure. The corresponding auditing activities of the Udine Public Prosecutor's office are under way.

The staffing and organisational conditions necessary to deal comprehensively with the individual cases involved were created immediately in order to expedite the repayment of the amounts incorrectly retained to the customers affected. A double-digit EUR million amount has already been disbursed. The Italian leasing subsidiary Hypo Alpe Adria Leasing S.r.l., which assumed NPL portfolios from its sister bank in the course of a portfolio transfer in January 2013, is affected to a minor extent. In a number of contracts taken over, manipulations relating to interest charges had occurred in the past. These wrongly retained amounts have already been repaid to the customers to a large extent.

In addition to the consequences of the fraudulent interest charges that were uncovered, the loss reported for Italy in 2013 is also a consequence of the wind-down status of the Italian subsidiary due to the EU decision, the poor economic situation in Italy and also the effects of a slower than expected sale of non-performing loans and financial securities. Recapitalisation requirements resulted for the group holding company as well as the issuance of letters of comfort to its Italian banking subsidiary and the leasing company. Both subsidiaries are now assigned to the wind-down segment of the group.

### 3.8. Equity substitution loan from BayernLB

After the major need for risk provisions became known, Hypo Alpe-Adria-Bank International AG has raised the question of whether the financial lines granted to Hypo Alpe Adria by its former shareholder BayernLB since 2008 constitute equity substituting shareholder capital. This issue was subject of comprehensive analysis, also by bringing in external experts. According to the results of this analysis, the conditions for classifying all these financing lines as equity substituting capital under the Austrian Equity Substituting Capital Act (Eigenkapitalersatz-Gesetz [EKEG]] are met. Hence, as specified by article 14 of the EKEG, a mandatory suspension of repayments to BayernLB applies with respect to these financings.

At the end of 2012, former majority shareholder of Hypo Alpe Adria, 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. In the meantime BayernLB has converted the order sought into an action for performance. The first oral hearing took place on 25 November 2013; at present the delivery of a court-ordered expert opinion on the Austrian EKEG is still awaited.

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 time-barring, Hypo Alpe-Adria-Bank International AG was compelled to judicially enforce the respective repayments it had made by means of counter-claim in the proceedings named above against BayernLB in Munich. A total amount of around EUR 3.0 billion (including secondary accessory claims) is actively being sought at present.

### 3.9. Proceedings regarding the involvement of former shareholders

On 21 March 2012 Hypo Alpe-Adria-Bank International AG brought an action against former shareholders HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS), HYPO Bank BURGENLAND Aktiengesellschaft, Kärnter Landes- und Hypothekenbank-Holding and B & Co BeteiligungsgmbH, and also a total of nine former board members (Executive and Supervisory Board members) (so-called "Special Dividend/Consultants" civil action. The amount in dispute is EUR 50.1 million, with the performance order being sought for EUR 50.0 million and the action for a declaratory judgement for EUR 0.1 million. Claims are asserted in connection with the distribution of a non-linear special dividend in 2008 to the shareholders named for the 2007 financial year.

In a written pleading dated November 2012, the fourth respondent, B & Co BeteiligungsgmbH, objected with an asserted counter-claim of EUR 250.0 million for assumed deception when acquiring shares in the course of a capital increase of Hypo Alpe-Adria-Bank International AG in 2006 - claim in the court case for setting off against the sum claimed (and up to the amount thereof) and also raised this asserted claim out of court. In the view of Hypo Alpe-Adria-Bank International AG, this counter-claim is not justified.

In the proceedings themselves, the preliminary hearing took place on several hearing dates between 24 February and 19 March 2014; evidentiary proceedings begin on

12 May 2014 and are anticipated to run at least until the end of 2014.

### 3.10. Rating

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

During the year under review Moody's announced on 1 August 2013 that it was placing the Unguaranteed Public Sector Covered Bond rating of Hypo Alpe-Adria-Bank International AG on "review" direction "uncertain". This review initially remained in place unchanged until the year's end.

On 19 December 2013 due to countless reports in the media Moody's had occasion to publish a bulletin on Hypo Alpe Adria, in which it confirmed the Guaranteed Senior Unsecured Debt Rating at A1 with a "negative" outlook. At that time Moody's did not see any cause for a ratings change, supporting this view amongst other reasons by the fact that a possible insolvency of the bank was extremely unlikely in the rating agency's view, since this would have grave consequences for the State of Carinthia and high reputational costs.

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 at the beginning of the 2014 financial year caused Moody's to downgrade the Guaranteed Debt Ratings on 14 February 2014. In the course of this ratings 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 "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."

In a further rating bulletin Moody's altered the rating of bonds with a guarantee provided by 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.

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

### 3.11. Portfolio transfers in the SEE network

From 2011 selected credit portfolios (loans and finance leases) of the subsidiaries assigned to the SEE network segment in Bosnia and Herzegovina, Montenegro and Slovenia were transferred to local write-down units within the group. The volume of the transfers amounted to a total of around EUR 1.0 billion in 2011, and EUR 0.5 billion in 2012. The transfers were carried out in all countries except Montenegro by means of "synthetic" transfers. Only in Montenegro was the transfer was carried out by way of a true sale.

These measures achieved the derecognition of the portfolios, which brought about a normalisation of the key financial figures in the affected units, in particular net income from interest, NPL ratios, (Non Performing Loans), eligibility for refinancing (loan/deposit ratio) and also the strengthening of the key capital figures.

In 2012 the banks in Austria and Italy underwent portfolio transfers, which were implemented by means of splits or transfers of assets and resulted in the transfer of assets in the amount of around EUR 2.0 billion or EUR 0.8 billion respectively.

At the beginning of 2013 an additional portfolio transfer of around EUR 0.7 billion (gross exposure) was carried out which affected the Slovenian leasing portfolio. This represented a further step towards focussing the Slovenian leasing company concerned towards the core business of movables.

The decision of the European Commission on 3 September 2013 demands measures that maximise the sales appeal of the SEE network for potential investors. Further portfolio adjustments were carried out on this basis, along the lines of the transactions already carried out in the countries of the SEE network. In the Slovenian subsidiary, a portfolio adjustment was undertaken on 31 October 2013 in the amount of around EUR 0.3 billion (gross exposure), in Croatia on 31 December 2013 a volume of EUR 0.2 billion (gross exposure) was transferred and in Montenegro a volume of around EUR 0.08 billion (gross exposure). The subsidiary in Serbia underwent a portfolio transfer in 2013 in the form of a true sale of around EUR 0.2 billion, the portfolio was transferred to a separate wind-down unit. In Bosnia and Herzegovina as well as Serbia further portfolio adjustments are planned by mid-2014, which will serve to improve the saleability of the SEE network and are currently in preparation.

### 3.12. Privatisation activities

In 2012 the splitting off of the non-strategic business portfolio of the subsidiary Hypo Alpe-Adria-Bank AG (Austria) into the parent company Hypo Alpe Adria International AG took place as one of the significant steps towards successful reprivatisation. Consequently, after a bidding process lasting several months and careful examination of the offers on 31 May 2013, a contract of sale was signed with the highest bidder, Anadi Financial Holdings Pte. Ltd. for 100% of the shares of Hypo Alpe Adria Bank AG (Austria). After fulfilment of all the closing conditions by the buyer and seller, in particular after Hypo Alpe-Adria-Bank International AG had obtained the approvals of the Austrian Financial Market Regulator (FMA) and Bayerische Landesbank (BayernLB), the transfer of shares (closing) took place on 19 December 2013. Thus a significant milestone towards the reprivatisation conditions imposed by the European Commission was achieved. The agreed purchase price was EUR 65.5 million, with a part being paid into an escrow account to secure various risks identified by the buyer. In so far as the risks defined in the purchase contract do not come into play, the disbursement of this part of the purchase price will occur by September 2017.

The bidding process for the SEE network, consisting of six subsidiaries in the Balkans as well as a holding company, which was commenced in the 4th quarter of 2012 was continued in 2013 according to plan. In order to increase the attractiveness of the object of the sale, in the second half year a transfer of non-performing portfolio segments into the respective local wind-down companies (brush transaction) was carried out by the local subsidiaries and the necessary preparations for the founding of the management holding company were carried out for that business segment. This restructuring step is necessary for a transparent separation of the SEE bank network to be privatised from the wind-down segments of the bank, and enables the sale of the SEE banks as a banking group with a holding company. After extensive preparation the data room was opened for selected interested parties in September 2013. These parties are now carrying out their due diligence audits.

Along with these major privatisation processes, further steps to reduce the portfolios of participations and thus the complexity of Hypo Alpe Adria were put in place and sales processes drawn up for the leasing companies and also major hotel participations, the completion of which is expected in 2014. In the case of a number of investment companies it was possible to complete liquidation in 2013.

### 3.13. Public Corporate Governance Codex

The Austrian Federal Public Corporate Governance Codex (B-PCGK0 includes measures and regulations that prescribe a high degree of corporate governance in state-owned and quasi-government businesses. Hypo Alpe-Adria-Bank International AG considers this Codex to be an important code of practice and therefore introduced the observance of the rules of the B-PGK into its articles of association in July 2013.

The first specific measure was to adapt the by-laws of the Supervisory Board and the Executive Board in strict accordance with the provisions of the B-PCGK. The by-laws now serve as the basis for the business practices of those bodies. In 2014 these strict requirements will also be extended to all group companies.

As a further consequence, Hypo Alpe-Adria-Bank International AG is committed to reporting annually on the observance of the Codex. Additionally the observance of the rules will be examined every five years by an internal specialist.

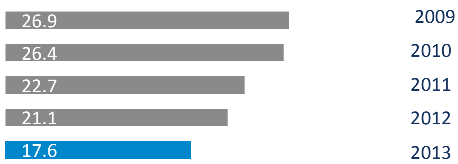
## 4. Business development in Hypo Alpe-Adria-Bank International AG

### 4.1. Development of the balance sheet

In the 2013 financial year, there was a further reduction in the total assets of Hypo Alpe-Adria-Bank International AG, which as the central holding and management company for the group performs the main funding function. As in previous years, this is to be attributed to the reduced new business activity of the SEE banks in connection with the “behavioural measures” imposed by the European Commission, the general stop on new business for the third party account business portfolio, repayments of liquidity of the write-down group companies, repayments on liabilities that are due through use of liquid assets as well as high impairment write-downs on loans and participations recorded during 2013.

Total assets reduced overall by -16.5% from EUR 21.1 billion to EUR 17.6 billion (EUR -3.5 billion).

**Total assets**
in EUR bn




Balances at central banks reduced by over EUR 0.5 billion to EUR 1.6 billion in 2013.

Loans and advances to customers, which also covers internal funding for the leasing subsidiaries, at EUR 9.0 billion, was some EUR -1.4 billion or -14.0% below the level of the previous year (EUR 10.4 billion).

Risk provisions on loans and advances to customer rose in the 2013 financial year from EUR 1.4 billion to EUR 2.1 billion. The increase of EUR 0.7 billion is predominantly attributable to the rise in risk provisions and lines of credit for subsidiaries, which are created by subsidiaries in particular where there are negative equity levels, in order to provide appropriately for necessary recapitalisation measures. Furthermore, large impairment write downs had to be carried out on the third-party loan portfolio.

Loans and advances to credit institutions reduced in the 2013 financial year from EUR 4.5 billion to EUR 4.3 billion, which equates to a reduction of EUR -0.2 billion or 4.8%.

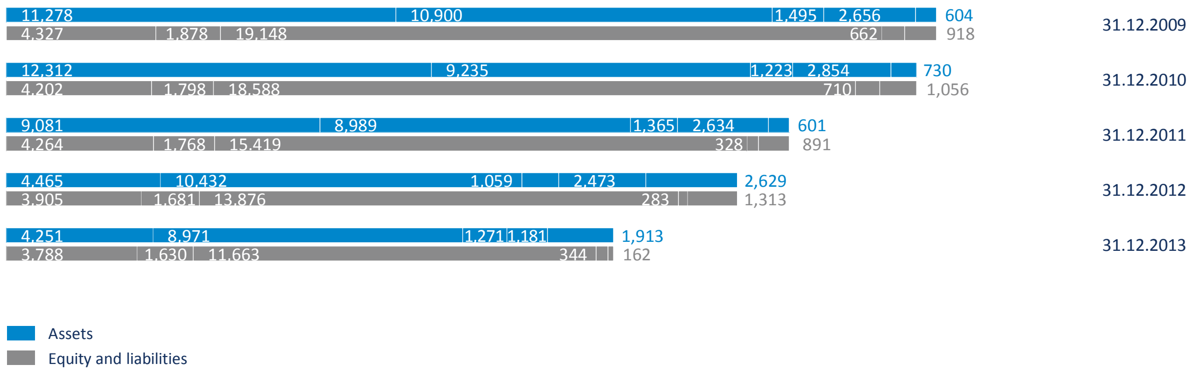
Shares in affiliated companies decreased in the year under review from EUR 2.5 billion to EUR 1.2 billion. This overall reduction is mainly attributable to the impairment write-down of participation valuations in subsidiaries in South-East Europe, which were necessary based on current estimates of achievable sales revenue. Furthermore, the sale of the Austrian subsidiary as well as the write-down of the remaining valuations of participations in leasing companies in Italy, Serbia and Slovenia resulted in a corresponding reduction.

Liabilities to customers and own issues of debt evidenced by certificates amounted to EUR 11.4 billion as at 31 December 2013 (2012: EUR 13.7 billion) and were thus significantly lower (by EUR -2.2 billion) than the previous year's level due to repayment of liabilities. This item therefore accounts for around 64.8% of total assets (around 64.8% in the previous year).

Liabilities to credit institutions at EUR 3.8 billion were slightly below the level of the previous year (EUR 3.9 billion); subordinated liabilities were roughly unchanged.

The equity item declined in the 2013 financial year from around EUR 1.2 billion to EUR 0.2 billion. The capital measures carried out by the owner (shareholder contribution in the amount of EUR 0.2 billion, subscription of participation capital in the amount of EUR 0.8 billion as well as a share capital increase in the amount of EUR 0.7 billion) resulted in an increase, however this was outweighed by the large annual loss of the bank.

**Balance sheet structure**
in EUR m




Balance sheet structure

EUR m

| Assets | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Loans and advances to credit institutions | 4,251 | 4,465 | 9,081 | 12,312 | 11,278 |
| Loans and advances to customers | 8,971 | 10,432 | 8,989 | 9,235 | 10,900 |
| Fixed income securities, shares and investment funds | 1,271 | 1,059 | 1,365 | 1,223 | 1,495 |
| Shares in associated and affiliated companies | 1,181 | 2,473 | 2,634 | 2,854 | 2,656 |
| Other assets | 1,913 | 2,629 | 601 | 730 | 604 |
| **Total assets** | **17,587** | **21,058** | **22,670** | **26,354** | **26,933** |

EUR m

| Equity and Liabilities | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Equity | 162 | 1,160 | 891 | 1,056 | 918 |
| Funds for general banking risks | 0 | 153 | 0 | 0 | 0 |
| Liabilities to credit institutions | 3,788 | 3,905 | 4,264 | 4,202 | 4,327 |
| Liabilities to customers | 1,630 | 1,681 | 1,768 | 1,798 | 1,878 |
| Liabilities evidenced by certificates and subordinated capital | 11,663 | 13,876 | 15,419 | 18,588 | 19,148 |
| Other liabilities | 344 | 283 | 328 | 710 | 662 |
| **Total assets** | **17,587** | **21,058** | **22,670** | **26,354** | **26,933** |

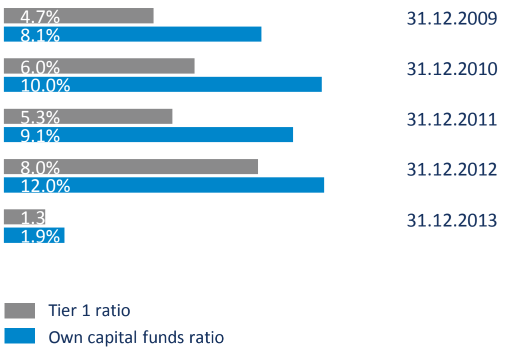
### 4.2. Own capital funds

As at 31 December 2013, total own capital funds as defined by the Austrian Banking Act (BWG) amounted to EUR 231.0 million (2012: EUR 1,967.0 million) and were thereby significantly below the statutory minimum requirement of EUR 990.2 million (2012: EUR 1,314.8 million). This resulted in a deficit in own capital funds coverage of EUR -759.2 (2012: surplus coverage of EUR +652.2 million).

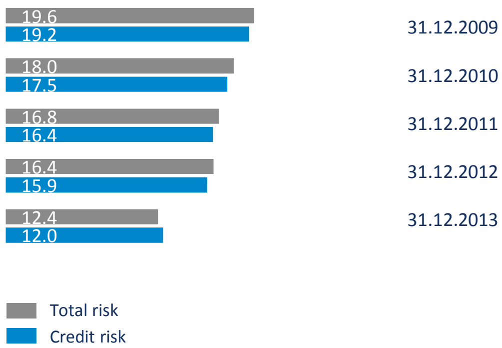
The value of risk-weighted assets (RWA] declined further in comparison to 31 December 2012, from EUR 15.9 billion to EUR 12.0 billion (2013). As in 2012, although deteriorating country ratings once again resulted in an increase in RWA, this was considerably less than in 2012, and was outweighed by factors resulting in a decrease in RWA, such as the continuing portfolio wind-down, the high impairment write-downs on assets and positive effects arising from Croatia's entry into the EU.

The Tier 1 ratio in relation to the banking book (credit risk) amounted to1.3% as at 31 December 2013 (2012: 8.2%). In relation to the total capital base (including market and operational risk) the Tier 1 ratio was 1.3% (2012: 8.0%). The own capital funds ratio was 1.9% (2012: 12.0%) which was substantially below the statutory minimum ratio applicable in Austria of 8.0% (2012: 8.0%).

**Development of the own capital funds ratio and the Tier 1 ratio**
in percent




**Total risk/Credit risk**
in EUR bn




### 4.3. Development of results

The results for Hypo Alpe-Adria-Bank International AG in the 2013 financial year were characterised by high losses from impairment write-down on bank participations as well as risk provisions on the third-party loan portfolio. Even the winding up of the fund for general banking risks, funded in the previous year from the profits from the buyback of hybrid capital, with an effect of EUR +153.0 million on earnings could not compensate for this negative effect. The annual deficit reported for 2013 thus amounts to EUR -2,727.7 million.

Owing to the generally low level of interest rates and the repayment of lines of credit of subsidiaries due to the shrinking portfolio, the net interest result fell significantly compared with the previous year's level by EUR -51.0 million to EUR +23.0 million (2012: EUR +74.0 million).

The item Income from equity interests and investments decreased by EUR -88.1 million compared with the previous year to EUR +7.4 million (2012: EUR +95.5 million), which was due to the fact that in 2013 only a very small number of group companies were able to distribute dividends to the bank.

Net fee and commission income, as the net result between fee and commission income [EUR 9.0 million] and expenses (EUR -80.4 million], came to EUR -71.4 million in 2013 (2012: EUR -17.5 million). Along with the effects of lower operating income, the result for the year under review was once again adversely affected by fee and commission expenses associated with the guarantee agreement with the Republic of Austria. In addition fee and commission expenses are reported here which are to be paid to the Republic of Austria for the assumption of the liability for a subordinated bond issued in December 2012.

Other operating income, at EUR +18.5 million, was EUR -9.0 million below the previous year's result of EUR +27.5 million. This figure resulted primarily from the invoicing of services centrally rendered to subsidiaries.

The operating income declined in the 2013 financial year from EUR +190.7 million to EUR -24.5 million, which amounts to a reduction of EUR -215.2 million. This is attributable in particular to the negative net fee and commission result of EUR -71.4 million.

In the 2013 financial year a reduction in employee numbers occurred from 587 (2012 annual average) to 552 (2013 annual average). Personnel expenses for Hypo Alpe-Adria-Bank International AG at EUR -55.8 million were around the level of the previous year (2012: EUR -53.7 million).

Other overhead costs in the amount of EUR -49.8 million similarly remained roughly at the same level compared to the previous year's level.

Other operating expenses, at EUR -31.1 million, were higher than expenses in the previous year (2012: EUR -19.5 million). This item included expenses and provisions for fines from the breach of contractual obligations or regulatory limits.

In total, the operating result for the bank, being the balance of operating income and operating expenses, reduced from EUR +67.2 million to EUR -166.4 million in 2013, i.e., by EUR -233.6 million.

The result from the measurement and disposal of receivables and securities held as current assets at EUR -850.8 million in the 2013 financial year (2012: EUR -15.0 million) was clearly negative. EUR -517.0 million (2012: EUR 104.3 million) resulted from the allocation of provisions for financing lines for subsidiaries. The credit risk provisions necessary for third-party account business increased in the year under review, which led to a net allocation of EUR -346.0 million (2012: net allocation of EUR 47.8 million). The predominant cause was the overall economic environment, which remains difficult, resulting in rising payment delays and defaults on payments by customers, and impeding the wind-down of the NPL (Non Performing Loan) portfolio. The item also includes costs of EUR -1.9 million (2012: EUR +32.3 million) from the reversal of derivative positions and also earnings in the amount of EUR +4.0 million (2012: EUR +68.0 million) from the reversal of a provision resulting from the impairment write-down of supplementary capital bonds carried out by Hypo Alpe-Adria-Bank International AG in the previous year.

In the 2013 financial year, in contrast to the previous year, the result of the securities portfolio classified as current assets was negative at around EUR -2.3 million (2012: EUR +39.8 million).

The loss on the measurement and disposal of securities and investments in affiliated companies came to EUR -1,835.4 million in the 2013 financial year (2012: EUR -263.9 million). While negative effects of EUR -167.3 million from the measurement of banking participations were recorded in the 2012 financial year, these had to be written down in the 2013 financial year by EUR -1,458.5 million. The major part of these impairment write-downs results from the SEE bank network, which had to be written down to an anticipated sale revenue.

The income from banking book securities classified as fixed assets came to EUR +3.2 million and was thus slightly higher than the previous-year amount (2012: EUR +2.7 million).

Taking into account all the above-mentioned effects, a loss from ordinary activities of EUR -2,852.7 million was recorded for 2013 (2012: EUR -211.7 million).

The Extraordinary result item, which came to EUR +129.7 million (2012: EUR 7.4 million) also includes, as in the previous year, expenses of EUR -23.3 million (2012: EUR -5.6 million) for forensic investigations into the bank's past, which cover not only the expenses incurred in 2013 but also estimated future costs. The latter mainly include consultancy expenditure in the forensic and legal area as well as the cost of proceedings. This item likewise includes the writing off of the fund for general banking risks in the amount of EUR +153.0 million.

Income tax expenses for the financial year were EUR -3.3 million (2012: EUR -7.7 million) and were primarily due to tax allocations from the domestic tax group and to foreign withholding tax expenses.

After taking into account other taxes of EUR -21.4 million, which consist primarily of banking tax to be paid since the 2012 financial year, the net loss for the 2013 financial year was EUR -2,747.6 million (2012: EUR -231.2 million).

### 4.4. Earnings ratios

The cost-income ratio was negative at -580.4% in 2013 due to high losses (2012: 64.7%). As a result of the annual net loss, return on equity (ROE) and return on assets (ROA) ratios for the 2013 financial year are not meaningful.

## 5. Analysis of non-financial key performance indicators

### 5.1. Customer and market development

Hypo Alpe-Adria-Bank International AG is the parent company of all subsidiaries belonging to the group. Therefore its primary task is the strategic management and guidance of activities in the area of customer and market support.

The performing segment of customer business still currently allocated to Hypo Alpe-Adria-Bank International AG is being written down having regard to the maximum preservation of value. In this context the bank is focussing exclusively on the contractual options for ending business relationships. In addition the conditions are being created to enable a write-down even without a banking licence.

Hypo Alpe-Adria-Bank International AG has no activities in relation to new business.

Detailed information on customer and market development within the entire group is provided in the group Annual Report.

### 5.2. Developing talent/staff

The number of employees at Hypo Alpe-Adria-Bank International AG fell in the 2013 financial year from 584 as at 31 December 2012 to 580 as at 31 December 2013.

**Employees**
Figures from 2009 to 2013


## 6. Risk report

### 6.1. Preamble

As a holding company, Hypo Alpe-Adria-Bank International AG mainly undertakes group steering functions. For this reason, most of the measures initiated at holding level are cascaded down into responsibilities or projects within the group. The measures are to a large extent also centrally managed and monitored directly by Hypo Alpe-Adria-Bank International AG.

### 6.2. Risk strategy, control and monitoring

Hypo Alpe-Adria-Bank International AG controls and monitors its risks across all business segments, with the aim of optimising its risk/performance profile and ensuring the ability to bear risks at any time, thus protecting the bank's creditors. In this vein, it influences the business and risk policies of its strategic participations and other participations through its involvement in shareholder and supervisory committees. In the case of group strategic and other participations, compatible risk control processes, strategies and methods are implemented.

The following central principles apply to the overall controlling process at Hypo Alpe-Adria-Bank International AG:

- Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants are aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest in accordance with the Minimum Requirements for Risk Management (FMA-MSK) and the BWG (Banking Act).
- The group determines and implements appropriate, mutually compatible procedures for the purpose of identifying, analysing, measuring, combining, directing and monitoring the different risk types.
- Appropriate limits are set and effectively monitored for material risk types.

### 6.3. Organisation and Internal Audit

Ensuring adequate risk management and controlling structures and processes is the responsibility of the group's Chief Risk Officer (CRO), who is a member of the Hypo Alpe-Adria-Bank International AG Executive Board. The CRO acts independently of market and trading units, with a focus on the minimum requirements for risk management as well as appropriate internal controls.

The core tasks of risk management are the individual risk management of counterparty risks; the rehabilitation of problem loans; monitoring the credit-granting process; and risk controlling and monitoring of counterparty, market, liquidity and operational risks as well as other risks at portfolio level. The CRO is also responsible for monitoring the risk bearing capacity and directing the risk capital that is required from an economic and regulatory point of view.

The Risk Office is an integral part of the Group Risk Governance Rules of Hypo Alpe-Adria-Bank International AG and consists of four pillars. This concept is cascaded – in other words, the four-pillar principle is implemented consistently – both at group and country levels. The respective Country CROs must ensure compliance with the risk principles among all subsidiaries located in the country. The following overview shows the four-pillar management of Hypo Alpe-Adria-Bank International AG's Risk Office:

The Risk Control pillar includes the following main functions:

- Identifying risks
- Determining risk policy guidelines and limits
- Providing risk methods and models
- Performing risk analysis, mitigation and monitoring and risk reporting

The Credit Management pillar includes the following main functions:

- Balance sheet analysis and implementing ratings
- Credit monitoring
- Credit support
- Country risk portfolio management
- Controlling and reporting retail risks
- Credit underwriting.

The Credit Rehabilitation pillar includes the following main functions:

- Restructuring transactions
- Work-out transactions
- Loan loss provision calculation (tool/rules)

The Credit Processing pillar includes the following main functions:

- Loan and collateral administration
- Justifying, monitoring and managing collaterals
- Carrying out back office activities
- Compiling a GoB (Group of Borrowers) pursuant to BWG

Within the Executive Board, the Chief Financial Officer (CFO) is responsible for monitoring adherence to regulatory equity requirements. Hypo Alpe-Adria-Bank International AG has separated the CRO and CFO roles into two independent functions.

The Audit division is a permanent function which audits the business activities of Hypo Alpe-Adria-Bank International AG; in terms of organisation, it reports to the Chairman of the Executive Board; and it also reports in detail to the Supervisory Board. Auditing activities are based on a risk-oriented audit approach, and generally cover all activities and processes of Hypo Alpe-Adria-Bank International AG. This area carries out its tasks independently of the tasks, processes and functions to be audited, and in consideration of the applicable statutory and regulatory requirements.

### 6.4. Restructuring of internal policies and guidelines for risk management

Hypo Alpe-Adria-Bank International AG states its standard risk management guidelines in the form of risk guidelines to ensure that risks are dealt with in a standardised manner. These guidelines are promptly adjusted to reflect organisational changes as well as changes to parts of the regulations such as processes, methods and procedures. The existing regulations are assessed at least once a year with regard to the need for updating. This ensures that the actual and documented processes coincide at all times.

In 2013, a major change took place in terms of the risk strategy. In order to highlight the relevance of liquidity risk steering, a separate liquidity risk strategy was developed.

Hypo Alpe-Adria-Bank International AG has clearly defined responsibilities for all of these risk guidelines, ranging from preparation, review and update to the roll-out to the subsidiaries. Each of these guidelines must be implemented at local level by the subsidiaries and adjusted to local conditions. Compliance with these guidelines is ensured by instances directly involved in the risk management process. Process-independent responsibility is carried by the Risk Quality Assurance Team and Internal Audit.

Hypo Alpe-Adria-Bank International AG therefore has fully comprehensive and up-to-date internal risk management guidelines.

### 6.5. Projects

Further progress was made in the restructuring of Hypo Alpe Adria in the financial year 2013 as a result of a number of different project activities. In the Lux project (see chapter "Project concerning disposal possibilities for the wind-down unit"), institutional structure and participation models were defined and analysed for the group. The aim of the Alpe project was to establish a target operating model for asset resolution and the dissolution of the operations of the South Eastern Europe (SEE) network and asset resolution units. In the Adria project, preparations were made for the reprivatisation of the SEE network, while the Hypo Alpe-Adria-Bank AG (HBA) Carve Out project involved the operating dissolution of the already sold Hypo Alpe-Adria-Bank AG from Hypo Alpe-Adria-Bank International AG.

#### 6.5.1. Alpe project

The aim of the Alpe project was to create an efficient asset resolution platform that covers all Hypo Alpe Adria portfolios intended for wind-down. For this purpose, a target operating model was designed for the asset resolution which was split into group and local units and tasks. At group level, the organisation was focused on wind-down tasks on the one hand and on the steering of the SEE network on the other.
In non-core countries, in which there are no Hypo Alpe-Adria-Bank International AG bank participations, independent asset resolution companies are already operating within HETA Asset Resolution GmbH, which acts as an interim holding company for all asset resolution companies. In 2013, companies in the five core countries, that is Bosnia and Herzegovina, Croatia, Montenegro, Serbia and Slovenia, allocated to the Asset Resolution segment were still closely integrated on an operative basis with the banks and leasing companies in the SEE network that were earmarked for reprivatisation. This integration was reflected in a large number of mutual services and a common IT infrastructure. The purpose of the Alpe project was to conceive and implement the dissolution of units from SEE network and asset resolution units on the basis of the defined target operating model. Organisational implementation was predominantly completed as at 1 January 2014, while the separation of the IT infrastructure will be completed by the end of the third quarter of 2014.

#### 6.5.2. HBA Carve Out project

The aim of the HBA Carve Out project was the operating dissolution of Hypo Alpe-Adria-Bank AG from Hypo Alpe-Adria-Bank International AG and constituted an important preparatory step for its sale. The aim was to completely separate mutual services and create two autonomous companies that are completely independent from one another.

The separation of subjects into 23 specialist concepts during the programme was implemented in two projects, one based in each bank. Each of these specialist concepts included an individual implementation plan that was controlled primarily within the scope of the respective project and coordinated via the programme depending on the five group themes of IT, contracts, facility management, data separation and participations. A standardised structure within the individual concepts permitted overarching monitoring to programme level. The dissolution was completed for all concepts on schedule with the closing of the transaction on 19 December 2013. Further services required beyond this date are regulated by service level agreements until mid-2014.

### 6.6. Measures to Improve Risk Management

Following improvements were implemented in Hypo Alpe-Adria-Bank International AG in 2013 by the risk divisions.

### 6.6.1. Development of provisions

**Method of calculating provisions**

As part of the calculation of specific risk provisions, the underlying credit exposure is subject to an individual analysis in accordance with provision calculation regulations. In this calculation, payments from a company's operating business (primary cash flows) and from the liquidation of collaterals and non-core assets (secondary cash flows) are taken into consideration. Depending on the assumed default scenario (restructuring or liquidation), expected payments are assessed individually in terms of amount and time, the underlying assumptions are documented and justified on a case-by-case basis and expected cash flows are discounted to the net present value according to the effective rate of interest and offset against the outstanding current exposure.

In terms of the calculation of recovery cash flows from real estate, Hypo Alpe-Adria-Bank International AG bases its assumptions on the collateral's market value, which is updated annually in commercial real estate business. Any haircuts are measured on the real estate depending on the determined usability and based on a variety of factors such as market liquidity, location, recovery period and legal situation.

**Increase in provisions and development of the coverage ratio**

In 2013, an extraordinarily high volume of risk provisions was recognised at Hypo Alpe-Adria-Bank International AG amounting EUR 333 million. Failed restructuring cases as well as the continuing devaluation of collateral values due to macro-economic conditions led to the need to increase risk provisions within the Hypo Alpe-Adria-Bank International AG portfolio in 2013. The increase in provisions in 2013 is also reflected in the coverage ratio, which rose over the course of the year from 44.7% to 53.4% (total risk provisions (under the Austrian Commercial Code (UGB)) plus the "Phoenix" guarantee of EUR 182 million divided by NPLs).

### 6.6.2. New business requirements in the context of EU proceedings

On 3 September 2013 (see also chapter "EU proceedings"), the European Commission announced its final decision to Hypo Alpe-Adria-Bank International AG and determined the final behavioural measures for new business and existing business (performing and non-performing loans) in the respective segments of the marketable, non-privatised units. The aim of these behavioural measures is, among other things, to limit collateral and profitability terms, ratings and minimum requirements when granting new loans or when prolonging or restructuring existing loans. Moreover, no new business is permitted in the wind-down portfolio of Hypo Alpe-Adria-Bank International AG, however existing loans may be prolonged or restructured if certain conditions are met.

On behalf of the European Commission, the bank has commissioned a Monitoring Trustee to monitor these behavioural measures. The Monitoring Trustee will report to the European Commission on a quarterly basis. In order to meet the extensive reporting requirements relating to the Monitoring Trustee, an in-house tool was implemented together with a process that documents each individual risk-relevant transaction and reviews it for compliance with the behavioural measures. Furthermore, the reporting system for the wind-down portfolio was expanded to include non-financial assets and rolled out on a step-by-step basis (implementation set to be concluded over the course of 2014). The monitoring of individual transactions is largely the responsibility of the Credit Management units and the Rehabilitation/Work-out units of the respective subsidiary units, in cooperation with Local/Group Credit Risk Control. The results are given to the Monitoring Trustee on a quarterly basis, who subsequently reviews them. This information serves as a basis for the Monitoring Trustee's report to the European Commission.

### 6.6.3. Risk Academy

The Hypo Alpe-Adria-Bank International AG was set up with the aim of reaching the high standards of a "state-of-the-art" risk management system and giving employees in the Hypo Alpe-Adria-Bank International AG divisions access to high-quality and above all risk-specific training.

Due to the technical knowledge gained of the bidding procedure, a tender was started in 2012. From the 13 providers that entered bids, five were invited to personally present their offers. The documents and presentations showed quickly that the very wide range of requirements within the Risk Office could not all be met by just one provider. As a result and after an intensive selection process, Risk Reward Ltd. was selected as the main vendor. In addition, agreements for sub-areas were concluded with training partners GTIS, Unicredit Bank Austria/Financial Analysts and CMS Reich-Rohrwig-Hainz Rechtsanwälte GmbH. In contrast to the original plan, these do not act as sub-vendors to Risk Reward Ltd., but rather as separate contractual partners of Hypo Alpe-Adria-Bank International AG.
The following six job roles were defined for the Risk Office and assigned Key Risk Competences (KRC):

- Credit Risk Controller
- Market Risk Controller
- Credit Underwriter
- Retail Risk Manager
- Rehabilitation Manager
- Credit Processing Manager.

Based on these job roles and KRC, framework conditions were worked out with the main vendor, consisting of the following criteria:

- Each job role has three training stages (levels 1, 2 and 3), and each stage of training consists of 15 days that are to be split between the main and sub vendors depending on the topic.
- The training course programme consists of 93 separate courses, 80 of which are managed by Risk Reward Ltd., ten by GTIS, two by CMS and one by Bank Austria.
- Each level has three groups of courses, and each course ends with a test; this needs to be passed before the next course can be taken.
- Each level ends with a test; by passing this test the participant receives a certificate for the level in question.

Since the launch of the "Hypo Risk Academy" (between February 2013 and December 2013), 149 employees have been trained on roughly 863 man-days.

In 2014, the course programme, which was originally planned with the Risk Reward training institute, is to be consolidated and courses covering the same or similar content will be pooled together, with others being cancelled if only a small number of employees were being trained. Instead of covering 80 courses, the new programme will now cover 45.

In addition, the final exam concept, with one exam per job role and level, has been replaced by certification for every participant after completion of each course. Employee registration for the PRMIA test is unaffected by this.

### 6.6.4. Credit risk

Due to the final guidelines –the final version published on 27 June 2013 (amended on 30 November 2013) and the corresponding national regulations (CRR-BV – BGBLA_2013_II_425 dated 11 December 2013) are available by now – and the final Implementing Technical Standards (ITS) of Basel III, there have been changes and additional requirements with regard to credit risk and to reporting and equity requirements.

The redefinition of certain classes of receivables requires an assessment and/or adjustment of classifications of receivables. National option rights are removed almost entirely to create a "maximum harmonisation approach".

With regard to the definition of default, defaulted receivables are determined at customer level (approach based on internal ratings) instead of at account level (standard approach) as before.

One exception is risk positions from retail business, in which the definition of default can be applied to individual credit facilities instead of all of the borrower's liabilities.

From a regulatory point of view, this leads to an increase in defaulted receivables at Hypo Alpe-Adria-Bank International AG.

To meet the requirements of the new Basel III regulations, a project was launched internally as well as within the IT provider. Currently, efforts are focused on testing technical implementation and reviewing calculation logic with regard to the final guidelines and the final ITS. A major change in this respect in 2013 concerns the clarification of the underlying accounting standards. With the exception of first-time users of IFRS (International Financial Reporting Standards), groups have to align reports with IFRS values until 1 January 2014, whereby single institution reports will still have to be submitted on the basis of the Austrian Commercial Code (UGB). Technical implementation in the general data centre was adapted, and data provision to the group data pool is to be expanded to include IFRS values. In order to define own capital funds, an additional internal project was started with external consultancy.

## 6.7. Basel III – liquidity risk and liquidity risk management

The greatest challenge in liquidity risk management in 2013 was the professional integration and group-wide implementation of the provisions 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 met as a result of the recent expansion of the IT infrastructure, which ensures a quality-assured and automated data supply. Hypo Alpe-Adria-Bank International AG also took part in the Quantitative Impact Study (QIS study) in 2013, in which key figures for the LCR and NSFR were submitted to the EBA.

In order to take into consideration the significance of the new liquidity risk management requirements, a separate liquidity risk strategy was rolled out in 2013 to complement the existing risk strategy. The liquidity modelling forecasts are subject to continual further development and are validated and backtested with the help of statistical methods.

The target for 2014 is to successfully implement the reporting of LCR and NSFR on the basis of the ITS and establish forecast calculation capabilities. 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 expanded to include all of 2014 for this purpose.

The milestones achieved in 2013 and the initiatives planned for 2014 meant/mean that Hypo Alpe-Adria-Bank International AG meets both qualitative and quantitative requirements of the EBA and the Oesterreichische Nationalbank (OeNB) / Austrian Financial Markets Authority (FMA).

### 6.7.1. Ongoing evaluation of real estate collateral and other collaterals

The "Collateral Management Policy" and the "Collateral & Collateral Monitoring Manual" stipulate the management of all collaterals at Hypo Alpe-Adria-Bank International AG. The regulations of these guidelines are binding for all subsidiaries. Country-specific adjustments have to be made in the local manuals, whereas minimum standards and maximum securitisation values may only be deviated from if the stated values are stricter than the original ones. All guidelines are updated once a year.

The foundation of collateral management, which is implemented by its own department within “Group Credit Processing”, are built on the data collection of all collaterals by the system by allocating a reference number to each collateral. This reference number is alphanumerical and is called “GSI” (Group Collateral ID) or “DSI” (Detailed Collateral ID). All “GSI/DSI” are checked once a month.

The ongoing update of the appraisals on which the market values are based as stipulated in the Solvency Regulations (SolvaV) – every three years for “RRE” and once a year for “CRE” – applies to the whole group. As at 31 December 2013, 98% of all collaterals were up to date.

All commercial real estate with a market value above EUR 1.0 million is assessed individually, and all real estate is evaluated with the help of a valuation tool. A "collateral workflow" for commercial real estate worth more than EUR 1.0 million has been implemented. It ensures that the required process is maintained, which, in turn, ensures that all data is up to date. All evaluations are requested on the part of the market three months before revaluations are due. The specifically assigned evaluation unit – Commercial Real Estate Management (“CREM”) – carries out the revaluations/new valuations and transfers the results to the employees who maintain collaterals in the collaterals systems. The CREM has well-trained employees, who all went through the "Valuation Academy". The appraisals are prepared on the basis of a precisely defined methodology that is stipulated as a binding rule in the "HAA Real Estate Valuation Standards" and the "HAA Collateral Valuation DB Manual".

Main focus has been placed on updating the market values in the past few years.

The reduction in market value reflects the current market situation in the countries in which Hypo Alpe-Adria-Bank International AG operates. The valuation rules ensure that the determined market values can be achieved in the case of actual liquidation scenarios.

The manuals mentioned above, especially the “Collateral & Collateral Monitoring Manual”, also stipulate the haircuts of market values underlying the securitisation values (Internal Collateral Value – “ICV”). The reductions are binding for all recognised collaterals and have conservatively high haircuts.

All in all, the realised recoverable amount of the liquidated real estate over the past few years has corresponded to at least the market value. However, as the number of sales does not allow for a sufficient amount for a validation of the haircuts stipulated in the manual, these values will continue to be recognised in 2014. The market values of all real estate with a market value of less than EUR 1 million are determined with a statistically validated electronic valuation tool. The "TnT" project further develops this statistical tool. Here, a local automated connection was created between the collaterals databases and the evaluation databases. The values determined by statistical methods are updated monthly, and the documented indices are adjusted every six months due to the collective nature of the data stored in the evaluation databases and external market information.

### 6.7.2. Development of rating procedures

The application rating in the SEE network previously used for all private Hypo Alpe-Adria-Bank International AG customers was replaced in the first half of 2013 with recently developed scorecards for private customers. The scorecards conform to the fundamental restructuring of the retail business, which now strives for short decision-making and lead times. Hypo Alpe-Adria-Bank International AG currently employs the following rating tools: corporate, small and medium enterprises, retail behaviour rating, expert, support, start-up, project finance, commercial real estate, municipalities, countries, insurances, banks and scorecards for private customers. The scorecards can also be used to make other product-specific decisions.

The procedures will be validated and improved as stipulated by the standards issued by the regulatory authorities. In accordance with the current validation plan, the retail behaviour rating, corporate and expert rating procedures were validated in the first half of 2013 and the rating procedure for small and medium enterprises was improved. The validation phase will result in a comprehensive validation report for each of the rating procedures. The elements and a detailed description of the process are described and regulated in the validation concept. In the second half of 2013, validation was carried out for commercial real estate and insurances. A number of tools are currently being improved in accordance with the results of the validation process.

### 6.7.3. Improving the financial statements analysis system and implementing enhanced analytical methods

In the first half of 2013 further improvements were made regarding the presentation and evaluation financial statements in the Group Credit Management division. Expanding the scope of IFRS to include additional key figures was reviewed and implemented by evaluating the existing infrastructure. The benefits of this development result from the enhanced reduction of risks on financial statements as the basis for risk-sensitive and uniform ratings.

The evaluation method used to present financial statements in the analysis tool (Allgemeines Rechenzentrum GmbH) was evaluated and expanded based on these specific requirements.

The focus was on developing binding regulations relating to the evaluation of financial statements pursuant to IFRS and similar reporting standards, with the aim of forming a sustainable picture of the assets, liabilities, financial position and profit or loss of our customers.

### 6.7.4. Adjusting risk parameters

The roll-out of the loss database, including automatic default recognition, was continued in the second half of 2013 and represents a further milestone towards automation and the establishment of an internal default history. The data gathered systematically will be used to improve the existing parameter estimates. In addition, methodical improvement of internal estimates continued in 2013. Regulatory parameters defined under section 140 SolvaV are applied to internal risk-bearing capacity calculation. Internal estimates serve as comparable figures and are called upon in the benchmarking process.

Cost of standard risk and capital funds calculation
A variety of input parameters are used in the calculation of internal capital funds and the cost of standard risk and capital funds. In 2013, the following changes took place in the calculation of cost of standard risk and capital funds:

- Use of regulatory recovery rates (unsecured LGDs) of 45% for all business segments in the cost of standard risk and capital funds calculation models. These recovery rates refer to a one-year forecast of losses from a customer following the liquidation of all income from collateral agreements and customer assets.
- Discontinuation of a fixed asset correlation of 0.15 and the implementation of a formula for asset correlation pursuant to sections 74 and 75, consideration of expected loss in the formula for the calculation of regulatory capital in accordance with sections 74 SolvaV, introduction of an adjustment to terms in accordance with section 74 SolvaV (for segments not part of private customer segments).
- Use of the JRAD I parameter (regulatory CCFs and LGDs) in the internal risk-bearing capacity calculations for credit risk (from October 2013).
- The CRR comes into force on 1 January 2014 and requires modifications to the IRB formula. In accordance with section 153 (2), the correlation factor for risk positions to major companies in the financial industry and non-regulated finance companies must be multiplied by 1.25.

### 6.7.5. Wind-down portfolio management

The comprehensive and value-preserving reduction of the existing wind-down portfolio from the business areas identified as non-strategic is a major prerequisite for the successful restructuring of Hypo Alpe-Adria-Bank International AG.

The wind-down strategy for the "Wind-Down Financials" and "Wind-Down Industrials" has been defined with the aim of keeping the value level as high as possible. A sale of partial portfolios or whole units at the best possible liquidation rates is, however, always viewed as a possible alternative.

The wind-down of the portfolio was consistently advanced and monitored by the responsible central units in 2013.

The detailed wind-down planning for the Rehabilitation portfolio has been ongoing since 2011. This plan is updated annually and subjected to regular target/actual comparisons. In cooperation with Financial Controlling, these wind-down plans will also be included in the overall Hypo Alpe-Adria-Bank International AG plan until 2018. The wind-down plans include the quantification of the pure volume reduction as well as a division into cash and non-cash components and therefore play a major part in steering the wind-down portfolio. The further development and implementation of tracking tools will make improved and more targeted portfolio steering possible.

Hypo Alpe-Adria-Bank International AG's wind-down portfolio was defined further on the basis of the allocation of certain sub-portfolios Within the scope of responsibility of the Chief Risk Officer (CRO), this was also considered through the improvement of the organisational structure in 2013. The existing Rehabilitation areas GCR and GTFR were restructured and corresponding portfolios were reallocated. Effective as at 1 January 2014, the new divisions Group Restructuring & Workout Asset Resolution, which is responsible for the entire NPL portfolio in the HAA wind-down organisation (HETA Asset Resolution) and in Hypo Alpe-Adria-Bank International AG, and Group Credit Operations SEE, which manages the risks of corporate credit portfolios in the remaining SEE network were established. A clear definition of responsibilities between SEE and the wind-down portfolio was ensured thanks to the specialist units.

### 6.7.6. Funds Transfer Pricing – integration of liquidation costs

As part of the "Liquidity Transfer Pricing" project, the existing liquidity costs allocation and takedown concept was revised. The new professional concept comprises the integration of direct and indirect liquidity costs in the existing Funds Transfers Pricing project. Implementation into the "Risk Adjusted Pricing" tool is being developed in 2013 in collaboration with the responsible departments Group Financial Controlling, Group Balance Sheet Management & Treasury and Group Market Risk Control.

### 6.7.7. 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-Bank International AG 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) relating 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 TriResolve 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.

In autumn 2013, clearing through the LCH was already commenced with a part of the derivative portfolio.

The daily delivery of the entire derivative portfolio relevant to EMIR was implemented within the specified time frame. Transactions concluded before 16 August 2012 and that are still part of the portfolio were reported within the scope of the backloading process. 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.

### 6.7.8. Asset-Liability-Management (ALM) – enhancement project

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

An IT design was developed based on the precise specifications of the requirements for future asset liability management at Hypo Alpe-Adria-Bank International AG, especially taking into account newer regulatory and internal requirements. The implementation of this IT design has reached the testing phase. During this test phase, the initial batches of data were analysed and cross-checked with previous results; at the moment, a corresponding reporting system is being set up. The benefits of the project do not simply relate to professional risk measurement. Data delivery and data quality are being updated in line with a new standard, resulting in the following measures:

- Adaptation of the existing interface in the form of a new Unified Group Interface (UGIF)
- Gradual increase of data delivery frequency from monthly to weekly and daily data delivery
- Integration of a data compression tool and 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 existing 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 started and the systematic, continuous data quality control process was initiated.

Implementation is due to be complete at the end of 2014.

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 risks in the form of interest rate and liquidity development statements, value at risk and scenario analyses as well as stress tests. Subsequently, 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) within a corresponding framework and by expanding the project.

### 6.7.9. IFRS 13

In conjunction with a "big 4" consulting company, 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 consisted of the following:

- Implementation of overnight index swap (OIS) discounting
- Integration of basis swaps in the 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 2014, adjustments made under IFRS 13 will also be adapted in market risk measurement in the PMS to ensure consistent accounting and risk controlling.

### 6.7.10. Market risk limitation in 2013

Improvements to Hypo Alpe-Adria-Bank International AG’s market-risk limiting were implemented so as to enhance compliance with regulatory requirements and to improve the management of market risks and the monitoring of tied-up economic market risk capital. Efforts were made to prevent the unreasonable recognition of economic effects from market risks within the context of the risk-bearing capacity calculation, taking into account that defined limit systems, processes and methods must ensure an adequate and timely calculation of the current tied-up economic market risk. The application of correlation assumptions within a market-risk factor in relation to the setting of group limits was converted from static adjustments to group consolidation factors to a dynamic concept, which allows for a faster and more effective reaction to changed market conditions. The defined changes were implemented operationally from the start of 2013 within the context of limiting market risks.

### 6.8. Risk reporting

Timely, independent and risk-adequate reporting for decision makers is guaranteed for all risk types. Requests for ad hoc reports are honoured at all times.

The risk report was adjusted to the new situation at Hypo Alpe-Adria-Bank International AG in 2013. The report consists of the management summary, credit risk, market risks, liquidity risk and operational risk. The migration report was also reviewed and now shows the migration in the Watch and Non-Performing Loans areas.

The regular credit risk reports are prepared monthly. The monthly credit risk report comprises three major components: (1) Credit portfolio overview, (2) New business report and (3) Migration analysis. Operational risk reports are prepared ad hoc and passed on to the CRO. A summary of all OpRisk cases is submitted to the Supervisory Board every six months and to the CRO in monthly meetings.

Uniform guidelines on liquidity risk and market risk reporting have been introduced; these include standardised daily, weekly and monthly reporting.

In cases of stress the frequency of reporting on market risk and liquidity risk is increased.

### 6.9. Credit risk (counterparty default risk)

#### 6.9.1. Definition

In terms of scale, credit risks constitute the most significant risks for Hypo Alpe-Adria-Bank International AG. These mainly arise from the lending business. Credit risk (or counterparty default risk) occurs when transactions result in claims against debtors, issuers of securities or counterparties. If these parties do not meet their obligations, losses result in the amount of non-received benefits less utilised collaterals, reduced by the recovery rate of unsecured portions. This definition includes default and surety risks from credit transactions as well as issuer, replacement and fulfilment risks from trading transactions.

Other risk types that are also included under credit risks, such as country and equity risks, are measured, steered and monitored separately.

#### 6.9.2. General requirements

The credit policy provides concrete specifications for the organisational structure of the bank in the lending business as well as for risk control methods, and is supplemented by further policies as well as specific directives.

In line with a group-wide instruction on authority levels as defined by the Executive and Supervisory Boards, credit decisions are made by the Supervisory Board, Executive Board and Credit Committee, as well as by key staff in the front office and the analysis units of the risk office.

The Credit Committee is a permanent division of Hypo Alpe-Adria-Bank International AG and the highest body for making credit decisions, subordinated only to the Executive Board.

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

#### 6.9.3. Risk measurement

Hypo Alpe-Adria-Bank International AG utilises several rating methods for the individual analysis and assessment of its borrowers' credit ratings. The allocation of debtors to rating classes is carried out on the basis of probabilities of default on a 25-level master rating scale.

#### 6.9.4. Risk limitation

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

In the banking division, limits are set and monitored independently by Risk Controlling. If limits are exceeded, this is communicated immediately to the CRO and reported to the Group Risk Executive Committee.

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

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

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

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

#### 6.9.5. Portfolio overview – credit risk

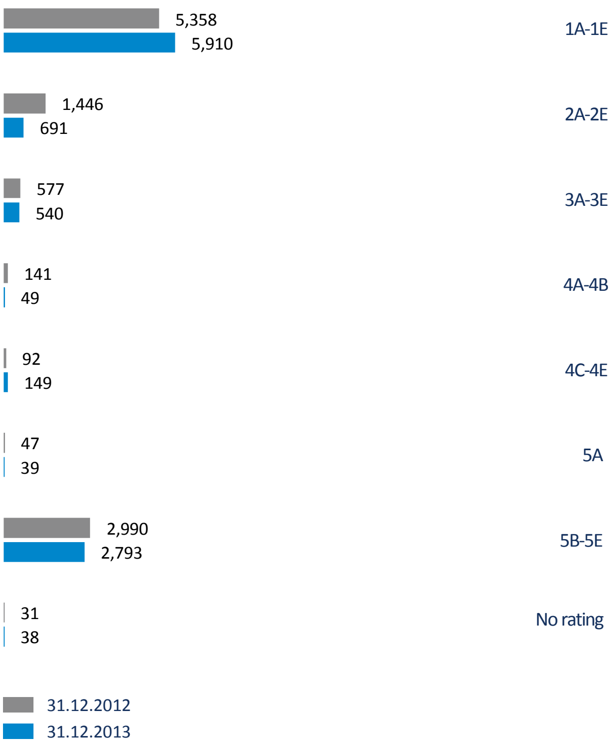
In economic risk steering, the fair value of an asset is used for the calculation of the relevant exposure. For accounting purposes, exposure is calculated on the basis of the book value. As a result, the figures are not directly comparable and require reconciliation.

In all credit risk overviews, all loans and advances from Hypo Alpe-Adria-Bank International AG that are part of the UGB scope of consolidation have been excluded. As a result, no funding lines for the banking and leasing units are shown, for example.

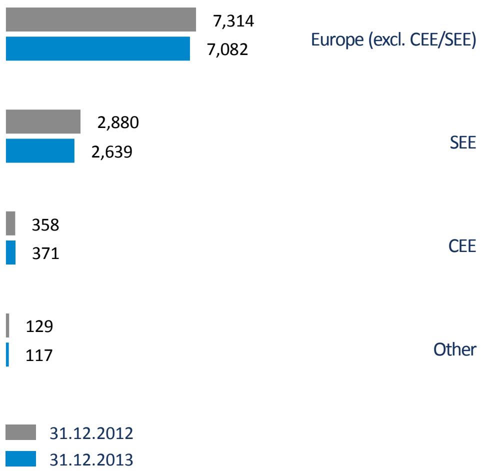
**Exposure by rating class in Hypo Alpe-Adria-Bank International AG**
Around 65% of the exposure is categorised as rating classes 1A to 2E. This high percentage is largely due to the liquidity reserves at the OeNB. The acquisition of customers from HYPO ALPE-ADRIA-BANK AG (part of the sale agreement) also resulted in an increase in exposure.

**Exposure by region in Hypo Alpe-Adria-Bank International AG**
The country portfolio of Hypo Alpe-Adria-Bank International AG is concentrated on the EU and SEE regions. There was, essentially, a reduction in exposure in each country/region. The decrease corresponds to the wind-down strategy of Hypo Alpe-Adria-Bank International AG.

**Exposure by rating class**
in EUR m




**Exposure by region**
in EUR m

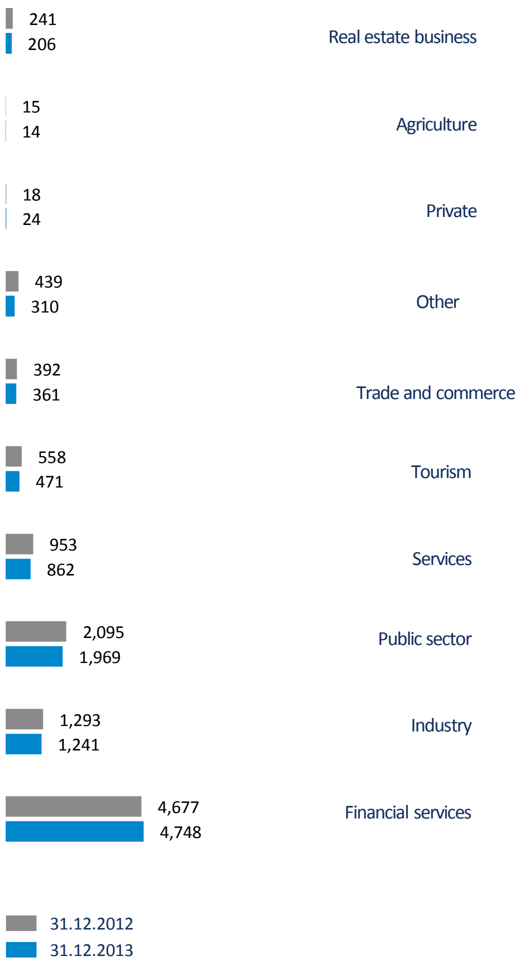


**Exposure by business sector in Hypo Alpe-Adria-Bank International AG**

A uniform classification code (NACE Code 2.0) is used in Hypo Alpe-Adria-Bank International AG for the economic steering and strategic focus of the industry exposure. This code is mapped into ten industry sectors for reporting purposes. The lower-risk industry groups – credit institutions and the public sector – account for a share of 65.8%. The well-diversified private clients sector has a share of 0.24%.

Sector-related concentration risks have arisen in the real estate and tourism sectors. These risks are being reduced in a targeted way.

**Exposure by business sector**
in EUR m



### Exposure by sector and region

When looking at the industry and region, the majority of financial services providers clearly comes from Europe (excluding CEE/SEE). These are primarily large banks with which Hypo Alpe-Adria-Bank International AG has built up good business relationships over many years. The figures relate to the customer's official home country.

The corporate business is mainly focused on Hypo Alpe-Adria-Bank International AG's core countries in SEE.

### Business sectors in 2013

in EUR m

| Business sector | Europe (excl. CEE/SEE) | SEE | CEE | Other | Total |
|---|---|---|---|---|---|
| Services | 241 | 502 | 75 | 43 | 862 |
| Financial services | 4,628 | 57 | 18 | 46 | 4,748 |
| Trade and commerce | 74 | 276 | 0 | 12 | 361 |
| Industry | 240 | 1,000 | 1 | 0 | 1,241 |
| Agriculture | 0 | 8 | 6 | 0 | 14 |
| Public sector | 1,508 | 203 | 246 | 13 | 1,969 |
| Private | 2 | 22 | 0 | 0 | 24 |
| Real estate business | 182 | 6 | 19 | 0 | 206 |
| Other | 169 | 133 | 6 | 3 | 310 |
| Tourism | 38 | 433 | 0 | 0 | 471 |
| **Total** | **7,082** | **2,639** | **371** | **117** | **10,209** |

### Business sectors in 2012

in EUR m

| Business sector | Europe (excl. CEE/SEE) | SEE | CEE | Other | Total |
|---|---|---|---|---|---|
| Services | 309 | 520 | 75 | 49 | 953 |
| Financial services | 4,549 | 61 | 42 | 24 | 4,677 |
| Trade and commerce | 66 | 314 | 0 | 12 | 392 |
| Industry | 269 | 1,013 | 10 | 0 | 1,293 |
| Agriculture | 0 | 8 | 7 | 0 | 15 |
| Public sector | 1,645 | 230 | 207 | 13 | 2,095 |
| Private | 4 | 15 | 0 | 0 | 18 |
| Real estate business | 225 | 6 | 10 | 0 | 241 |
| Other | 220 | 181 | 6 | 32 | 439 |
| Tourism | 26 | 533 | 0 | 0 | 558 |
| **Total** | **7,314** | **2,880** | **358** | **129** | **10,681** |

### Exposure size category of the transactions

Around 92.1% of the exposure can be found in the size range <= EUR 10 million.

The bank is pursuing a strict strategy of reducing concentration risk in the corporate segment.

A majority is allocable to banks or the public sector. These transactions are necessary for securing liquidity, long-term investments and for hedge transactions. The presentation is based on the group of borrowers.

### Size classes

in EUR m

| Size classes | 31.12.2012 | 31.12.2013 |
|---|---|---|
| < 10,000 | 1.2 | 0.1 |
| 10-20,000 | 0.1 | 0.1 |
| 20-50,000 | 0.6 | 0.5 |
| 50-100,000 | 1.6 | 1.3 |
| 100-250,000 | 5.4 | 6.1 |
| 250-500,000 | 9.6 | 10.8 |
| 500-1,000,000 | 31.3 | 20.1 |
| 1,000-3,500,000 | 239.9 | 236.8 |
| 3,500-10,000,000 | 653.0 | 533.3 |
| > 10,000,000 | 9,738.7 | 9,399.4 |
| **Total** | **10,681.5** | **10,208.5** |

## 6.9.6. Breakdown of financial assets by degree of impairment

Financial assets that are neither overdue nor impaired*:

### Rating classes

in EUR m

| | | 31.12.2013 | | 31.12.2012 |
|---|---|---|---|---|
| Rating class | Exposure | Collateral | Exposure | Collateral |
| 1A-1E | 5,910 | 963 | 5,358 | 811 |
| 2A-2E | 691 | 192 | 1,446 | 884 |
| 3A-3E | 540 | 408 | 574 | 414 |
| 4A-4B | 49 | 14 | 111 | 47 |
| 4C-4E | 101 | 49 | 88 | 31 |
| 5A-5E | 60 | 39 | 31 | 1 |
| No rating | 38 | 0 | 157 | 84 |
| **Total** | **7,389** | **1,665** | **7,765** | **2,271** |

Financial assets that are overdue, but not impaired*:

## Classes of loans and advances

in EUR m

| Classes of loans and advances | 31.12.2013 Exposure | 31.12.2013 Collateral | 31.12.2012 Exposure | 31.12.2012 Collateral |
|---|---|---|---|---|
| **Financial assets** | **0** | **0** | **0** | **0** |
| -181 to 365 days | 0 | 0 | 0 | 0 |
| – over 1 year | 0 | 0 | 0 | 0 |
| **Loans and advances to credit institutions** | **1** | **0** | **1** | **0** |
| – overdue to 30 days | 0 | 0 | 0 | 0 |
| – overdue 31 to 60 days | 0 | 0 | 0 | 0 |
| – overdue 61 to 90 days | 0 | 0 | 0 | 0 |
| – overdue 91 to 180 days | 0 | 0 | 0 | 0 |
| – overdue 181 to 365 days | 0 | 0 | 0 | 0 |
| – overdue over 1 year | 1 | 0 | 1 | 0 |
| **Loans and advances to customers** | **234** | **181** | **743** | **463** |
| – overdue to 30 days | 29 | 26 | 140 | 100 |
| – overdue 31 to 60 days | 0 | 0 | 0 | 0 |
| – overdue 61 to 90 days | 0 | 0 | 0 | 0 |
| – overdue 91 to 180 days | 15 | 15 | 98 | 22 |
| – overdue 181 to 365 days | 17 | 14 | 100 | 46 |
| – overdue over 1 year | 173 | 126 | 405 | 294 |
| **Total** | **235** | **181** | **744** | **463** |

* For technical reasons, all customers in the restructuring class (5C) were shown in the last report as overdue > 90 days. If looking only at the newly chosen presentation form of days overdue without over control through the rating, the following changes occurred in 2012: overdue receivables decreased by around EUR 157 million and receivables not overdue increased by the same amount. EUR 901 million of the exposure were therefore overdue and EUR 7,608 million not overdue at the end of 2012.

Impaired financial assets:

in EUR m

| | | 31.12.2013 | 31.12.2012 |
|---|---|---|---|
| **Financial assets** | Exposure | 0 | 0 |
| | Provisions | 0 | 0 |
| | Collateral | 0 | 0 |
| **Loans and advances to credit institutions** | Exposure | 2 | 2 |
| | Provisions | 2 | 2 |
| | Collateral | 0 | 0 |
| **Loans and advances to customers** | Exposure | 2,582 | 2,170 |
| | Provisions | 1,326 | 1,137 |
| | Collateral | 902 | 652 |
| **Total exposure** | | **2,585** | **2,172** |
| **Total loan loss allowances (incl. provisions for risks from the lending business)** | | **1,328** | **1,139** |
| **Total collateral** | | **902** | **652** |

### 6.9.7. Forbearance

For the first time, Hypo Alpe-Adria-Bank International AG determined customer agreements that are part of "forbearance measures" as defined by the European Securities and Markets Authority (ESMA) retroactively from 2013. Hypo Alpe-Adria-Bank International AG is currently working intensively on the improvement of its reporting capabilities (on-site workshops, refinement of definitions, etc.). Alpe-Adria-Bank International AG is also working towards the implementation of a fixed process for the calculation and evaluation of forbearance cases. In this respect, credit principles, credit processes themselves and the core banking systems must be revised.

All customers who found themselves in financial difficulties were included in the calculation for 2013 (Non Performing, Watch Loan and Watch List customers); they were reviewed in respect of the following criteria:

- Modification of original contractual conditions due to financial difficulties (this also includes prolonging existing loans, reprogramming, partial exposure write-offs, the reduction in the interest rate margin, breaches of contract tolerated by the bank, etc.)
- Complete or partial refinancing approved on the basis of the customer suffering financial difficulties (including new business)

Particularly in the calculation of the initial portfolio, Hypo Alpe-Adria-Bank International AG was faced with challenges posed primarily by portfolio transfers from subsidiaries to Hypo Alpe-Adria-Bank International AG. For the reasons stated above, the following tables reflect current knowledge of Hypo Alpe-Adria-Bank International AG.

The following charts provide an overview of forbearance at Hypo Alpe-Adria-Bank International AG for the financial years 2012 and 2013.

| | OPENING balance 1.1.2013 | Change | CLOSING balance 31.12.2013 |
|---|---|---|---|
| **Loans and advances (LAR + AFS + HTM)** | 2,214 | -116 | 2,098 |
| to public sector (central governments) | 0 | 0 | 0 |
| to credit institutions | 2 | -1 | 1 |
| to non credit institutions (financial institutions) | 207 | -30 | 177 |
| to corporate clients | 1,995 | -92 | 1,903 |
| to retail clients | 11 | 7 | 18 |
| **Other financial assets** | 0 | 0 | 0 |
| **TOTAL FORBORN ASSETS** | 2,214 | -116 | 2,098 |
| | | | |
| **Off-balance exposure** | 59 | 23 | 82 |

| CLOSING balance 31.12.2013 | Neither past due nor impaired | Past due but not impaired (> 0 days) | Impaired |
|---|---|---|---|
| **Loans and advances (LAR + AFS + HTM)** | 122 | 141 | 1,835 |
| to public sector (central governments) | 0 | 0 | 0 |
| to credit institutions | 0 | 0 | 1 |
| to non credit institutions (financial institutions) | 7 | 11 | 159 |
| to corporate clients | 115 | 131 | 1,657 |
| to retail clients | 0 | 0 | 18 |
| **Other financial assets** | 0 | 0 | 0 |
| **TOTAL FORBORN ASSETS** | 122 | 141 | 1,835 |

### 6.9.8. Liquidated collateral

In the 2013 financial year, collateral amounting to around EUR 1.1 million was liquidated (bail-out purchases) (2012: EUR 0).

## 6.10. Participation risk

### 6.10.1. Definition

In addition to counterparty risks from the credit business, equity risks from equity investments can also incur (shareholder risks). These include potential losses from equity provided, liability risks (e.g. letters of comfort) or profit/loss transfer agreements (loss absorption).

### 6.10.2. General requirements

Prior to 2009, to achieve its business objectives, Hypo Alpe-Adria-Bank International AG (or a subsidiary) had invested in companies which either served to expand its business spectrum, provide services for the bank or function as purely financial participations. 2013 was characterised by the ongoing restructuring measures in Hypo Alpe-Adria-Bank International AG leading to portfolio rationalisation and also to disposals in individual cases.

The handling of participation risks is governed by the group participation policy. The policy governs in particular the differentiation between equity investments which are strategic and non-strategic/similar to loans/act as substitutes for credit. Another objective is to ensure the development of a uniform process for equity investments at Hypo Alpe-Adria-Bank International AG and at its strategic or non-strategic shareholdings across the group, as well as to describe the investment process, steering and reporting in more detail.

Hypo Alpe-Adria-Bank International AG influences the business and risk policy of associated companies through its representation on shareholder and supervisory committees.

In addition, all equity investments are monitored for results and risk on a continuous basis.

### 6.10.3. Risk measurement

Hypo Alpe-Adria-Bank International AG uses the PD/LGD approach pursuant to section 72 SolvaV for measuring the participation risk for the ICAAP.

### 6.10.4. Risk control and monitoring

Hypo Alpe-Adria-Bank International AG has, in the Group Credit Risk Control division, its own independent, central unit with the authority to set guidelines on all methods and processes connected with the management of equity risk. The operational implementation of risk steering instruments is the responsibility of the business units in charge.

Strategic equity investments are integrated into the annual strategy and planning process of Hypo Alpe-Adria-Bank International AG. Representation on shareholder and supervisory committees allows Hypo Alpe-Adria-Bank International AG to exert influence over business and risk policies.

When it acts as a provider of equity capital or a lender of capital, the bank evaluates the additional risks, especially those arising from its status as a lender of capital.

## 6.11. Country risk

### 6.11.1. Definition

Country risk is the risk that a business partner in a given country, or the government of the country itself, fails to meet its obligations in a timely manner, because of governmental directives or economic/political problems, or does not meet them at all.

For example, country risks may arise from a possible deterioration of national economic conditions, a political or social collapse, the nationalisation or expropriation of assets, non-recognition of cross-border liabilities on the part of the government, exchange controls, payment or delivery prohibitions, moratoria, embargos, wars, revolutions, or coups in the respective countries.

### 6.11.2. General requirements

As part of its business activities, and in pursuit of its long-term strategy, Hypo Alpe-Adria-Bank International AG knowingly assumes country risks that are limited in size.

### 6.11.3. Risk measurement

Country risk is measured in relation to the exposure relevant to country risk for each country and takes the respective external country rating and the country's specific LGD and PD in accordance with SolvaV into account.

Exposure related to country risk is composed of all non-EMU cross-border transactions for which a currency mismatch between the currency of the debtor country and the account currency (the currency in which the business transaction is conducted) exists.

The IRB approach for companies, banks and countries as outlined in the Austrian Solvency Regulation is used in order to quantify country risk. The country risk determined by this method is offset with equity capital.

### 6.11.4. Risk limitation

Country risk is restricted by setting limits, which are calculated on the basis of ratings and a risk-oriented grouping of countries. All countries are subject to limits, with the respective limit discussed and approved by the Management Board.

Cross-border transactions by the group are subject to these limits, with direct financing (refinancing, capital) by subsidiaries subject to separate controls that emanate directly from the Executive Board.

### 6.11.5. Risk control and monitoring

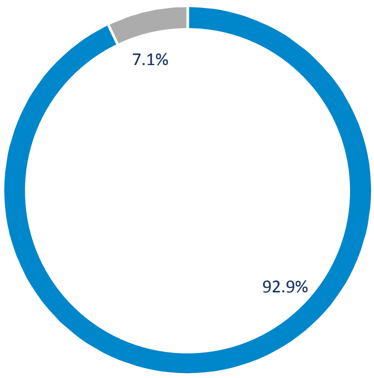
Central Group Credit Risk Control monitors adherence to the respective country limits on a monthly basis and reports breaches directly to the Executive Board as part of regular country limit utilisation reporting. Ad hoc reports (e.g. GIIPS) are also prepared as required.

### 6.11.6. Portfolio overview – country risk

**Exposure – country rating breakdown**

The share of exposure in countries with ratings from 1A to 2E is 92.9% (2012: 92.8%). Consequently, around EUR 0.726 billion of exposure was in countries with a rating lower than 2E at the end of 2013 (2012: EUR 766 million).

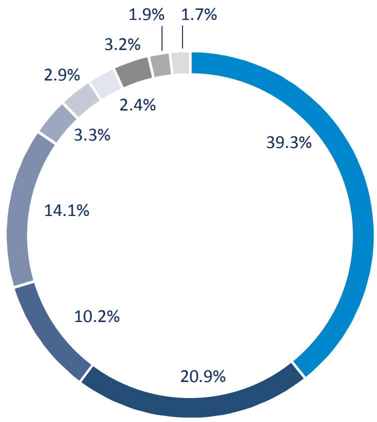
**Exposure – country rating breakdown**
in percent




**Top 10 countries by exposure**

The top ten countries account for 86.8% of total volume (2012: 87.7%), with Austria and Croatia accounting for the largest share.

**Top 10 countries by exposure in 2013**
in percent




| 2013 | 2012 | |
|---|---|---|
| 39.3 % | 40.7 % | Austria |
| 20.9 % | 21.9 % | Croatia |
| 10.2 % | 12.0 % | Germany |
| 14.1 % | 11.0 % | United Kingdom |
| 3.3 % | 3.1 % | Switzerland |
| 2.9 % | 2.9 % | Serbia |
| 2.4 % | 2.7 % | Slovenia |
| 3.2 % | 2.1 % | France |
| 1.9 % | 1.8 % | Bosnia and Herzegovina |
| 1.7 % | 1.7% | Belgium |

### 6.11.7. Core Hypo Alpe-Adria-Bank International AG country portfolios

Hypo Alpe-Adria-Bank International AG's activities in the GIIPS states (Greece, Ireland, Italy, Portugal and Spain) are kept to a minimum. The only exception is Italy, where Hypo Alpe-Adria-Bank International AG supports and funds a wind-down subsidiary, Hypo Alpe-Adria-Bank Italy. The country limits for all the GIIPS states are currently frozen at Hypo Alpe-Adria-Bank International AG. An exception is made for Italy where transactions within Hypo Alpe Adria may continue to be carried out.

As the SEE region is Hypo Alpe-Adria-Bank International AG's core market – Hypo Alpe-Adria-Bank International AG is present primarily in Croatia, Serbia, Montenegro, and Bosnia and Herzegovina through its subsidiaries – the group is monitoring economic developments in these countries and the forecasts for their economies for 2014 even more closely. This is being done through close monitoring by the subsidiaries involved and through the group holding company, so that they can react swiftly to changes in market conditions.

In summary, it can be said that the economies of the SEE country markets will experience a slowdown in 2014, representing an increased challenge to Hypo Alpe-Adria-Bank International AG in the current year. The group will address this challenge with stringent monitoring of customer accounts and portfolios, renewed efforts in processing collections and non-performing loans, with the result that assets requiring liquidation will be sold in such a way as to preserve value, even in this difficult market environment.

**Side note: GIIPS**

The table below shows only the direct exposure (securities and customer business) as at 31 December 2013 to central banks, states, regions and credit institutions.

in EUR m

| Breakdown by country and risk segment | | Total fair value 2013 | Total fair value 2012 |
|---|---|---|---|
| Greece | State and central bank | 0.0 | 0 |
| | Regions and municipalities | 0.0 | 0.0 |
| | Banks | 0.0 | 0.0 |
| | **Total** | **0.0** | **0.0** |
| **Ireland** | State and central bank | 0.0 | 0.0 |
| | Regions and municipalities | 0.0 | 0.0 |
| | Banks | 39.2 | 58.3 |
| | **Total** | **39.2** | **58.3** |
| **Italy** | State and central bank | 42.9 | 46.7 |
| | Regions and municipalities | 31.0 | 30.4 |
| | Banks | 35.9 | 42.6 |
| | **Total** | **109.8** | **119.7** |
| **Portugal** | State and central bank | 0.0 | 0.0 |
| | Regions and municipalities | 20.0 | 20.0 |
| | Banks | 15.6 | 14.9 |
| | **Total** | **35.6** | **34.9** |
| **Spain** | State and central bank | 0.0 | 0.0 |
| | Regions and municipalities | 50.1 | 50.2 |
| | Banks | 10.2 | 10.2 |
| | **Total** | **60.3** | **60.5** |
| **Total** | | **244.9** | **273.5** |

**Greece:**

Hypo Alpe-Adria-Bank International AG has no exposure to Greece.

**Italy:**

In the first half of 2013, Italy's political landscape was dominated by the general election at the end of February, which ended in a stalemate. The resulting coalition negotiations proved to be extremely problematic, until a new government (coalition of the social-democratic PS party and conservative PDL party) was formed under the leadership of social democrat Enrico Letta.

In the third quarter, the political situation escalated after the PDL threatened to pull out of the coalition and cause a new general election to be held. In late September, Silvio Berlusconi ordered his party's ministers to resign from government. Surprisingly, all ministers distanced themselves from Berlusconi's decision and declared their willingness to continue to support the government. In a subsequent vote of confidence, a clear majority was achieved. Together with 60 former PDL members, minister of the interior Angelino Alfano formed the "New Centre-Right" as a splinter group from Berlusconi's Forza Italia party and ensured that his party would remain a key component of the coalition.

In economic terms, Italy saw the first signs of stabilisation and recovery over the course of the year. Positive signs from Italian industry came in the summer with the news that production increased. Armed with a multibillion-euro economic stimulus package, the government intends to inject momentum into the national economy (target: creation of 30,000 new jobs, removal of red tape, etc.). Retail sales rose against for the first time in a while, and both consumer confidence and the business climate barometer improved better than expected. The macroeconomic index also improved. Tax revenue rose in the first half of 2013 by 5%.

Following the approval of the economic plan to boost foreign investment, the Italian cabinet passed a number of additional measures to ensure that the national deficit would not increase above the EU-defined threshold of 3%.

Italy was able to escape from recession in the third quarter of 2013 for the first time in over two years. For 2014, the government forecasts economic growth of below 1%. According to the European Commission, new borrowing in 2013 is likely to stand at 3%

At the end of December, the 2014 budget was finally approved by the senate (including tax reductions, amongst other measures). A package worth EUR 1.5 billion aimed at tackling unemployment was also passed.

At the end of the year, an increase in the business climate index was also recorded.

The development of the Italian bond market over the course of 2013 can also be seen as positive. After a brief rise immediately after the general election and during the governmental crisis at the end of September/early October, yields on Italian bonds fell successively to the current level of 4% for ten-year sovereign bonds (as at January 2014).

For these reasons, Hypo Alpe-Adria-Bank International AG did not consider there to be an impairment requirement on its exposure to Italy at the time of writing.

**Ireland:**

Following the granting of EUR 85 billion worth of financial aid by the European Union and the International Monetary Fund (IMF) in November 2010, Ireland has succeeded in meeting all defined budgetary targets by means of an extensive and rigorous austerity drive, thus regaining the trust of the markets. In March 2013, Ireland was able to make a successful return to the capital markets by issuing a ten-year bond. The country was repeatedly highlighted as the perfect model for GIIPS countries in 2013.

In the second quarter of the year, Ireland managed to escape recession by recording economic growth of 0.4%. It was able to continue this positive tendency in the third quarter (GDP growth 1.5% up on same period the previous year). All in all, the Irish economy grew for the third year in succession. Growth is set to continue in 2014, with figures of 1.7% and 2.5% forecast for 2014 and 2015 respectively. Ireland is also aiming to cut the rate of unemployment to 11.7% by 2015. One positive sign of life came from the construction industry, while exports also increased and a moderate rise in private consumption was also recorded (+0.9% in September 2013). Ratings agency Moody's awarded also rewarded the country for its positive development. Ireland is also benefitting from the perception that its government is reliable and stable.

At the end of the year, Ireland became the first crisis-hit economy to officially leave the eurozone bailout programme.

The Irish government presented a programme to foster growth and employment until 2020 ("A Strategy for Growth"), which aims to support the unemployed with individual job-seeking services and greater incentives to return to the employment market.

From 2014 onwards, the Irish government intends to finance itself exclusively through the markets.

Following Moody's decision to raise Ireland's rating to Baa3 (back to investment grade level + outlook: positive) in mid-January 2014, yields on Irish sovereign bonds fell sharply. For example, the coupon on five-year bonds fell to its lowest level since 2006. The rating upgrade was justified by accelerated economic growth as well as ongoing budgetary consolidation.

For these reasons, Hypo Alpe-Adria-Bank International AG did not consider there to be an impairment requirement on its exposure to Ireland at the time of writing.

**Portugal:**

Portugal's strict programme of austerity was continued in 2013. Compliance with requirements concerning budgetary consolidation continued to be subject to strict monitoring by the ECB, IMF and the European Commission. In the first half of 2013, the government passed a range of new cost-cutting measures in social services, repeated its commitment to achieving all of the goals set out in the bail-out programme and announced further consolidation measures totalling EUR 4.7 billion for the period between 2014 and 2016.

Portugal's national deficit stood at EUR 3.9 billion in the first half of the year, far below the EUR 6.0 billion deficit agreed with its international lenders. A slight decline in the unemployment rate was observed for the first time in two years.

However, in their latest review of the country's reforms (November 2013), the ECB, European Commission and the IMF reiterated that Portugal is continuing to implement its programme according to schedule. Rating agency Moody's also noted that Portugal's financial situation had improved that the government was committed to pushing through the consolidation of the national budget. As a result, no further rating downgrade was performed, and in fact the outlook for Portugal's rating was raised to "stable".

GDP growth was able to be recorded in the second and third quarters of the year, after over two years of recession. A slight rise in domestic demand was seen as a reason for this.

In 2014, Portugal is expected to record positive growth again after three years of negative growth figures (growth of 0.8% and 1.5% in 2015). Exports are set to provide the greatest growth momentum, while domestic demand is also forecasted to increase. Portugal is also slated for a return to the capital market in June 2014. The national deficit is to be cut to 4% of gross domestic product. Another ambitious austerity programme worth some EUR 3.9 billion was approved in order to reach this goal. This programme includes cutting civil servant pay, increasing the working hours per week in the public sector and cutting healthcare spending. Corporation tax is also set to be reduced by 2% per year to provide a further boost to the economy and make Portugal one of Europe's most competitive countries by 2016.

The first bond issues of 2014 indicate that investors have faith in Portugal's ability to pay back its debt. Yields on benchmark ten-year bonds fell to their lowest level since 2010 (approximately 5.2%). Standard & Poor's announced that Portugal's credit rating would no longer be subject to strict observation.

For these reasons, Hypo Alpe-Adria-Bank International AG did not consider there to be an impairment requirement on its exposure to Portugal at the time of writing.

**Spain:**
Despite the implementation of fundamental reforms (employment and pension reforms, bank consolidation) by the Spanish government, the country continued to find itself in recession in the first half of 2013.

One positive sign was that reforms introduced of the last few years (the stable government has an absolute majority in the House of Representatives and the senate) have led to a substantial improvement in Spain's competitiveness. In real terms, unit labour costs have been declining since 2010 and are therefore having a positive effect on exports. Spain's international trading activities regained some ground in the first half of 2013, with exports rising year on year by 9.4%. At EUR 1.4 billion, Spain's trade balance recorded a surplus for the first time in 30 years.

A certain degree of stability and solidity returned to the employment market from midway through the year. The unemployment rate fell marginally for the first time since early 2007.

The end of the third quarter also signalled the end of two years of Spanish recession. Between July and September, GDP rose by 0.1% (reason: rising exports and a boom in tourism of 7.7% in the summer season), while in August the country recorded a current account surplus for the fourth month in succession and, in September, retail sales rose for the first time in three years. Industrial firms also saw production rise for the first time in 30 months, and new vehicle registrations also increased.

In early November, ratings agency Fitch determined the country's outlook as "stable" due to considerable progress in reforms to the employment market, the pension system, the national budget and the financial sector. Recovery can also be seen in the banking sector. Major Spanish banks have posted significant profit increases and the "oversized" Spanish financial system now appears to be a thing of the past. International lenders have also noted that Spain's banking sector reforms are still on track. Christine Lagarde, head of the IMF, noted that Spanish banks were stable and healthy thanks to stronger capital buffers and sector restructuring.

Ratings agencies Standard & Poor's and Moody's also upgraded Spain's outlook from negative to stable, justifying the decision with the gradual improvement in the economic climate.

In late December, Spain officially declared that it would not require any further aid from the European Stability Mechanism (ESM) bail-out fund. Furthermore, a surprisingly significant decrease in unemployment was also reported, and a considerable rise in the purchasing managers' index. The development of the private economic and the increase in industrial productivity are two further positive signs.

On the capital market, investor confidence is returning gradually; currently (January 2014), yields on ten-year sovereign bonds stand at 3.7% (summer 2012: 7.5%) and are therefore at their lowest level since December 2009.
For these reasons, Hypo Alpe-Adria-Bank International AG did not consider there to be an impairment requirement on its exposure to Spain at the time of writing.

**Side-note: Croatia, Hungary, Slovenia, Ukraine and Cyprus**

**Croatia:**
The table below shows only the direct exposure (securities and customer business) as at 31 December 2013 to central banks, states, regions and credit institutions.

in EUR m

| Breakdown by country and risk segment | | Total fair value 2013 | Total fair value2012 |
|---|---|---|---|
| Croatia | State and central bank | 20.0 | 40.0 |
| | Regions and municipalities | 0.3 | 1.0 |
| | Banks | 0.0 | 0.0 |
| | **Total** | **20.3** | **41.0** |

Even after Croatia joined the European Union mid of 2013 there has not been any improvement in the financial situation. Croatia continues to be stuck in the mire of recession, not least because the lack of necessary reforms by the Croatian government – above all in healthcare, education and public services – is having a negative effect on investment and GDP. In 2012 and 2013, Croatia recorded declines in GDP of 0.2% and 1.1% respectively. A further decline of 0.7% is anticipated in 2014, with a national deficit of over 5%, meaning that measures to counteract the budgetary deficit can be expected.

The rate of unemployment in Croatia rose from 15.9% in 2012 to 17.6% in 2013, and a further increase to 18.8% is expected in 2014. Inflation fell from 3.4% (2012) to 2.4% (2013), however a slight rise in inflation to 2.6% is forecast for 2014 due to an increase in VAT and the adjustments to energy and tobacco taxes required by the EU.

In the tourism sector, an increase of 5% (year on year) was recorded by the central statistical office for the period from January to October 2013. This positive development is fostered by the Croatian government's tourism development strategy, which aims to make the country one of the top 20 most competitive countries worldwide in the tourism sector by 2020. However, the rise in VAT at the end of 2013 could weaken the country's competitiveness when it comes to tourism and investment.

Net profit in the Croatian banking sector fell by 42.5% – predominantly as a result of a fall in net interest income (due to a lack of new business, a rise in interest-free lending and the cutting of active interest rates) and increased risk provisions. In view of the more problematic macroeconomic conditions, private customer business also stuttered, which made further debt reduction in both retail and the corporate sector harder. The repayment of foreign debt, a real decline in household incomes and rising unemployment are also threatening growth in deposits.

For 2014, mainly because of regulatory and legislative changes (such as the passing of a law for strategic investment, access to EU subsidies and a government programme for public-sector investments) a slight increase is expected in both tourism and in terms of exports. There should also be some positive developments in Croatian industry. In this regard, the Croatian government has presented a strategic plan with the aim of boosting industrial production by 2.85%, creating 85,000 jobs and increasing productivity by 69% by 2020. The liberalisation of Serbian trade at the start of 2014 should also prove beneficial to Croatian companies, particularly those in the food sector.

For these reasons, Hypo Alpe-Adria-Bank International AG did not consider there to be an impairment requirement on its exposure to Croatia at the time of writing.

**Hungary:**
The table below shows only the direct exposure (securities and customer business) as at 31 December 2013 to central banks, states, regions and credit institutions.

in EUR m

| Breakdown by country and risk segment | | Total fair value 2013 | Total fair value 2012 |
|---|---|---|---|
| Hungary | State and central bank | 26.2 | 25.6 |
| | Regions and municipalities | 0.0 | 0.0 |
| | Banks | 0.0 | 20.0 |
| | **Total** | **26.2** | **45.6** |

After the Hungarian economy contracted in 2012 (1.4% of GDP), the gross domestic product rose for the first time again in the second quarter of 2013 by 0.5%.

Hungary's current focus is on reducing its debt. Its debt ratio stands at roughly 79% of GDP, which is about the European average. A total of 1.0 million new jobs are set to be created over the next ten years and the country intends to become one of the most competitive economies in Europe by restructuring its legal frameworks.

Thanks to a number of tax increases and the introduction of some much-dispute new levies, state revenue has risen sharply over the past two years. Hungarian exports have also developed positively over the past two years. In June 2013, Hungary was left out of the Excess Deficit Procedure (EDP) for the first time since joining the EU and, in mid-August, it also paid back the final instalment on the bail-out package granted by the EU and the IMF. Prior to this, there were repeated "differences of opinion" between the IMF and Prime Minister Viktor Orbán, who had complained that the IMF was exerting inappropriate influence on his country's economic policy.

In the autumn forecast unveiled at the end of November, the European Commission put Hungary's expected deficit at 2.9% of GDP in 2013 and 3% of GDP for 2014. Economic growth is expected to increase further in the next couple of years. A highly qualified workforce, good infrastructure and low taxes mean that Hungary can expect further foreign investment, particularly in the production industry. Another positive aspect is the fact that the improved economic situation led to a further decline in unemployment (from 11.8% in March 2013 to 9.3% at the end of November 2013).

For these reasons, Hypo Alpe-Adria-Bank International AG did not consider there to be an impairment requirement on its exposure to Hungary at the time of writing.

**Slovenia:**
The table below shows only the direct exposure (securities and customer business) as at 31 December 2013 to central banks, states, regions and credit institutions.

in EUR m

| Breakdown by country and risk segment | | Total fair value 2013 | Total fair value 2012 |
|---|---|---|---|
| **Slovenia** | State and central bank | 14.6 | 14.2 |
| | Regions and municipalities | 8.7 | 10.2 |
| | Banks | 19.9 | 19.3 |
| | **Total** | **43.2** | **43.7** |

Slovenia, long considered a model for Eastern European transition countries (EU member since 2004) continues to struggle with economic issues which have largely been caused by an oversized banking sector loaded with non-performing loans, excessive government intervention in the economy (roughly 50% state-controlled) and outdated employment market structures. Due to its strong reliance on exports, Slovenia has also suffered from the global economic downturn over the past few years.

Around halfway through the year, Slovenia began to implement the crisis measures resolved by the EU. These included increasing VAT to 22%, intensifying the fight against the shadow economy and cutting public-sector pay. Furthermore, the privatisation of 15 state-owned companies (either via direct investment or via state-owned funds in companies such as Adria Airways, Elan, Ljubljana Airport and Telekom Slovenije) was agreed and a debt ceiling integrated into the Slovenian constitution.

One positive factor is that recession was able to be curbed in the third quarter. Economic output will continue to be affected by declining domestic demand (in spite of general stabilisation), however a major decline in GDP was prevented by an increase in export demand (exports rose by 4.9%). According to a forecast published by the European Commission in early November, Slovenia's national debt stood at 63.2% of GDP.

After winning a vote of confidence in November, the Slovenian parliament approved budgets for 2014 and for 2015.

After the presentation of the results of the bank stress test (December 2013), it became clear that Slovenia is capable of cleaning up its banking sector (capital shortfall of EUR 4.8 million) without being forced to resort to partners in the European Union. In other words, it can begin privatising state-owned banks once non-performing loans have been housed in a bad bank.

At the start of 2014, yields on Slovenian bonds fell to their lowest level since May 2011 at roughly 4.6% (June 2013: 6.8%).

For these reasons, Hypo Alpe-Adria-Bank International AG did not consider there to be an impairment requirement on its exposure to Slovenia at the time of writing.

**Ukraine:**

Due to the political crisis in Ukraine that came to a head in first quarter of 2014 and saw the Crimean peninsula declare independence – with the new transitional government in Kiev enjoying the backing of the EU and the USA –, Hypo Alpe-Adria-Bank International AG believes that there will be a further downturn in the payment behaviour of customers. The tense economic situation in Ukraine is also reflected by downgrades from all three ratings agencies to Caa3/CCC/CCC, outlook: negative.

Hypo Alpe-Adria-Bank International AG maintains a leasing subsidiary in Ukraine with refinancing volume of EUR 52.3 million (2012: EUR 57.7 million). This refinancing is already offset by existing provisions of EUR 48.0 million (2012: EUR 36.2 million). Remaining loans and advances to customers and credit institutions stand at EUR 2.8 million (2012: EUR 4.6 million).

For these reasons, Hypo Alpe-Adria-Bank International AG did not consider there to be an impairment requirement on its exposure to Ukraine at the time of writing. Hypo Alpe-Adria-Bank International AG will continue to monitor the situation in Ukraine and, if necessary, take further action.

**Cyprus:**

Hypo Alpe-Adria-Bank International AG has no exposure to Cyprus.

## 6.12. Concentration risk

Concentration risks within a loan portfolio result from the uneven distribution of loans and advances to individual borrowers and/or group of borrowers. These also include concentrations of loans and advances in individual industry sectors, geographic regions as well as concentration from an uneven distribution of collateral providers.

As a result, Hypo Alpe-Adria-Bank International AG analyses, measures and steers the following concentration risks:

- Counterparty default concentrations
- Industry sector concentrations
- Geographic concentrations
- Collateral concentrations

Counterparty, industry sector and collateral concentrations are measured and managed within the context of the regular ICAAP calculations.

Additional risk capital requirements arising from risk concentrations are calculated using the Herfindahl Hirschman Index (HHI) and an add-on factor, which changes depending on the type of concentration.

## 6.13. Market price risk

### 6.13.1. Definition

Market risks consist of potential losses arising from a change in market prices. Hypo Alpe-Adria-Bank International AG classifies market price risks according to the risk factors in changes to interest rates, credit spread, currency, volatility and equity risks, as well as risks from alternative investments. Hypo Alpe-Adria-Bank International AG pays particular attention to identifying, measuring, analysing and managing market risk; the organisational division Group Market Risk Control is responsible for all market risks at group level.

Market price risks may result from securities (and products similar to securities), money and foreign currency products, derivatives, exchange rate hedges and results hedging, assets similar to equity or from management of assets and liabilities.

In addition to market risks, market liquidity risks may also be incurred if, in the event of low market demand, the bank is unable to liquidate trading positions during liquidity shortfalls (or due to risk-based offsetting requirements) in the short term. For existing positions, these are taken into account as part of the risk limitations for market risks.

### 6.13.2. General requirements

The bank develops its market risk strategy on the basis of strategy discussions with the relevant treasury units. Resolutions on the combined business and risk strategy at group level are passed exclusively in the Group Asset Liability Committee (Group ALCO).

### 6.13.3. Risk measurement

Hypo Alpe-Adria-Bank International AG calculates its market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99%. The main instrument used in this process is the Monte Carlo simulation involving exponentially weighted volatilities and correlations from a history of 250 days. For the purpose of determining the economic market risk capital tied up in the calculation of risk bearing capacity, values are scaled to the uniform confidence level of 99.9%, assuming liquidation over a specific time period for each risk factor.

The models calculate potential losses taking into account historic market fluctuations (volatilities) and market context (correlations). In the year under review, the calculation of specific interest risk was further refined, also taking into account the increased significance of interest risk in the current market situation.

While the VaR that is determined for monitoring requirements is used to forecast potential losses under normal market conditions, future-oriented analyses using extreme assumptions are also carried out. Market positions are subjected to exceptional market price changes, crisis situations and worst case scenarios as part of so-called "stress tests", and analysed for hazardous risk potentials using the simulated results. The stress scenarios are monitored for appropriateness and adjusted if required.

The method parameters for until further notice (UFN) product modelling are based on an elasticity concept.

The interest rate risk in the banking book is determined as a present value risk, as are all market risks at Hypo Alpe-Adria-Bank International AG. The risk of interest rate changes in the banking book is for the most part integrated into ongoing risk monitoring of market risk controlling as per value at risk.

Contractual cancellation rights are modelled as an option and flow into the risk calculation. All stochastic positions are accounted for in accordance with internal models.

In line with Basel II specifications, a 200-basis-point interest rate shock scenario is calculated for the interest rate risk in the banking book. The present value changes calculated in relation to the regulatory equity lie well below the so-called "outlier criterion". In addition, a large number of possible market fluctuations can be calculated and illustrated through a calculation of standard, forward, historic and extreme scenarios.

### 6.13.4. Risk limitation

A limit for market risk of 8.5% of the risk capital (including strategic market risk) has been set for Hypo Alpe-Adria-Bank International AG. This defined risk capital represents the maximum loss for assuming market risks.

The allocation of capital for market risk is carried out based on a defined limit application process, after deduction of a market risk limit reserve, and is determined by setting risk-factor limits for the individual market risk factors (interest risk, currency risk, equity risk (client default and investments), credit spread risk (liquid and illiquid), volatility risk and alternative investment risk). Furthermore, differentiation of these risk factor limits is made by assigning them to defined sub-portfolios.

The risk and loss thresholds defined for risk mitigation act as an early-warning system to show any negative developments in the limit system early on.

### 6.13.5. Risk steering and monitoring

As part of the daily reporting process to the group's Executive Board, the value-at-risk and performance figures for the trading book, banking book investments and market risk steering figures as well as the corresponding risk capital view are submitted on a daily basis.

Should limits be exceeded, there are escalation processes defined up to the level of the Executive Board.

The Board also receives a separate monthly report on the actual market risk situation for Hypo Alpe-Adria-Bank International AG as well as on back-testing and stress test results, with a commentary on potentially significant developments as part of the market risk report.

The control of interest rate risk is carried out on an institutionalised basis in compliance with the regulatory requirements related to interest rate risk statistics. The Asset Liability Committee – which consists of the group's Executive Board as well as key staff in Treasury, Risk Management, Financial Controlling and Accounting – meets on a regular basis to analyse and decide on measures related to balance sheet structure and liquidity steering. In addition to group-level monitoring and steering, all subsidiaries and subsidiary portfolios are also monitored and steered.

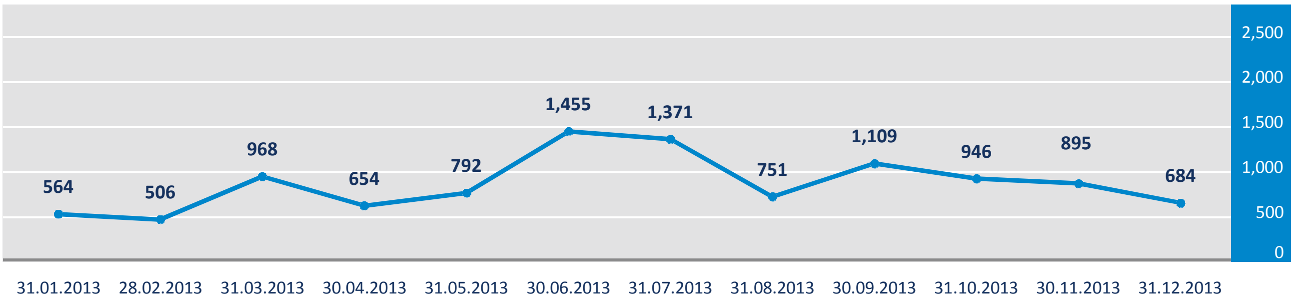
### 6.13.6. Overview – market risk

#### 6.13.6.1. Interest rate risk

The chart below shows the progression of interest rate risk (including the interest rate risk of the trading book) for Hypo Alpe-Adria-Bank International AG in 2013 (comparable VaR figure as at 31 December 2012 EUR 0.68 million). The interest rate gap profile for Hypo Alpe-Adria-Bank International AG contains all interest-rate-relevant on- and off-balance-sheet items with their next interest rate fixing date. All interest-bearing balance sheet items are taken as the basis for calculating interest-rate risk and thus for limiting risk. Non-interest-bearing items like equity, tangible and intangible assets are not comprised in the interest risk calculation.

**Development in interest rate risk for Hypo Alpe-Adria-Bank International AG in 2013:**

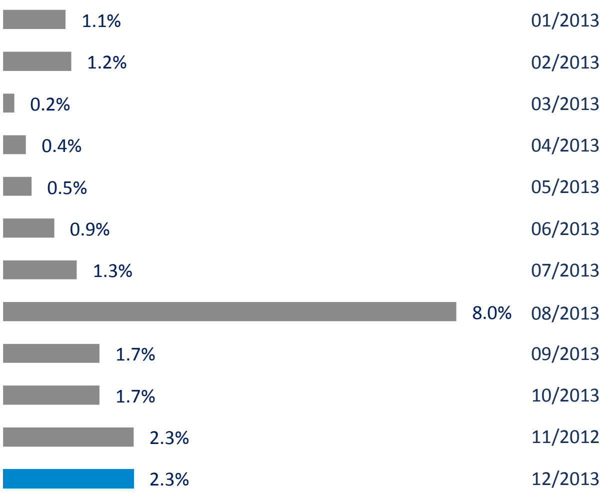
**Interest Rate Risk (Trading Book + Banking Book) – VaR (99%, 1 day)**
EUR thousand




The methodology of the interest risk calculation is oriented to the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics. Initially, interest risks per defined currency are deter-mined on the basis of the interest rate gap profile; a second step calculates the risk equity ratio as a percentage of equity capital. The regulatory limit of 20% and the internal limit of 15% were not even close to being reached or exceeded at any point in the year (the interest risk equity ratio ex NIB as at 31 December 2012 came to 1.6%).

The main instruments used to control the interest rate gap profile are derivatives, which establish a hedging relationship for both assets and liabilities in the form of effective micro-hedges or portfolio hedges, thereby reducing interest rate risk.

**Interest Risk Equity Ratio ex NIB**
in percent in 2013



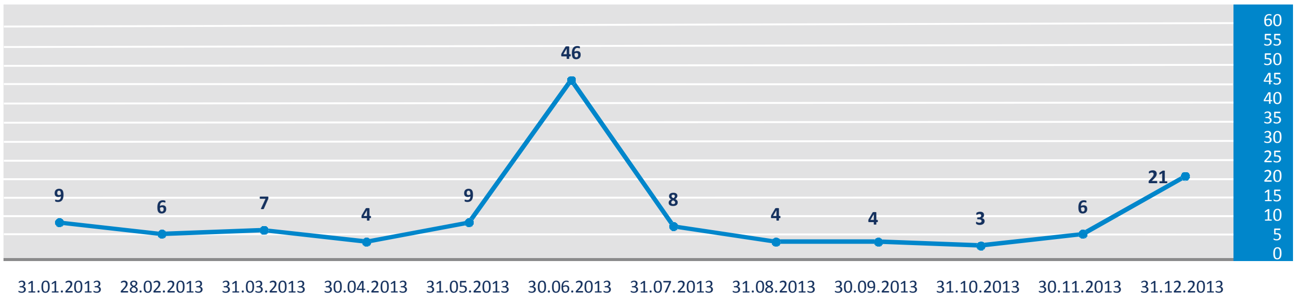

Regulatory requirements state that the proportion of interest rate risk – in the form of the standardised 200-bp rise in directly relevant interest-bearing positions (excluding non-interest-bearing (NIB) positions) – in equity may not exceed 20%. An internal limit for the interest risk equity ratio of a maximum of 15% has been set; however, this has only been used sparingly because of the positive offsetting effects in the interest rate gap profiles. Non-interest-bearing (NIB) positions do not therefore affect interest in the interest rate gap profiles – this conforms to modern international standards and guidelines such as the German Minimum Requirements for Risk Management (MaRisk).

### 6.13.6.2. Open currency positions

The data base for determining the value at risk for open foreign currency positions for Hypo Alpe-Adria-Bank International AG is based on the figures in the MW52 report and contains operational business activities. Open foreign currency positions thereby cover the entire FX risk of Hypo Alpe-Adria-Bank International AG. The main risk drivers for open foreign currency positions at Hypo Alpe-Adria-Bank International AG are the CHF and RON currencies. The value at risk for this foreign currency risk was approximately EUR 0.021 million per day as at 31 December 2013 (value at risk as at 31 December 2012 EUR 0.005 million), at a confidence level of 99%.

Change in the open currency positions of Hypo Alpe-Adria-Bank International AG in 2013:

**Open Foreign Currency Position Risk – VaR (99%, 1 day)**
EUR thousand



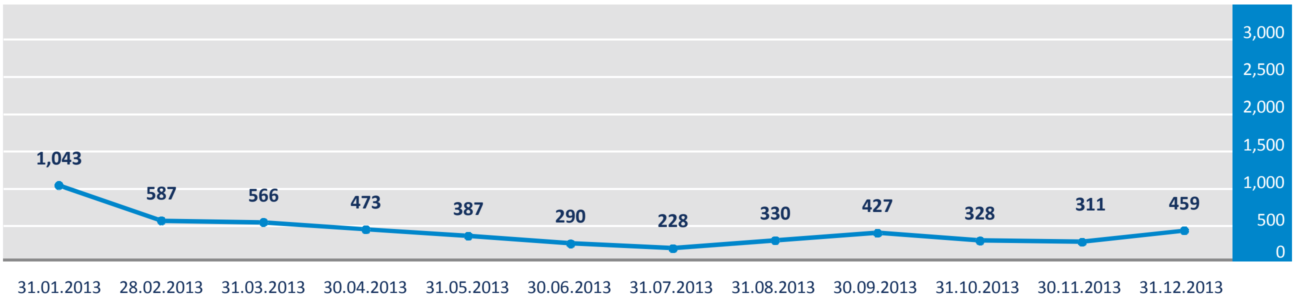

In addition to the FX risk from operational business activities, there is an additional open currency position at Hypo Alpe-Adria-Bank International AG arising out of the hedging activities relating to an open strategic currency position at group level. This results from the consolidation of the strategic participation by Hypo Alpe-Adria-Bank International AG in Hypo Alpe-Adria-Bank a.d. Belgrade. The value at risk (99%, 1 day) for this hedging activity by Hypo Alpe-Adria-Bank International AG was approximately EUR 1.18 million as at 31 December 2013; it compensated for this level of FX risk at group level (EUR 5.07 million value at risk as at 31 December 2012).

**6.13.6.3. Equity risk**

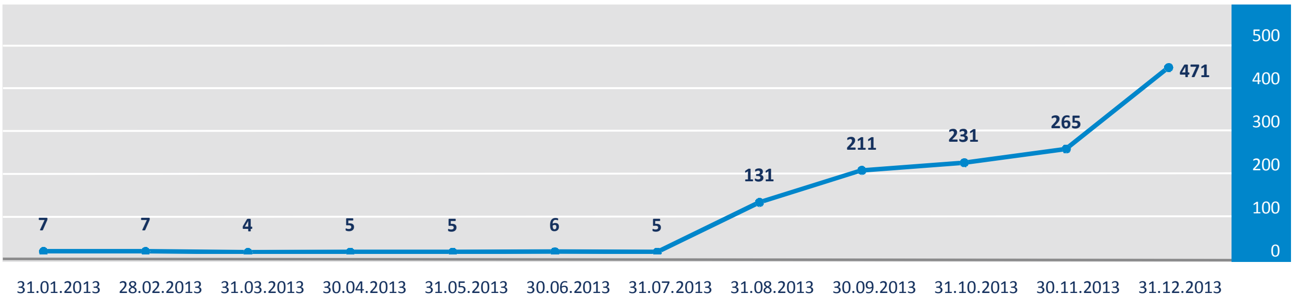
The share capital held in Hypo Alpe-Adria-Bank International AG is susceptible to market (price) risks, which arise from the uncertainty surrounding of the future value of these shares. Hypo Alpe-Adria-Bank International AG makes a distinction between equity risks, which arise from liquidating collateral related to credit risk transactions where liquidation is not currently possible for reasons of illiquidity or because of regulations or agreements (client default) and equity risks from an investment viewpoint (investments). The value at risk for the equity risk (client default) at Hypo Alpe-Adria-Bank International AG amounted to EUR 0.46 million as at 31 December 2013 (value at risk as at 31 December 2012 EUR 0.65 million) with a one-day holding period and a confidence level of 99% and EUR 0.47 million (value at risk as at 31 December 2012 EUR 0.007 million) for the equity risk from an investment viewpoint. In line with the risk strategy, no further increase in share positions from an investment viewpoint is planned in Hypo Alpe-Adria-Bank International AG.

Change in equity price risk in Hypo Alpe-Adria-Bank International AG in 2013:

**Equity Risk – Client Default – VaR (99%, 1 day)**
EUR thousand




**Equity Risk – Investments – VaR (99%, 1 day)**
EUR thousand



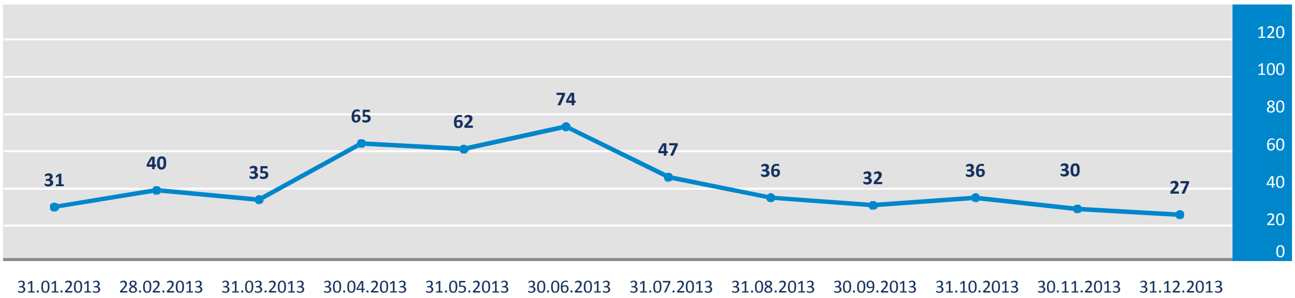

The main risk drivers of equity price risk at Hypo Alpe-Adria-Bank International AG are positions that arise from liquidating collateral related to credit risk transactions, where liquidation is not currently possible for reasons of illiquidity or because of regulations or agreements.

### 6.13.6.4. Alternative investment risk

The alternative investment risk within Hypo Alpe-Adria-Bank International AG stood at EUR 0.03 million at the end of 2013 with a one-day value at risk and 99% confidence level (value at risk as at 31 December 2012 EUR 0.04 million). In line with the current risk strategy, the alternative investments book contains a wind-down portfolio – there are sales orders already in place for all investments in the alternative investments book of Hypo Alpe-Adria-Bank International AG.

Change in the alternative investment risk of Hypo Alpe-Adria-Bank International AG in 2013:

**Alternative Investment Risk – VaR (99%, 1 day)**
EUR thousand

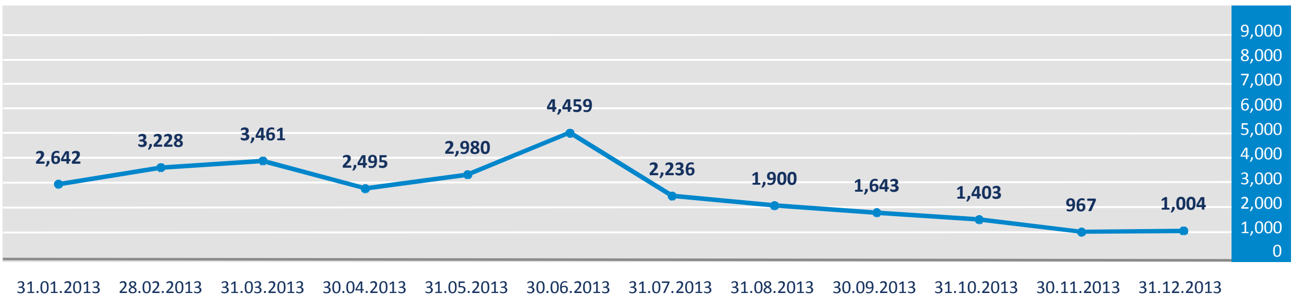



### 6.13.6.5. Credit spread risk

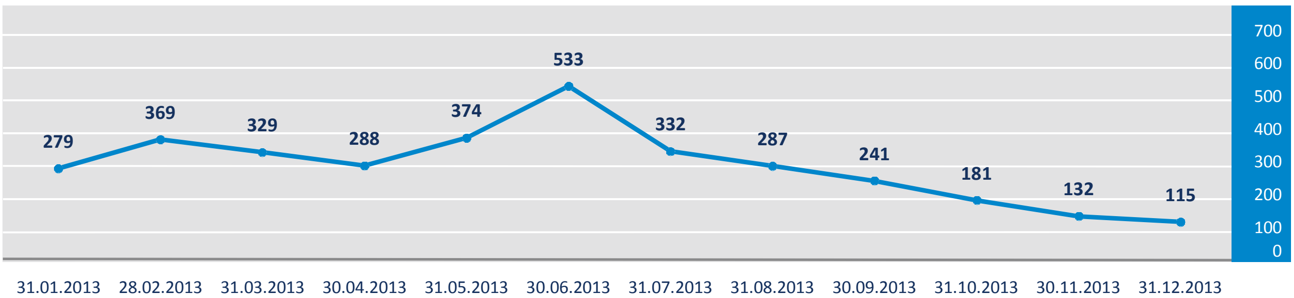
The liquid credit spread risk within Hypo Alpe-Adria-Bank International AG stood at EUR 1.00 million at year-end 2013 with a 1-day value at risk and 99% confidence level (value at risk as at 31 December 2012 EUR 3.19 million) – the illiquid credit spread risk stood at EUR 0.12 million at year-end 2013 (value at risk as at 31 December 2012 EUR 0.33 million). This makes credit spread risk the main market risk driver at Hypo Alpe-Adria-Bank International AG. The greatest influencing factor is the liquidity reserves held in the form of securities. Consequently, there is very limited scope for reducing risk from these positions.

Change in credit spread risk in Hypo Alpe-Adria-Bank International AG in 2013:

**Credit Spread Risk (liquid) – VaR (99%, 1 day)**
EUR thousand



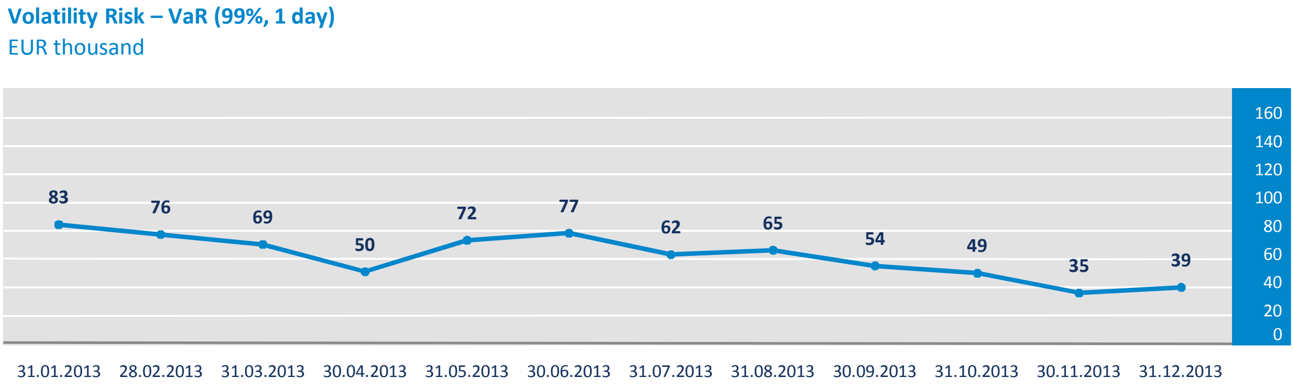

**Credit Spread Risk (illiquid) – VaR (99 %, 1 day)**
EUR thousand




### 6.13.6.6. Volatility risk

The volatility risk for Hypo Alpe-Adria-Bank International AG stood at EUR 0.04 million at year-end 2013 with a 1-day value at risk and 99% confidence level (value at risk as at 31 December 2012 EUR 0.07 million). Volatility risk is defined within Hypo Alpe-Adria-Bank International AG as the risk of changes in the present value of open option positions held by the treasury unit caused by a change in implicit volatility.

Change in volatility risk in Hypo Alpe-Adria-Bank International AG in 2013:




## 6.14. Liquidity risk

### 6.14.1. Definition

Hypo Alpe-Adria-Bank International AG defines liquidity risk as the risk of not being able to meet due payment obligations in full or on time, or – in the event of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at a discount to market prices.

### 6.14.2. General requirements

The strategic principles of handling liquidity risks at Hypo Alpe-Adria-Bank International AG are defined in the risk strategy. The overriding objective of liquidity risk management and controlling is to ensure that the bank maintains its capacity to make payments and undertake refinancing activities at any time. The content-related and organisational conditions for the management and controlling of liquidity risks are governed by the liquidity manual.

Liquidity steering and management at group level are the responsibility of the Group Balance Sheet Management & Treasury division of Hypo Alpe-Adria-Bank International AG. It is here that the steering of situational and structural liquidity, and the coordination of funding potential at group level, takes place. Liquidity risk controlling is the responsibility of the Group Market Risk Control division of Hypo Alpe-Adria-Bank International AG. It is here that risk measurement and mitigation as well as timely and consistent reporting are carried out.

Hypo Alpe-Adria-Bank International AG has in place emergency liquidity planning that has been set out in writing. It sets out the processes, and control or hedging instruments which are required to avert imminent crises or tackle acute crises. In the event of a liquidity crisis, the top priorities of the bank are to rigorously maintain the ability to pay and to prevent damage to the bank's reputation.

### 6.14.3. Risk measurement

The main methodological tool for measuring, analysing, monitoring and reporting on liquidity risk within Hypo Alpe-Adria-Bank International AG is the liquidity overview. It is used to compare liquidity gaps resulting from deterministic and modelled future payment flows and the realisable liquidity coverage potential in strictly defined maturity bands.

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

- Free access to central bank and interbank funds
- ECB-eligible securities
- Issue potential in the cover register
- Senior bond issues
- Subsidised loans
- Securitisation potential

In addition to the normal scenario, other scenario analyses conducted under stress conditions, such as name crises (rating deterioration, reputation risks) as well as market crises (restrictive funding options on capital markets, increased cash flow outflow as well as transfer limits), supplement the risk-measurement spectrum.

On the basis of the liquidity overviews, key indicators are determined for the different scenarios, which allow a compact assessment of the liquidity situation.

For the purpose of limiting structural liquidity, present value losses in the event of an increase in the funding spread caused by a rating deterioration in the calculation of risk bearing capacity are set against the economic equity. In addition, an internal NSFR limit restricts the structural liquidity risk.

### 6.14.4. Risk controlling

A bundle of different liquidity reserves ensures that Hypo Alpe-Adria-Bank International AG maintains its ability to pay, even during crisis situations. They are subjected to different stresses in order to maintain an overview of available liquidity resources through the respective units even during crisis situations.

Moreover, the bank holds its own liquidity buffer for stress situations, composed of ECB-eligible securities and securities that can be quickly liquidated.

A cash flow statement composed of deterministic, stochastic and forecast data forms the basis of liquidity control. Short-term forecast data is elicited directly from client transactions by the sales units for the purposes of short-term controlling, while planned budget information is used for medium-term controlling.

Any occurring gaps are compared to the liquidity potential – a well-diversified bundle of liquidity reserves available for liquidity management. The liquidity reserves are subjected to a regular review and stresses, depending on the market situation (as described above).

Besides structural controlling, care is also taken to ensure that general regulatory requirements are adhered to; this includes meeting the minimum reserve as well as first-and second-grade liquidity reserves and, from 2015, ensuring compliance with the required LCR.

There has been a change in the method of reporting liquidity potential or rather counterbalancing capacity at Hypo Alpe-Adria-Bank International AG since the prior year – total liquidity potential as at 31 December 2012 stood at EUR 822 million.

In 2013, counterbalancing capacity at Hypo Alpe-Adria-Bank International AG was structured as follows:

EUR thousandd

| Liquidity Buffer | Primary Liquidity |
|---|---|
| High Quality Securities (incl. Credit Claims) | 1,112,218 |
| Central Bank Reserves | 1,860,513 |
| Cash | 0 |
| **Counterbalancing Measures** | **Primary Liquidity** |
| Other liquifiable Assets (short-, medium term) | 97,496 |
| Intragroup Liquidity Support | 0 |
| Committed/Required Credit Lines | 0 |
| New Issuance | 0 |
| Securitization | 0 |
| Covered Pool Potential | 0 |
| **Total Liquidity Potential** | **3,070,227** |

### 6.14.5. Risk monitoring

The monitoring of liquidity risk is carried out, on the one hand, on the basis of the liquidity ratio and “time-to-wall” key indicators under normal and stress conditions and on the other hand through the integration of the structural liquidity risk into the bank’s overall controlling.

Limits for short-term liquidity as well as for the limitation of long-term structural liquidity have been set and are monitored constantly.

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

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

### 6.14.6. Overview – liquidity situation

Overall, the liquidity situation of Hypo Alpe Adria International AG in 2013 was characterised by over-liquidity. At no time was it necessary to access liquidity reserves; instead, all liabilities were met using current cash flows. Capital market activities were therefore not necessary in 2013.

In 2013, capital measures totalling EUR 1.75 billion were carried out by the owner, the Republic of Austria. Through repayments on subsidiaries' lines of credit and capital measures, the liquidity position at year-end 2013 came to around EUR 2 billion. For 2014, an adequate liquidity position can also be expected on the basis of the anticipated inflows and outflows (excluding repayments on Bayern LB/Austrian law on equity substitution (EKEG) credit of around EUR 2.3 billion).

Below is a listing of due dates for the financial liabilities of Hypo Alpe Adria International AG, based on the following conservative assumptions:

- Current accounts, call money and cash collaterals are due on the next working day;
- Dead stock cash flows (primary funds) are excluded (only legal due date is decisive) and are also set as due on the next working day;
- Equity components, accruals, impairment write-downs and positions not relevant to liquidity are not represented;
- EKEG-relevant liabilities to Bayern LB (EUR 2.3 billion) are included and reported in the shortest maturity band.

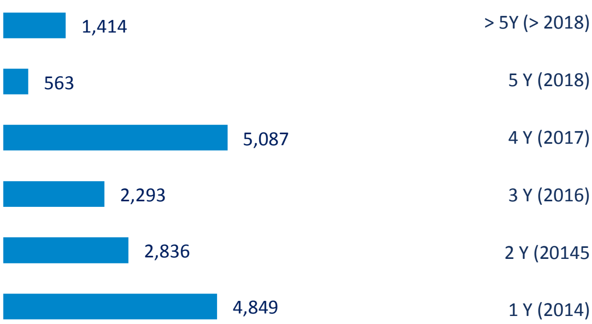
On 3 April 2014, the ECB Governing Council decided to suspend Hypo Alpe-Adria-Bank International AG from its monetary refinancing transactions and the ECB's refinancing facilities. The ECB Governing Council referred to the breaching of regulatory capital requirements as the reason for the move. Hypo Alpe-Adria-Bank International AG does not currently use any of the ECB's refinancing facilities, so this is not expected to have any negative effect on the bank's liquidity situation.

EUR m

| As at 31 December 2013 | 1 Y – 2014 | 2 Y – 2015 | 3 Y – 2016 | 4 Y – 2017 | 5 Y – 2018 | > 5 Y (>2018) | Total |
|---|---|---|---|---|---|---|---|
| **Financial liabilities*** | | | | | | | |
| Liabilities to credit institutions | 3,215 | 144 | 200 | 200 | 0 | 0 | 3,759 |
| Liabilities to customers | 105 | 235 | 209 | 705 | 190 | 84 | 1,527 |
| Debt evidence by certificates | 1,426 | 2,433 | 1,719 | 3,546 | 363 | 246 | 9,733 |
| Other debt | 81 | 0 | 0 | 0 | 0 | 0 | 81 |
| Subordinated capital and hybrid capital | 23 | 24 | 165 | 636 | 10 | 1,084 | 1,942 |
| **Total** | **4,849** | **2,836** | **2,293** | **5,087** | **563** | **1,414** | **17,042** |

* relevant to liquidity.

**Maturities of financial liabilities**
as of 31 December 2013 in EUR m




At 31 December 2012, liabilities relevant to liquidity at Hypo Alpe-Adria-Bank International AG came to EUR 19.37 billion.

As the graph shows, the main due dates for issues and refinancing stretch out to 2017, in addition to the conservative modelling of liabilities in the first maturity band. This is taken account of in the funding planning, with particular care directed at broadening the liquidity resources and defining measures and a framework for ensuring the financing base for Hypo Alpe-Adria-Bank International AG's business activities.

The due date analysis for derivatives covers interest rate swaps, cross currency swaps and FX swaps and is divided into portfolios relevant for steering:

- Banking book: Hedge transactions on the asset side of the balance sheet (e.g. fixed rate bonds)
- Market Risk Steering ALM: Hedge transactions to steer the interest rate gap profile
- Market Risk Steering B2B: Back-to-back transactions by Hypo Alpe-Adria-Bank International AG on the basis of the hedge requirement of individual subsidiaries
- Market Risk Steering FVO: Hedge transactions under the Fair Value Option
- Market Risk Steering FX: Derivatives to hedge foreign exchange risks and to manage liquidity in foreign currencies
- Market Risk Steering HA: Hedge transactions in the course of hedge accounting.

EUR m

| As at 31 December 2013 | 1 Y – 2014 | 2 Y – 2015 | 3 Y – 2016 | 4 Y – 2017 | 5 Y – 2018 | > 5 Y (>2018) | Total |
|---|---|---|---|---|---|---|---|
| **Net cash flow from derivatives** | | | | | | | |
| Banking book | -31 | -30 | -22 | -11 | -8 | -12 | -114 |
| Market Risk Steering ALM | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Market Risk Steering B2B | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Market Risk Steering FVO | 20 | 20 | 18 | 14 | -1 | -19 | 52 |
| Market Risk Steering FX | 2 | -191 | 4 | -33 | -36 | 0 | -254 |
| Market Risk Steering HA | 226 | 202 | 144 | 98 | -2 | -72 | 597 |
| **Total** | **217** | **2** | **144** | **67** | **-46** | **-102** | **282** |

The majority of the derivatives are used for hedge transactions; the net cash flow is therefore diametrically opposed to the cash flows from the underlying transactions. At 31 December 2012, cash flows from derivatives relevant to liquidity at Hypo Alpe-Adria-Bank International AG came to EUR 782 million.

## 6.15. Operational risk

Hypo Alpe-Adria-Bank International AG defines operational risk ("OpRisk") as the risk of incurring losses due to the inappropriateness or failure of internal processes, systems, people or external factors. This definition includes legal risks as well as risks to reputation, but not strategic risks.

The aim of operational risk management at Hypo Alpe-Adria-Bank International AG is the use of a "proactive approach" (risk management) instead of a "reactive approach" (managing losses). Consolidated subsidiaries must implement operational risk on the basis of the Basel II standard approach ("STA") as part of the project agreements. Operational risks are identified and evaluated so that suitable measures for the prevention, reduction, transfer or acceptance of risks, including priorities for the implementation of safety and protection measures, can be defined.

For this reason, all banking and leasing subsidiaries, as well as any other subsidiaries included in the consolidated group, are taken account of in every aspect of operational risk management.

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

The OpRisk responsibility of sub-organisations of the subsidiaries is the responsibility of the subsidiary concerned.

In order to ensure that synergy effects are achieved, arrangements have been made with Group Legal Services that the operational risk management software ("Inform") will also include legal cases, including those which are not associated with OpRisk. The advantage of this approach is that it enables the creation of a common platform for the exchange of information between the different areas.

The strategy for operational risk is supported by different instruments and methods. In principle, these methods are used to identify and evaluate risks. Measures to limit damages must be planned on the basis of the results.

The operational risk management software is the platform for implementing the relevant instruments at Hypo Alpe-Adria-Bank International AG.
The following methods are used to support the strategy:

- Loss database for the systematic data capture of operational risks throughout the organisation
- Qualitative instruments such as scenario analyses and risk inventories to determine and evaluate the risks within business processes
- Regular reports as an instrument for communicating significant operational risks to the Executive Board

The current threshold for the reporting of losses within Hypo Alpe-Adria-Bank International AG has been set at EUR 5,000. All losses, from 1 January 2006 onwards, must be recorded.

**OpRisk 2013 milestones and results:**
The focus of OpRisk in 2013 was the analysis of activities carried out in previous years concerning the precise development of risk avoidance measures. In cooperation with process management, weaknesses and potential for improvement are identified, processes are adapted and employees trained.

In 2013, efforts were centred on raising awareness. A group-wide e-learning concept was rolled out in September. The response from this concept will be used for the precision management of local training courses.

In the second quarter of 2013, a significant OpRisk case was determined in Italy. A task force has been created to deal with these cases and, from an internal control system (ICS) perspective, the insufficient processes are identified, responsibilities are determined and weaknesses are eliminated.

Another focus was on training local Operational Risk Officers, who are assigned to functions. They were provided with local training, in cooperation with local risk managers.

The flow of information to management was intensified further. A committee dealing with issues is set up quarterly and meets regularly. Any unresolved issues are discussed with those in charge, with the results presented to management. These committees – both at country- and group-level – meet quarterly; country-level committees send status reports to the group. Results are discussed in workshops and the information is shared with the relevant departments (Audit, Compliance, ICS, etc.).

In 2014, another focus will be on establishing a sustainable ICS and OpRisk in wind-down units.

## 6.16. Object risk

At Hypo Alpe-Adria-Bank International AG, object risk covers all possible losses that may arise from fluctuations in the market values of movable equipment and real estate held by Hypo Alpe-Adria-Bank International AG. Real estate risks arising from collateral for mortgages (residual risk) are not taken into account, as these are already covered by credit risk.

Hypo Alpe-Adria-Bank International AG aims to reduce object risk exposures by proactively selling the assets in question in a timely manner. The market and/or carrying amounts of the assets in question serve as the basis for the measurement of object risk.

Capital requirements are calculated using the standardised approach. This states that the market value is multiplied by a risk weighting of 100% and then by a weighting factor. This factor was raised from the regulatory level of 8% to 10% in 2013 to make the regulatory level more conservative.

### 6.17. Other risks

Hypo Alpe-Adria-Bank International AG considers the following risk types as “Other risks”:

- Strategic risk
- Capital risk
- Reputation risk
- Business risk

In the calculation of risk bearing capacity, 3% of the risk capital required – as stated in the risk strategy (for all other risk types) – is held as a buffer for “Other risks”.

## 7. Internal control system (ICS)

Hypo Alpe Adria has an internal control system (ICS) for accounting procedures in which appropriate structures and procedures are defined and implemented.

Hypo Alpe Adria's ICS is based on the COSO framework (Committee of the Sponsoring Organisations of the Treadway Commission), although the Executive Board has independently determined the scope and direction of the ICS on the basis of the specific requirements of the organisation.

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

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

The particular objectives with regard to the group accounting procedures are that the ICS ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. It ensures that accounting procedures and standards regulated in the group IFRS handbook and the internal group policy on IFRS and accounting reporting in accordance with the Austrian Commercial Code (UGB) and the Austrian Banking Act (BWG), which are mandatory for all companies consolidated in the group financial statements, are upheld. The aforementioned group policy specifies the organisation and process of financial reporting as regards accounting procedures.
The ICS is based on:

- The complete documentation of all relevant processes in group accounting and reporting
- Work instructions and documentation on individual workflows
- The complete presentation of all relevant risks and their respective control mechanisms as part of process documentation
- Independently operating control mechanisms and measures in the formal organisational structure and workflow management (programmed controls in the IT system)
- Observance of the principles of separation of functions and dual control
- Internal auditing – as a separate organisational unit – which is concerned with monitoring all group business areas

The internal auditing department periodically assesses the reliability, propriety and lawfulness of the accounting process and the financial reporting. The last regular audit was conducted in 2012.

- Assessment of the appropriateness of the organisational structure and workflow management at the level of the individual institution HBInt. and at HAA group level in accordance with section 39 para 2 of the BWG
- Assessment of the adequacy of the internal control system
- Assessment of generally accepted accounting principles

In this way, the internal control system of Hypo Alpe-Adria-Bank International AG ensures that:

- The chart of accounts and structure of financial reporting conforms to national and international standards and to the requirements of Hypo Alpe-Adria-Bank International AG
- The business activities of Hypo Alpe-Adria-Bank International AG are correctly and appropriately documented and reported
- All relevant records are systematically submitted in a traceable manner
- All data required for financial reporting is documented in a traceable manner
- The accounting processes prevent the assets of Hypo-Alpe-Adria Bank International AG from being used, sold or acquired without the appropriate approval
- All subsidiaries and group units involved in producing financial reports are capable of fulfilling this function in terms of both levels of training and staff capacity
- Responsibilities related to the group accounting processes are clearly and unambiguously regulated
- Access to the IT systems which are crucial to the accounting process (VB91, Lotus Notes financial accounting database, SAP) is restricted in order to avoid misuse

- All relevant legal provisions, particularly those of the Austrian Banking Act, are adhered to

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

The Group subsidiaries draw up their accounts at a local level on the basis of local accounting regulations and transmit their data - stated in conformity with the rest of the Group in accordance with IFRS - using a standard, Group-wide reporting tool (package). They are responsible for complying with the Group policies valid throughout the Group and for the proper and timely execution of the processes and systems related to accounting. Throughout the financial reporting process the local subsidiaries are supported by central points of contact in Group Accounting & Reporting.

The management of the subsidiaries is responsible for implementing and supervising the local ICS and confirms compliance with it on every quarterly reporting date.

The data transmitted by the subsidiaries are reviewed for plausibility in Group Accounting & Reporting and entered in the consolidation software Cognos Controller. The consolidation steps (which include consolidation of expenses and earnings, consolidation of capital and consolidation of debt) are carried out directly in the system, followed by the elimination of any intra-group profits through group accounting. This process includes the related coordination work, the supervision of required timeframes, processes and contents and the performance of system controls and manual reviews. The notes to the consolidated financial statements are then prepared together with the group management report on the reporting dates 30 June and 31 December.

Throughout the year, internal financial reporting is produced on a consolidated basis by Group Accounting & Reporting and submitted to the Executive and Supervisory Boards on a quarterly basis. Financial reports by Group Financial Controlling are produced once a month. Detailed reports and analyses, as well as periodic target/actual comparisons and forecasts, are also produced. The budgeting process includes producing a business plan (at group level) that covers a five-year period.

In accordance with the Stock Exchange Act, an interim financial report on the first six months is produced; this report conforms to the requirements of IAS 34.

### 7.1. ICS-related activities in the 2013 financial year

Developments seen in the previous years were also continued consistently in 2013 – particularly with regard to ICS-relevant interfaces with compliance, the credit process and its sub-processes (e.g. processes for the creation/adjustment/reversal of impairments).

In addition, the process of interest adjustments within the Group was documented and critically reviewed. Unanswered points were highlighted and worked through on the basis of a catalogue of measures.

At Hypo Alpe-Adria-Bank International AG level, reporting- and treasury-relevant processes were subjected to a routine trial run. In the context of the ongoing restructuring, changes were made to the financial accounting-relevant processes of Group Balance Sheet Management & Treasury, which are currently being mapped. Other necessary adjustments have already been incorporated into the systems. Test scenarios were developed and carried out jointly with the process owners.

The IT programme necessary for the tests was implemented, and the persons responsible for the ICS were trained in how to use it.

A group-wide e-learning tool was established that addresses the content of the ICS in combination with the topic of operational risk in order to create additional awareness. Various events and training courses were held throughout the year for the Executive Board members, management staff and employees.

### 7.2. Activities planned for the 2014 financial year

ICS and operational risk management continue to be major topics in 2014. A project will ensure and further improve the sustainability of both systems for 2014 as well. The integration of ICS with the Operational Risk Department will continue so as to be able to exploit the possible synergies from both areas of activity in the best possible way and to create an optimal structure in order to avoid potential losses.

## 8. Research and development

Hypo Alpe-Adria-Bank International AG does not conduct any R&D activities of its own.

## 9. Events after the balance sheet date

Alexander Picker was appointed as new Chairman of the Executive Board of Hypo Alpe-Adria-Bank International AG at the end of 2013 following a public tender procedure. Alexander Picker assumed this position with effect from 1 January 2014. Chief Risk Officer (CRO) Wolfgang Edelmüller announced on 10 January 2014 than he would resign as member of the Executive Board of Hypo Alpe-Adria-Bank International AG as at 28 February 2014. Chairman of the Executive Board Alexander Picker succeeded Wolgang Edelmüller as CRO on an interim basis. A new appointment to the position of CRO has not yet been announced.

Ludwig Scharinger left the Supervisory Board on 4 February 2014. Klaus Liebscher resigned as Chairman of the Supervisory Board as at 21 February 2014. In March 2014, Finance Minister Michael Spindelegger publically announced that an internationally renowned and experienced banking expert will assume the position of Chairman of the Supervisory Board. An appointment is expected in the second quarter of 2014.

Ongoing discussions regarding potential insolvency scenarios and subsequent uncertainty regarding the bank's going concern at the beginning of the 2014 financial year prompted Moody's to downgrade its guaranteed debt rating 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. In a separate rating action on 24 February 2014, the rating for Guaranteed Public-Sector Covered Bonds was changed from AAA to Aa2 with a review for downgrade and the rating for Unguaranteed Public-Sector Covered Bonds was lowered from Aa2 to A3 with a 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". The rating adjustment was in keeping the prior rating adjustment for the Republic of Austria.

In order to avoid negative implications from the potential insolvency of a debtor, a group company of Hypo Alpe Adria acquired the majority share of a Slovenian project company in March 2014, which is about to complete a business and residential complex in Laibach (Slovenia). The company will included in the scope of consolidation according to IFRS for the first time as at 31 March 2014.

On 18 March 2014, the Austria Federal Government resolved, on request of the Federal Minister of Finance, to implement the recommendations made by the Task Force and establish Hypo Alpe-Adria-Bank International AG as a deregulated, private wind-down company without any general state guarantees by September 2014.

As part of the Supervisory Board meeting where the auditor was present, it was determined that to finalise the financial statements according to UGB/BWG (separate financial statement) as at 31 December 2013, additional impairments would be required. As a result of the recognition of these impairments, the capital ratios are well below the regulatory minimum requirement, which ultimately led to violations of large exposure limits. The bank immediately fulfilled its obligations to inform the regulatory authorities, informing them and the owner of the violation of regulatory limits.

On 4 April 2014 the bank was informed by the Oesterreichische Nationalbank (OeNB) regarding a resolution of the Governing Council of 3 April 2014, in which the ECB excluded Hypo Alpe-Adria-Bank International AG from participating in refinancing transactions with the ECB and from using its marginal lending facility until further notice. Until further notice, the bank may not use its senior unsecured bonds as collateral for financial operations. In an ad hoc announcement of 4 April 2014, the bank communicated this and informed the public that it currently does not utilise any such refinancing facilities provided by the ECB and that no major repercussions are to be expected on the bank's liquidity situation. This measure also applies to the Austrian parent company, but not to local subsidiaries in other countries. The Governing Council of the ECB cited the fact that the bank again reported that it had fallen short of regulatory capital requirements as its reason for issuing this measure.

The bank's shareholder, the Republic of Austria, resolved a capital increase of EUR 750.0 million at the general shareholders' meeting held on 9 April 2014. The payment was made on 11 April; it is currently being entered into the commercial register and is expected to be completed in April.

## 10. Forecast report

The forecast for the year 2014 is also based on the framework defined by the decision of the European Commission and the course set by the owner towards the establishment of an independent wind-down unit.

At the turn of the year 2013/2014, the process of privatising the South-east Europe (SEE) network, which was launched in May 2012, entered a stage that makes the closing of the sale of the network to strategic financial investors appear realistic in the course of the financial year – and comfortably before the mid-2015 deadline set by the European Commission. This process involves finally clearing out the portfolios of the SEE banks by transferring non-performing loans to wind-down units in order to further reduce risk and further optimise the loan-to-deposit ratio. At the same time, a holding and management company will be developed for the SEE network in 2014 which will act as a regulated holding company for these bank holdings.

For 2014 as well, it is not yet clear whether the economies in the countries of the Balkans will generate any positive momentum that may provide significant support for this commercial capacity. For the current financial year we generally expect GDP in the SEE countries to move sideways, with inflation slowing down and unemployment figures stabilising. On the basis of these conditions, we expect a slightly positive result for the SEE network in 2014, supported by factors that include selective conclusion of new business with low risk and optimised earnings (risk-adjusted pricing) and further targeted cost reduction measures. Given this overall situation, it cannot be ruled out that the proceeds from a sale will ultimately be lower than the current carrying amount despite significant restructuring and resolution measures.

If reprivatisation of the SEE network should succeed as early as 2014, it can be assumed that the book value of the equity of these banks totalling EUR 1.3 billion cannot be recovered on the market. Such losses are to be recognised if corresponding sales contracts are signed or a short-term disposal of the investment can be conducted according to the conditions set out in IFRS 5 (“assets classified as held for sale”).

With respect to the activities in Italy, where Hypo Alpe Adria is represented with a bank and a leasing company, we expect a very difficult market environment in 2014 as well, even if current forecasts for the Italian economy predict growth rates of 0.5% to 1.0%. The real estate market in particular, which is of special relevance to both institutions because of the high volume of loans extended, recently exhibited an ongoing very weak performance and is not expected to see a sustainable recovery in 2014 either. Against this background, both companies are expected to incur a loss in 2014 and 2015, which has already been accounted for in the valuation in the forecast amount.

With respect to the largest portion of the portfolio of Hypo Alpe Adria, the winding-down activities, the sales are to continue to proceed at a fast pace in 2014, ranging from realisations of individual loan collateral to already initiated processes of selling subsidiaries. In accordance with the planning, this portfolio is to be reduced substantially over the coming years.

From today's perspective, however, this reduction will be associated with losses because the current income generated from the portfolio will not be sufficient to cover the costs incurred. For this reason we expect negative total income in any case for Hypo Alpe Adria in 2014 under the restructuring plan approved by the European Commission.

The definitive amount will crucially depend on the decisions to be taken and implemented throughout the year with regard to creating a legally independent deregulated wind-down unit for the liquidation and realisation of the operating units not slated for privatisation – which will not require a banking licence anymore and thus will not be subject to prescribed regulatory minimum requirements. An intensive discussion is currently underway as to the specific design of the restructuring unit. The result of this decision-making process, which is the ultimate responsibility of the owner, and the exact impacts of such a fundamental restructuring on the central income parameters of the company cannot reliably be presented until the deliberations have been concluded.

The installation of this unit for around two thirds of the total assets of Hypo Alpe Adria in the form of a corporation is planned – depending on the legal basis to be created, among other factors – for the end of the third quarter of 2014, which was partly anticipated already in the equity amount of EUR 0.75 billion provided in April 2014.

# FINANCIAL STATEMENTS (UGB/BWG)

## Balance Sheet as at 31 December 2013

| | | | | 31.12.2013 EUR | 31.12.2012 EUR thousand |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| 1. | Cash in hand, balances with other banks | | | 1,559,802,729.21 | 2,115,684 |
| 2. | Treasury bills and other bills eligible for refinancing with central banks | | | | |
| | a) Treasury bills and other similar securities | | 526,062,802.43 | | 424,978 |
| | b) Bills for refinancing with central banks | | 0.00 | | |
| | | | | 526,062,802.43 | 424,978 |
| 3. | Loans and advances to credit institutions | | | | |
| | a) Repayable on demand | | 1,152,637,898.52 | | 407,791 |
| | b) Other loans and advances | | 3,098,031,365.61 | | 4,057,375 |
| | | | | 4,250,669,264.13 | 4,465,166 |
| 4. | Loans and advances to customers | | | 8,971,210,401.50 | 10,431,922 |
| 5. | Bonds and other fixed income securities | | | | |
| | a) Issued by the public sector | | 59,794,748.57 | | 61,861 |
| | b) Issued by others | | 675,946,552.17 | | 561,757 |
| | of which own debt securities | EUR 3,230,694.57 | | 735,741,300.74 | 623,618 |
| | | (prior year: EUR 34,333 thousand) | | | |
| 6. | Shares and other non-fixed income securities | | | 9,260,726.96 | 10,298 |
| 7. | Shares in associated companies | | | 4,863,189.28 | 7,730 |
| | thereof: credit institutions | EUR 4,809,922.52 | | | |
| | | (prior year: EUR 6,957 thousand) | | | |
| 8. | Shares in affiliated companies | | | 1,176,593,817.84 | 2,464,906 |
| | thereof: credit institutions | EUR 612,564,270.08 | | | |
| | | (prior year: EUR 1,805,101 thousand) | | | |
| 9. | Intangible fixed assets | | | 7,081,248.30 | 3,279 |
| 10. | Tangible fixed assets | | | 6,064,694.46 | 6,793 |
| | thereof: | | | | |
| | Land and buildings used by the company for its own activities | EUR 3,681,823.73 | | | |
| | | (prior year: EUR 4,811 thousand) | | | |
| 11. | Own shares or interests and interests in controlling or majority holding companies | | | 0.00 | 0 |
| | thereof: | | | | |
| | nominal value | EUR 0.00 | | | |
| 12. | Other assets | | | 324,316,236.03 | 482,244 |
| 13. | Drawn capital, which is not called in, but yet deposited | | | 0.00 | 0 |
| 14. | Deferred assets | | | 15,630,728.00 | 21,211 |
| | **Total assets** | | | **17,587,297,138.88** | **21,057,829** |
| | **Below-the-line memo items** | | | | |
| 1. | Foreign assets | | | 12,252,915,683.38 | 16,659,097 |

| | | 31.12.2013 EUR | 31.12.2012 EUR thousand |
|---|---|---|---|
| **Equity and Liabilities** | | | |
| 1. Liabilities to credit institutions | | | |
| a) Repayable on demand | 2,783,706,646.33 | | 1,116,217 |
| b) With agreed maturities or periods of notice | 1,004,622,569.69 | | 2,788,367 |
| | | 3,788,329,216.02 | 3,904,584 |
| 2. Liabilities to customers | | | |
| a) Savings deposits, thereof: | | | |
| aa) Repayable on demand | 29,008.42 | | |
| bb) With agreed maturities or periods of notice | 10.60 | 29,019.02 | 54 |
| b) Other liabilities, thereof: | | | |
| aa) Repayable on demand | 81,344,491.19 | | 38,845 |
| bb) With agreed maturities or periods of notice | 1,548,905,135.75 | | 1,641,849 |
| | | 1,630,249,626.94 | 1,680,694 |
| 3. Debt evidenced by certificates | | | |
| a) Bonds issued | | 9,759,828,140.30 | 11,974,285 |
| b) Other debt evidenced by certificates | | 0.00 | 0 |
| 4. Other liabilities | | 125,054,229.81 | 130,682 |
| 5. Deferred assets | | 34,978,210.79 | 45,262 |
| 6. Provisions | | | |
| a) Provisions for severance payments | 3,261,446.99 | | 3,188 |
| b) Provisions for pensions | 5,981,128.00 | | 6,204 |
| c) Tax provisions | 0.00 | | 0 |
| d) Other | 174,160,694.99 | | 97,779 |
| | | 183,403,269.98 | 107,171 |
| 7.A Funds for general banking risks | | 0.00 | 153,000 |
| 8. Subordinated liabilities | | 1,903,072,982.72 | 1,902,163 |
| 9. Supplementary capital | | –0.00 | 0 |
| 10. Issued capital | | 2,808,636,987.15 | 1,308,637 |
| 11. Appropriated paid-in capital | | 250,000,002.22 | 0 |
| a) Fixed reserves | 2.22 | | |
| b) Non fixed reserves | 250,000,000.00 | | |
| 12. Revenue reserves | | 0.00 | 0 |
| a) Legal reserves | 0.00 | | |
| b) statutory reserves | 0.00 | | |
| c) Other reserves | 0.00 | | |
| 13. Liability reserves under section 23 (6) BWG | | 247,165,247.42 | 247,165 |
| 14. Net accumulated losses | | –3,143,449,793.49 | –395,868.10 |
| 15. Tax-free reserves | | | |
| a) Valuation reserves due to unscheduled depreciation | | 0.00 | 0 |
| b) Other tax-free reserves | | 0.00 | 0 |
| thereof: | | | |
| aa) Investment reserve pursuant to sec. 9 EStG 1988 | 0.00 | | |
| bb) Investment allowance pursuant to sec. 10 EStG 1988 | 0.00 | | |
| cc) Rent reserve pursuant to sec.11 EStG 1988 | 0.00 | | |
| dd) Transfer reserve pursuant to sec. 12 EStG 1988 | 0.00 | | |
| **Total equity and liabilities** | | **17,587,297,138.88** | **21,057,829** |

| | | | 31.12.2013 EUR | 31.12.2012 EUR thousand |
|---|---|---|---|---|
| | **Below-the-line memo items** | | | |
| 1. | Contingent liabilities | | 238,616,484.15 | 313,375 |
| | thereof: | | | |
| | a) Acceptances and endorsements | 0.00 | | 0 |
| | b) Guarantees and other collateral securities | 238,616,484.15 | | 313,375 |
| | (prior year: EUR 313,375 thousand) | | | |
| 2. | Loan exposures | | 734,293,134.50 | 929,726 |
| | thereof: Commitments arising from repurchase transactions | | | |
| 3. | Commitments arising from fiduciary transactions | | 54,059,056.63 | 39,264 |
| 4. | Eligible capital under section 23 (14) | | 263,475,645.39 | 1,967,017 |
| | thereof: capital under section 23 (14) (7) | 0.00 | | |
| | (prior year: EUR 9,494 thousand) | | | |
| 5. | Capital reserve requirements under section 22 (1= | | 990,836,802.37 | 1,314,781 |
| | thereof: capital under section 22 (1) (1) and (4) | 963,459,308.10 | | |
| | (prior year: EUR 1,275,909 thousand) | | | |
| 6. | Foreign liabilities | | 5,194,120,185.19 | 5,316,418 |
| 7. | Hybrid capital pursuant to section 24 (2) (5) and (6) | | 0.00 | 0 |

# Income statement for the period 1 January to 31 December 2013

| | | | | | | 31.12.2013 EUR | 31.12.2012 EUR thousand |
|---|---|---|---|---|---|---|---|
| 1. | Interest and similar income | | | | | 750,325,839.31 | 965,339 |
| | thereof: fixed-interest securities EUR 38,984,559.51 (prior year: EUR 51,056 thousand) | | | | | | |
| 2. | Interest and similar expenses | | | | | –727,332,616.71 | –891,376 |
| **I.** | **NET INTEREST INCOME** | | | | | **22,993,222.60** | **73,963** |
| 3. | Income from equity interests and investments | | | | | | |
| | | | Shares, other equity interests and non-interest-bearing | | | | |
| | a) | | Securities | | 21,286.85 | | 83 |
| | b) | | Associated companies | | 37,494.72 | | 3 |
| | c) | | Affiliated companies | | 7,368,026.88 | | 95,456 |
| | | | | | | 7,426,808.45 | 95,542 |
| 4. | Fee and commission income | | | | | 8,985,367.66 | 13,033 |
| 5. | Fee and commission expenses | | | | | –80,413,422.90 | –30,564 |
| 6. | Net income from trading activities | | | | | –1,964,674.83 | 11,237 |
| 7. | Other operating income | | | | | 18,512,036.63 | 27,534 |
| **II.** | **OPERATING INCOME** | | | | | **–24,460,662.39** | **190,745** |
| 8. | General administrative expenses | | | | | | |
| | a) | | Personnel expenses: thereof | | | | |
| | | aa) | Wages and salaries | –42,399,200.30 | | | –38,491 |
| | | | Costs of statutory social security contributions and | | | | |
| | | bb) | other pay-related contributions | –10,091,721.36 | | | –10,500 |
| | | cc) | Other social welfare contributions | –804,175.24 | | | –775 |
| | | | Expenses for pensions and other retirement | | | | |
| | | dd) | benefits | –990,510.56 | | | –958 |
| | | ee) | Pension provision allocations | –316,793.00 | | | –911 |
| | | | Expenses for severance payments and | | | | |
| | | ff) | contributions to employee severance funds | –1,157,729.79 | | | –2,043 |
| | | | | | –55,760,130.25 | | –53,678 |
| | b) | | Other administrative expenses (operating expenses) | | –49,750,075.78 | | –49,233 |
| | | | | | | –105,510,206.03 | –102,911 |
| 9. | Depreciation and amortisation of fixed assets (balance sheet items 9 and 10) | | | | | –5,369,205.59 | –1,087 |
| 10. | Other operating expenses | | | | | –31,080,623.81 | –19,500 |
| **III.** | **OPERATING EXPENSES** | | | | | **–141,960,035.43** | **–123,498** |
| | thereof: overheads (EUR 141,950,035.43) (prior year: EUR 123,498 thousand) | | | | | | |

| | | | 31.12.2013 EUR | 31.12.2012 EUR thousand |
|---|---|---|---|---|
| **IV.** | **OPERATING PROFIT** | | **–166,420,697.82** | **67,247** |
| 11./12. | Net gain/loss from the remeasurement and disposal of receivables, contingent liabilities, loan exposures and securities held as current assets | | –850,802,462.70 | –15,033 |
| 13./14. | Net gain/loss from the remeasurement and disposal of securities treated as financial assets and from investments in associated and affiliated companies | | –1,835,436,265.47 | –263,892 |
| **V.** | **PROFIT FROM ORDINARY ACTIVITIES** | | **–2,852,659,425.99** | **–211,678** |
| 15. | Extraordinary income | | 153,020,000.00 | 165,127 |
| | thereof: withdrawal from the fund for general banking risks | EUR 153,000,000.00 (prior year: EUR 0 thousand) | | |
| 16. | Extraordinary expenses | | –23,284,500.97 | –157,770 |
| | thereof: allocation to fund for general banking risks | EUR –0.00 (prior year: EUR 153,000 thousand) | | |
| **17.** | **Extraordinary result** | | **129,735,499.03** | **7,357** |
| 18. | Income taxes | | –3,255,560.20 | –7,695 |
| | thereof: expenses connected to the taxation agreement | (EUR 1,447,047.46) (prior year: EUR 3,881 thousand) | | |
| 19. | Other taxes not recognised under the item 18 | | –21,401,860.04 | –19,158 |
| **VI.** | **Net loss for year** | | **–2,747,581,347.20** | **–231,174** |
| 20. | Changes in reserves | | 0.00 | 0 |
| | thereof: allocation/reversal of liability reserves | EUR 0.00 (prior year: reversal EUR 0 thousand) | | |
| **21.** | **Loss carried forward** | | **–395,868,446.29** | **–164,694** |
| **VIII.** | **NET ACCUMULATED LOSSES** | | **–3,143,449,793.49** | **–395,868** |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2013

## I. BASIC ACCOUNTING PRINCIPLES

### (1) Fundamentals

The separate financial statements of Hypo Alpe-Adria-Bank International AG were prepared in accordance with the provisions of the Austrian Banking Act (BWG), as amended, and where applicable with the provisions of the Austrian Enterprise Code (UGB) and the Austrian Stock Corporation Act (AktG), both as amended.

The financial statements consist of the balance sheet, income statement and the notes. In addition, there is a management report, which is in accord with the financial statements.

The balance sheet and income statement are presented in the form prescribed in Schedule 2 to section 43 BWG. The option given in sections 53 (3) and 54 (2) BWG to combine certain items in the income statement has been exercised. Except where otherwise stated, all amounts are shown in EUR thousands. The tables may contain rounding differences.

### (2) Important events

On 3 September 2013, the European Commission presented its final report on the investigation started in May 2009 into the state aid provided to Hypo Alpe Adria. This was based on the bank's final restructuring plan, which was presented at the end of June 2013. The new business requirements must be complied with until the bank has been reprivatised. The plan provides for the reprivatisation of the South-Eastern Europe (SEE) network banks by mid-2015. The sale (closing) of Austrian subsidiary bank Hypo Alpe-Adria-Bank AG, which was originally planned for mid-2014, was completed in 2013. Furthermore, the Italian subsidiary bank was required to cease its lending business in 2013 and will therefore be wound down. The European Commission has commissioned an independent trustee ("Monitoring Trustee") to monitor compliance with the restructuring plan as well as the imposed behavioural measures. In line with the requirements of the final decision made by the European Commission, subsidiary bank Hypo Alpe-Adria-Bank AG (Austria) was disposed of (closed) on 19 December 2013 following a bidding process and a careful examination of the offers made, thereby complying with a significant number of the reprivatisation requirements imposed by the European Commission. Additional portfolio transfers in wind-down companies in Slovenia, Croatia, Serbia, Bosnia and Herzegovina as well as Montenegro were conducted in 2013 to prepare the sale of the SEE network, normalising financial key figures in the units effected, particularly net interest income, NPL ratios (non-performing loans), capacity to undertake refinancing activities (loan/deposit ratio) as well as boosting capital key figures. These measures were required by the decision made by the European Commission on 3 September 2013 to increase the sales appeal of the SEE network for possible investors. The subsequent, material preparatory activities for this sale, such as the bringing together of the SEE network and the licensing of the proposed SEE management holding company are planned for the coming months. The decision made by the European Commission provides for the intensified and timely wind-down of the units and portfolios in the remaining wind-down portfolio.

Hypo Alpe Adria's restructuring plan reflects the European Commission's requirements for the winding-down of the Italian subsidiary bank, the implementation of sales promoting measures in the form of portfolio transfers and more conservative risk assessments for the SEE portfolio as well as the accelerated sale of the wind-down portfolio. The losses accumulated between 2013 and 2017 primarily relate to expected disposal losses from the disposal of associated companies as well as higher risk provisions and were estimated in the restructuring plan at between EUR -3.58 billion (base case) and EUR -6.33 billion (stress pessimistic case). The resulting recapitalisation requirement amounts to between EUR 2.65 billion (base case) and EUR 5.40 billion (stress pessimistic case) and was approved by the European Commission. The Republic of Austria provided the bank with equity totalling EUR 1.75 billion in three capitalisation steps in 2013. Taking into account the additional capital measures conducted in April 2014 totalling EUR 0.75 billion, the bank has been provided with total equity of EUR 2.50 billion; the state limit aid approved by the European Commission could still provide up to a maximum of EUR 2.90 billion in capital measures.

After it became clear in mid-2013 that the European Commission was going to conclude its investigation into state aid, the Chancellor and Vice-Chancellor of Austria appointed a team of experts ("Task Force"), which investigated in more detail the various ways in which the EU's restructuring plan could be implemented and the best-possible realisation of Hypo Alpe-Adria-Bank International AG's assets within the scope of a wind-down unit, the "Lux" project. Until February 2014, the Task Force was headed up by Dr. Klaus Liebscher, the bank's former Chairman of the Supervisory Board. He was then succeeded by Dr. Ewald Nowotny, the Governor of Oesterreichische Nationalbank (the central bank of Austria). On 18 March 2014, the Austria Federal Government resolved, on request of the Federal Minister of Finance, to implement the recommendations made by the Task Force and establish Hypo Alpe-Adria-Bank International AG as a deregulated, private wind-down company without any general state guarantees by September 2014. The bank is currently implementing these requirements.

Within the context of the Joint Risk Assessment & Decision Process ("JRAD") initiated for the first time by the regulatory authorities in 2011, Hypo Alpe Adria was required to achieve a minimum own capital funds ratio and ensure that the deficit between the expected losses in the area of credit risk and total risk provisions (shortfall) is covered from the deadline onwards. No new resolution has yet been passed as to the JRAD investigation (JRAD III) conducted by the regulatory authorities in 2013; this means that the JRAD II requirements must have been met as at reporting date 31 December 2013. Based on actual own capital funds of EUR 2.7 billion and risk-weighted assets (RWA) of EUR 18.4 billion, this equates to a Group own capital funds ratio of 14.87%. This therefore means that the first JRAD II requirement, to hold an own capital funds ratio of 12.4%, has been met. Regulatory actual own capital funds (EUR 2.7 billion) as well as ineligible Tier II components (due to the cap imposed by Basel II) of EUR 0.6 billion can be used to meet the second JRAD II requirement, that of covering the shortfall with own capital funds. The coverage of own capital fund requirements and the shortfall, totalling EUR 2.62 billion, is offset against risk coverage capital of EUR 3.37 billion. The bank therefore has surplus capital of EUR 0.75 billion, thereby also meeting the second requirement. In the event that the SEE network is reprivatised at short notice, it must be taken into account that the value of the equity of the banks – approximately EUR 1.3 billion – will not be achieved on the market. In the event that that a significant loss is incurred before the implementation of the government's planned deregulated wind-down unit, it cannot be ruled out that JRAD's capital requirements may not be met.

As macroeconomic conditions remain difficult and due to the conditions resulting from the EU restructuring plan that need to be met by the group, Hypo Alpe-Adria-Bank International AG, the holding company of Hypo Alpe Adria group, was required to take into account losses on associated companies as well as on intragroup and third-party loans in its 2013 local annual financial statements (UGB/BWG). Not even the three recapitalisation measures implemented totalling EUR 1.75 billion in 2013 were able to prevent the bank's remaining core capital declining to approximately EUR 0.18 billion. The own capital funds ratio of the parent company, which is determined pursuant to regulatory requirements, amounted to 1.87% as at 31 December 2013, and therefore does not meet the statutory minimum of 8.0% applicable pursuant to Basel II on this date. The core capital gap for meeting the regulatory requirements amounts to 0.50 billion. The bank fulfilled its statutory obligations and informed the regulatory authorities of these circumstances. The group's consolidated own capital funds, which – as regards to subsequent expected lower disposal income – does not take into account impairment write-downs on associated companies, amounted to 14.87% on 31 December 2013, thereby meeting the statutory requirements (see above).

At Hypo Alpe-Adria-Bank International AG's general shareholders' meeting on 9 April 2014, the Republic of Austria, as the bank's shareholder, resolved an equity injection in the form of a share capital increase of EUR 0.75 billion, which was implemented on 11 April 2014. This capital measure is designed to ensure that regulatory requirements are complied with until the wind-down unit planned for September is implemented; in future, this will no longer require a banking licence and therefore not be subject to the regulatory minimum own capital funds requirements within the meaning of the Austrian Banking Act (BWG). However, the current market situation and specific framework conditions mean that the sale of the SEE network will not result in additional losses. Furthermore, there is a high degree of uncertainty surrounding the winding-down of Hypo Alpe Adria's remaining portfolio in terms of the utilisation of loan collateral; future extraordinary write-downs cannot be ruled out here either. With regard to assessing Hypo Alpe Adria's continuance as a going concern, the Executive Board draws on the same assumptions that underpin the group's restructuring plan as approved by the European Commission and which will in future continue to call for additional capital measure to adhere to the going concern principle and cover expected losses resulting from the portfolio wind-down.

Please note that uncertainty with regard to the future economic performance will continue as it did in the past, given the current volatility in economic and financial markets.

## II. ACCOUNTING AND MEASUREMENT POLICIES

The separate financial statements were prepared in accordance with generally accepted accounting principles and the general requirement to present as true and as fair a view as possible of the bank's financial position and results of operations.

The principle of individual measurement is applied to the measurement of assets and liabilities and the going concern principle is applied to the valuation of the enterprise as a whole.

The principle of prudence is applied, paying particular attention to the special features of the banking business: only profits and gains realised at balance sheet date are recognised, and all recognisable risks and impending losses have been taken into account. The assessment methods applied in the past continue to be applied.

Assets and liabilities in foreign currencies are translated using mean rates of exchange on the balance sheet date. Forward transactions are translated at the applicable forward rate.

**Loans and advances** to credit institutions and customers are in general included at their nominal value; risk provisions formed on loans and advances have been deducted. Premiums and discounts on issue are recognised under accrued assets and liabilities respectively and written back over the life of the security.

**Credit risks** are accounted for by specific and portfolio-based loan loss allowances for loans and advances and by provisions for off-balance-sheet commitments. Risk provisions pursuant to UGB/BWG are determined and calculated in accordance with the detailed provisions of the International Financial Reporting Standards (IFRS). Specific loan loss allowances are created where there is an objective indication of credit risk, taking into account the amount of the expected loss. The size of the specific loan loss allowance is calculated on the basis of the difference between the carrying amount of the loan and the net present value of the estimated future cash flows, taking into account the provided collaterals. The calculation of portfolio-based loan loss allowances is derived essentially from the Basel II model, although internal parameters are also applied that are validated and adapted to current conditions on an ongoing basis. General loan loss provisions as defined in section 57 (1) BWG are not created. To assess the recoverability, the amount, the time period, and probability of payment is measured. This measurement is based on a detailed analysis of carefully ascertained assumptions which are subject to uncertainties. When making estimates it was assumed that economic growth will remain subdued in the relevant markets, and this is reflected in the measurement of available collateral for the credit and leasing portfolios. By implementing active restructuring and targeted wind-down management, Hypo Alpe-Adria-Bank International AG expects to optimally utilise securities as well as payments from other commercial papers in this respect. Moderate market recovery is anticipated from 2013 onward, particularly for high-quality properties in prime locations. A different assessment of these assumptions may result in significantly different valuations of risk provisions for loans and advances. The actual loan defaults can therefore differ from the risk provisions for loans and advances reported in these separate financial statements. Through successful liquidation and restructuring, a reduction in the volume of business and improvements in the monitoring and collections processes, the effect on the income statement for 2013 was stabilised to a large extent. Considering the current weakness in the economy, the possibility cannot be discounted that it will be necessary to make further provisions for the existing loan portfolio in 2014.

The risk of impairment of **lines of credit** to Hypo Alpe-Adria-Bank International AG subsidiaries is assessed on the basis of an estimate of expected (negative) equity at the end of the detailed planning period (five years) included in the subsidiaries' business plans. The provision is determined by offsetting the (negative) equity with the discounted (positive and negative) forecasts as at the measurement date. The interest rate used represents a five-year average of the conditions granted to subsidiaries and was adjusted from 5.0% to 3.0% in the financial year.

**Securities** earmarked for permanent use in the business are shown on the balance sheet as financial assets in accordance with section 56 (1) BWG and valued according to the modified lower of cost or market principle. The option accorded under section 56 (2) and (3) BWG (distribution of the difference between acquisition and repayment costs over the remaining term) was not exercised. Impairment write-downs of financial assets are made where the loss in value is expected to be permanent. The bank checks as required, and at least once a year, whether there has been permanent impairment of any financial assets. Where the lasting deterioration of the creditworthiness of an issuer has been identified, an extraordinary impairment write-down is made.

All other securities (liquidity reserves) form part of current assets and, to the extent that they are stock exchange listed securities, they are shown at market value in accordance with section 56 (5) BWG. Unlisted securities are valued strictly at the lower of cost or market value. Bought-back liabilities are allocated to current assets. Own issues such as these are measured at cost of acquisition, with any difference between a higher buy-back value and the repayment amount being immediately recognised in the income statement. If there is a difference as a result of the repayment amount being lower than the buy-back value, this is only recognised in the income statement upon redemption.

Securities forming part of the trading book are included at market value as at the balance sheet date. As a general rule, market values of financial instruments to be included in the financial statements are based on stock market prices. If no quoted prices exist, the future cash flows of a financial instrument are discounted to present value using the relevant interest rate curve. Measurement is carried out by means of processes and financial calculations which are standard for this sector.

**Investments in associated companies and shares in affiliated companies** are recognised at the cost of acquisition, provided that there is no permanent impairment that would require a write-down. If an impaired investment has to be further written down as a result of a higher company value, then the size of the impairment write-down is, at maximum, the total cost of the acquisition. The intrinsic value of their carrying amounts is checked as required, and at least once a year immediately prior to the balance sheet date. The securities designated to the banking book reflect the value of the two securities investment companies accordingly.

A sales process is under way for the subsidiary banks in South-Eastern Europe as well as the newly implemented holding company HYPO SEE Holding AG ("SEE network"). According to the resolution of the European Commission on 3 September 2013, the EU restructuring plan states that the SEE network is to be disposed of in its entirety by 30 June 2015 or these associated companies wound down. The sale will be done through open and transparent sale procedures; all or part of the SEE network will be for sale. Any part of the SEE network not sold by a possible deadline will immediately cease to undertake new business and be transferred to the wind-down unit. Based on these framework conditions, a full sale was assumed when determining the value of the SEE network; an appropriate discount was then applied to the equity of the banking group so as to adequately reflect the current market conditions for banking transactions and the time limit set for the sale. Residual uncertainties that a disposal price achieved within the prescribed time frame may be less than the carrying amount cannot be ruled out.

The valuation of the associated companies of the SEE network have, to date, applied the discounted cash flow method, which is common practice for banks. The prescribed sale of these participations by no later than 30 June 2015 meant that the methodology previously used had to be deviated from in 2013 and replaced by a disposal-oriented approach, which in turn resulted in significantly lower carrying amounts for associated companies.

The Italian subsidiary bank, HYPO ALPE-ADRIA-BANK S.p.A., ceased new business as at mid-2013 and was allocated to the wind-down unit in accordance with the EU's restructuring plan for Hypo Alpe Adria as well as the European Commission's resolution. The Italian subsidiary bank is valued on the basis of locally-stipulated own capital funds ratios and using a discounted cash flow method. The country-specific capitalisation interest rate used for discounting purposes is taken from a capital market model (capital asset pricing model) and also shows the cost of equity of the item valued and is comprised of basic interest rates (risk free rate), market risk premiums (MRP) and beta factors. The valuation assumes that the residual portfolio remaining in 2019 will be disposed of and that the remaining equity can be returned to the shareholders at the end of 2019.

For companies with positive carrying amounts, other direct associated companies were valued on the basis of the last equity value on account of the immaterial carrying amount.

Pursuant to Austrian commercial law (section 225 (5) of the Austrian Commercial Code (UGB)), associated companies are to be measured using the provisions applicable to fixed assets (i.e. section 203 UGB) unless they are not intended to be of permanent use to the entity. In this case, they are to be valued using the provisions applicable to current assets (i.e. section 206 UGB). Any amounts required to cover potentially negative equity in the subsidiaries are provided for in the year in which the loss arises within the scope of the valuation of credit financing extended by the bank. In the event that subsidiaries are subject to minimum capital requirements and it is conceivable that these companies will require additional injections of capital in the future, provisions for pending losses are to be set aside in the amount of the non-recoverable portion for the expected injection of capital as at the balance sheet date.

**Intangible assets**, together with **tangible fixed assets** (land and buildings; fixtures, fittings and equipment) are recognised at acquisition or construction cost, less scheduled depreciation and amortisation and, where necessary, less write-downs for impairment. Scheduled depreciation and amortisation is applied on a straight-line basis. Rates of depreciation and amortisation for immovable assets are between 2% and 4%, for movable assets they range from 5% to 33%, and for software they are 25%. Low-value items for which the cost of acquisition is less than EUR 400 are written off immediately in the year of acquisition.

**Liabilities** are shown either at original nominal values or at the amounts repayable. Any premiums and discounts are written off over the life of the underlying debt and shown in net interest income. Standard issue costs are shown immediately as an expense.

**Provisions for pensions** were calculated actuarially using the unit credit method in accordance with the provisions of IAS 19 – as allowed for pursuant to UGB/BWG – in the year under review. The so-called corridor method of distributing the actuarial gains and losses was not used. The calculation assumed an interest rate of 3.25% (2012: 3.25%) and an unchanged annual pension increase of 2.0% p.a.

Pursuant to IAS 19, provisions for **anniversary payments** were calculated actuarially using the projected unit credit method. The calculation used an interest rate of 3.25% (2012: 3.25%) and assumed an unchanged salary increase rate of 3.0% p.a., taking into account a deduction of 6.0% (2012: 6.0%) to reflect employee turnover.

**Provisions for severance payments** and provisions for anniversary bonuses disclosed under other provisions were calculated actuarially also using the projected unit credit method in accordance with the provisions of IAS 19 (without applying the corridor method). The calculation used an interest rate of 3.25% (2012: 3.25%) and assumed an unchanged salary increase rate of 3.0% p.a., taking into account a deduction of 0.0% (2012: 0.0%) to reflect employee turnover. The provision was calculated assuming retirement at the earliest statutory pensionable age according to the General Social Insurance Act (2004 Pension Reform) and termination by the employee after 10 years of uninterrupted employment. Current service costs for pensions are distributed evenly over the entire period of service, from joining the company until reaching statutory retirement age.

**Other provisions** are based on the amounts expected to be required over and above the amounts of known liabilities. The restructuring provisions are also shown in this item; they are created in the relevant item of expense.

**Derivative financial transactions** (forward transactions, swaps, options) are allocated either to the banking book or to the trading book, depending on their purpose. Pending transactions, as a matter of principle, are not recognised in the balance sheet. Derivatives allocated to the trading book (currency futures) are recognised at market value in UGB accounting and included under other assets or other liabilities. Where banking book derivatives are not being directly used to hedge an underlying transaction and are intended to hedge a risk other than a currency risk, a provision for anticipated losses – and not fully effective hedging relationships – is shown in the balance sheet for any negative market value existing on the balance sheet date. Paid for and received option premiums are disclosed under other assets and other liabilities respectively. When measuring options, option price models based on the Black-Scholes models or the Hull-White models that take into account actual market parameters are used.

# III. NOTES TO THE BALANCE SHEET

## (3) Relations with affiliated and associated companies

The following balance sheet item includes loans and advances and liabilities in respect of affiliated or associated companies:

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **A3: Loans and advances to credit institutions** | **4,250,669** | **4,465,166** |
| of which to affiliated companies | 3,055,735 | 673,905 |
| of which to associated companies | 0 | 0 |
| of which to non-group companies | 1,194,934 | 3,791,261 |
| **A4: Loans and advances to customers** | **8,971,210** | **10,431,922** |
| of which to affiliated companies | 5,483,180 | 4,506,918 |
| of which to associated companies | 0 | 0 |
| of which to non-group companies | 3,488,031 | 5,925,004 |
| **P1: Liabilities to credit institutions** | **3,788,329** | **3,904,585** |
| of which to affiliated companies | 51,868 | 183,865 |
| of which to associated companies | 0 | 0 |
| of which to non-group companies | 3,736,461 | 3,720,719 |
| **P2: Liabilities to customers** | **1,630,279** | **1,680,748** |
| of which to affiliated companies | 150,069 | 126,631 |
| of which to associated companies | 0 | 0 |
| of which to non-group companies | 1,480,210 | 1,554,117 |
| **P8: Subordinated liabilities** | **1,903,073** | **1,902,163** |
| of which to affiliated companies | 0 | 0 |
| of which to associated companies | 0 | 0 |
| of which to non-group companies | 1,903,073 | 1,902,163 |

Loans and advances to credit institutions fell from EUR 4.5 billion to EUR 4.3 billion in the 2013 financial year, which equates to a reduction of EUR 0.2 billion or 4.8%.

Ranked in order of the largest sums of loans and advances and/or liabilities to affiliated credit institutions, they are as follows:

Loans and advances to affiliated credit institutions:

HYPO ALPE-ADRIA-BANK S.P.A., Italy
HYPO ALPE-ADRIA-BANK d.d., Croatia
HYPO ALPE-ADRIA-BANK d.d., Slovenia
HYPO ALPE-ADRIA-BANK AD BEOGRAD, Serbia

Liabilities to affiliated credit institutions:

HYPO ALPE-ADRIA-BANK AD BEOGRAD, Serbia
HYPO ALPE-ADRIA-BANK d.d., Slovenia
HYPO ALPE-ADRIA-BANK A.D. PODGORICA, Montenegro
HYPO ALPE-ADRIA-BANK A.D., Banja Luka

## (4) Maturities of balance sheet items

Maturities in accordance with section 64 (1) (4) BWG were as follows:

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **A3: Loans and advances to credit institutions** | **4,250,669** | **4,465,166** |
| - payable on demand | 1,152,638 | 407,791 |
| - up to three months | 193,306 | 454,430 |
| - three months to one year | 685,874 | 656,489 |
| - one year to five years | 1,616,484 | 1,948,391 |
| - over five years | 602,367 | 998,065 |
| **A4: Loans and advances to customers** | **8,977,511** | **10,431,923** |
| - payable on demand | 832,329 | 981,385 |
| - up to three months | 1,664,793 | 1,525,857 |
| - three months to one year | 1,849,807 | 2,617,099 |
| - one year to five years | 3,109,535 | 3,253,737 |
| - over five years | 1,521,047 | 2,053,845 |
| **P1: Liabilities to credit institutions** | **3,788,330** | **3,904,585** |
| - payable on demand | 2,783,707 | 1,116,217 |
| - up to three months | 51,605 | 39,440 |
| - three months to one year | 331,046 | 1,774,036 |
| - one year to five years | 476,407 | 853,653 |
| - over five years | 145,565 | 121,239 |
| **P2: Liabilities to customers** | **1,630,279** | **1,680,747** |
| - payable on demand | 81,373 | 38,899 |
| - up to three months | 86,225 | 32,027 |
| - three months to one year | 75,000 | 184,079 |
| - one year to five years | 1,303,230 | 1,083,361 |
| - over five years | 84,451 | 342,381 |

Of the other loans and advances reported under the item other assets, EUR 5,377 thousand (2012: EUR 34,083 thousand) is for a term of more than one year. The same applies for EUR 85,008 thousand (2012: EUR 293,239 thousand) of the other liabilities.

Liabilities to credit institutions include EUR 2,079,969 thousand that cannot be returned to the bank's former shareholders (see note (32) Important proceedings) due to compliance with the provisions of the Austrian law on equity substitution (EKEG). This financing had already become due as at the balance sheet date.

## (5) Securities

Information in accordance with section 64 (1) (10) and (11) BWG:

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Treasury bills and other bills eligible for refinancing with central banks** | **526,063** | **424,978** |
| of which listed | 526,063 | 424,978 |
| of which not listed | 0 | 0 |
| of which fixed assets | 176,194 | 182,365 |
| of which accrued interest | 3,555 | 3,799 |
| of which current assets | 339,778 | 233,742 |
| of which accrued interest | 6,536 | 5,073 |
| **3. Loans and advances to credit institutions (evidenced by certificates)** | **52,265** | **4,231** |
| of which listed | 0 | 0 |
| of which not listed | 52,265 | 4,231 |
| of which fixed assets | 0 | 0 |
| of which accrued interest | 0 | 0 |
| of which current assets | 52,228 | 4,228 |
| of which accrued interest | 37 | 3 |
| **4. Loans and advances to customers (evidenced by certificates)** | **235,427** | **253,347** |
| of which listed | 0 | 0 |
| of which not listed | 235,427 | 253,347 |
| of which fixed assets | 232,387 | 251,171 |
| of which accrued interest | 743 | 811 |
| of which current assets | 2,284 | 1,349 |
| of which accrued interest | 13 | 15 |
| **5. Bonds and other fixed income securities** | **735,741** | **623,618** |
| of which listed | 735,741 | 623,618 |
| of which not listed | 0 | 0 |
| of which fixed assets | 220,078 | 240,250 |
| of which accrued interest | 2,112 | 2,761 |
| of which current assets | 505,039 | 374,532 |
| of which accrued interest | 8,512 | 6,074 |
| **6. Shares and other non-interest-bearing securities** | **9,678** | **12,563** |
| of which listed | 4,677 | 6,679 |
| of which not listed | 5,001 | 5,884 |
| of which fixed assets | 0 | 0 |
| of which accrued interest | 0 | 0 |
| of which current assets | 9,679 | 12,563 |
| of which accrued interest | 0 | 0 |
| **7. Shares in associated companies** | **4,863** | **7,730** |
| of which listed | 0 | 0 |
| of which not listed | 4,863 | 7,730 |
| **8. Shares in affiliated companies** | **1,176,594** | **2,464,906** |
| of which listed | 0 | 0 |
| of which not listed | 1,176,594 | 2,464,906 |

The composition of bonds and other fixed-interest securities was as follows:

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Issued by the public sector** | **59,795** | **61,862** |
| **Issued by others** | **675,946** | **561,756** |
| Own issues | 3,250 | 34,631 |
| Domestic bonds (credit institutions) | 30,772 | 30,742 |
| Foreign bonds (credit institutions) | 321,560 | 238,047 |
| Mortgage bonds and municipal bonds | 281,864 | 237,048 |
| Convertible bonds | 0 | 0 |
| Other bonds | 38,500 | 21,288 |
| **Total** | **735,741** | **623,618** |

The difference between the value of securities recognised at their higher market value and their acquisition cost (section 56 (5) BWG) comes to EUR 11,210 thousand (2012: EUR 11,636 thousand).

In 2014 fixed-income securities from the bank's own holdings shall fall due as follows: an amount of EUR 351,935 thousand (prior-year figure relating to 2013: EUR 102,625 thousand) from euro-denominated securities and EUR 6,783 thousand (prior-year figure relating to 2013: EUR 5,788 thousand) from foreign-denominated securities.

Fixed-interest securities from private issuers, which were eligible for refinancing by the Oesterreichische Nationalbank on the balance sheet date, amounted to EUR 532,614 thousand (2012: EUR 430,654 thousand).

Subordinated securities within the meaning of section 45 (2) BWG with a value of EUR 26,650 thousand (2012: EUR 25.620 thousand) were held as at 31 December 2013.

The option afforded by section 22n BWG was not exercised and there were no money market instruments allocated to the securities trading book as at 31 December 2013.

Securities which are classified as current assets in either the trading book or the banking book are recognised at their respective market values. Securities which are classified as financial investments are recognised in the accounts at acquisition cost or at a lower repayment amount, less write-downs for permanent impairments.

Financial investments recognised at fair value (section 237a (1) (2) UGB) are broken down as follows:

EUR thousand

| | Carrying amount 31.12.2013 | Losses not yet recognised 31.12.2013 | Carrying amount 31.12.2012 | Losses not yet recognised 31.12.2012 |
|---|---|---|---|---|
| Treasury bills | 176,194 | –13,097 | 182,365 | –24,901 |
| Loans and advances to banks (fixed-interest securities) | 0 | 0 | 0 | 0 |
| Loans and advances to customers (fixed-interest securities) | 232,387 | –6,836 | 251,171 | –7,826 |
| Bonds and other fixed income securities | 220,078 | –5,798 | 240,250 | –17,276 |
| Shares in associated companies | 0 | 0 | 0 | 0 |
| Shares in affiliated companies | 0 | 0 | 0 | 0 |
| **Total** | **628,659** | **–25,731** | **673,786** | **–50,003** |

Write-downs totalling EUR 9 thousand (2012: EUR 3,960 thousand) were made on financial investments where a detailed analysis revealed permanent impairment.

For financial investments for which no assumption of permanent impairment has been made, the option to make an write-back was waived. The amount of appreciation not written back in accordance with section 208 (2) UGB comes to EUR 7,598 thousand (2012: EUR 4,299 thousand).

The following write-backs were made on financial investments in the year under review:

EUR thousand

| | ISIN | Write-up 31.12.2013 |
|---|---|---|
| FRN DZ BK CAP.FDG I 03/UND. | DE0009078337 | 1,811 |
| FRN RBS CAP. TR. IV UND.FLR | US74927FAA93 | 505 |
| FRN DEKANIA EU.II 06/37FLRA2A | XS0265847441 | 160 |

EUR thousand

| | ISIN | Write-up 31.12.2012 |
|---|---|---|
| FRN DZ BK CAP.FDG I 03/UND. | DE0009078337 | 814 |
| FRN RBS CAP. TR. IV UND.FLR | US74927FAA93 | 1,046 |
| 6.75% KAUPTH.BK 07/UND. MTN | XS0308636157 | 3 |

## (6) Investments in associated and affiliated companies

Details of interests in associated and affiliated companies as required under section 238 (2) UGB are shown in Annex 3 to these notes.

Hypo Alpe-Adria-Bank International AG transferred its investments in Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro to wholly-owned subsidiary HYPO SEE Holding AG, Klagenfurt am Wörthersee, by means of a contribution-in-kind and contribution agreement dated 28 June 2013. The authorisations required from the banks' local regulatory authorities for the transfer were granted in 2013; the transfer was reported to the tax authorities in good time within the nine-month deadline. The valuation of the associated companies in the SEE network (including the management holding company) as at 31 December 2013 had no impact.

Expenses from investments in associated and affiliated companies totalling EUR 1,817,648 thousand were incurrent in 2013 (2012: EUR 263,575 thousand). These consist of impairment write-downs as a result of permanent impairment as well as provisions for future recapitalisation measures.

Furthermore, revaluations of the carrying amounts for affiliated companies totalling EUR 0 thousand (2012: EUR 97 thousand) were made in the 2013 financial year.

Local regulatory authorities in Bosnia and Herzegovina have imposed certain limitations in the loans granted by Hypo Alpe-Adria-Bank International AG to its Mostar-based subsidiary bank. The repayment of liabilities (financing) of EUR 0.1 billion is subject to prior authorisation by the authority. Distributions of profits (dividends) may only be paid if the subsidiary bank's total own capital funds ratio remains at 14.5% after the distribution.

## (7) Intangible and tangible fixed assets

An analysis of individual items and of changes during the financial year is shown in the fixed assets movement schedule (Annex 1 to these notes).

As at 31 December 2013, the value of land included in land and buildings was EUR 3,087 thousand (2012: EUR 3,087 thousand).

## (8) Other assets

The breakdown of other assets is as follows:

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Interest income | 211,228 | 237,524 |
| - of which to be paid after the closing date | 177,540 | 190,136 |
| Offset claim | 16,248 | 8,723 |
| Receivables from dividends paid out in different year to their allocation | 1,389 | 90,611 |
| Receivables arising from the foreign exchange valuation of banking book derivatives | 6,689 | 20,457 |
| Loans to affiliated companies | 20,177 | 24,226 |
| Receivables from trading book derivatives | 9,671 | 14,411 |
| Trade receivables | 57,654 | 66,392 |
| Other loans and advances | 1,261 | 19,899 |
| **Total** | **324,317** | **482,244** |

Since 2012, the "Other loans and advances" item has included reclaims from former owners that are recognised at EUR 1, based on commercial prudence. The nominal value of this reclaim is approximately EUR 2,300,000 thousand.

## (9) Other liabilities

The breakdown of other liabilities is as follows:

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Interest expenses | 66,787 | 74,905 |
| - of which to be paid after the closing date | 49,900 | 55,853 |
| Clearing account balances | 5,060 | 2,877 |
| Fees and levies | 8,023 | 6,090 |
| Liabilities from foreign currency measurement of banking book derivatives | 9,173 | 8,729 |
| Liabilities from trading book derivatives | 10,343 | 14,364 |
| Trade payables | 944 | 1,546 |
| Miscellaneous liabilities | 24,723 | 22,171 |
| **Total** | **125,053** | **130,682** |

Other liabilities include a sum totalling EUR 4,207 thousand (2012: EUR 2,444 thousand) under the item fees and levies which relates to the tax allocation arising from the group taxation arrangement. Miscellaneous liabilities include EUR 17,161 thousand (2012: EUR 17,161 thousand) in accruals from guarantee commissions.

## (10) Deferred assets

This item includes payments which have to be spread over the term of the agreements to which they relate. The sum total of deferred assets as at 31 December 2013 was EUR 15,631 thousand (2012: EUR 21,211 thousand).

## (11) Provisions

The breakdown of other provisions is as follows:

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Holiday not taken | 3,063 | 2,904 |
| Long-service bonuses | 728 | 670 |
| Employee performance bonuses | 703 | 38 |
| Legal and consultancy fees | 31,948 | 15,989 |
| Risks from the lending business | 28,053 | 31,964 |
| Restructuring provisions | 5,470 | 4,208 |
| Letters of comfort/guarantees for subsidiaries | 60,640 | 17,899 |
| Provisions related to issued participation capital | 4,020 | 2,000 |
| Miscellaneous provisions | 39,535 | 22,106 |
| **Total** | **174,160** | **97,778** |

The provisions for risk from the lending business include both provisions at portfolio level amounting to EUR 2,940 thousand (2012: EUR 3,827 thousand) as well as for specific cases amounting to EUR 25,114 thousand (2012: EUR 28,138 thousand).

The restructuring provisions of EUR 4,208 thousand reported in the prior year were released on account of the expiry of the temporary social plan. A provision of EUR 5,470 thousand was allocated in 2013 for the reduction in personnel planned until 2017; an arbitration process is currently pending.

The provisions for legal and consultancy expenses include EUR 18,262 thousand (2012: EUR 7,520 thousand) relating to coming to terms with the bank's past ("CSI") as well as related court costs.

The provisions in connection with issued participation capital concern provisions for agreed covenants arising out of the participation capital provided by the Republic of Austria. The provisions recognised in the prior year were used accordingly. EUR 4,020 thousand (2012: EUR 2,000 thousand) was newly allocated in 2013 as provisions for additional breaches of requirements.

Provisions for obligations towards subsidiaries also include provisions for pending losses in the amount of EUR 12,872 thousand (2012: EUR 13,889 thousand), which result from an internal lease agreement for a corporate asset. This item also includes provisions of EUR 47,010 thousand for the recapitalisation of three subsidiaries in 2014 in order to comply with applicable local minimum capital requirements. The amount established as provisions for pending losses corresponds to the non-recoverable portion of the proposed recapitalisation measures.

The other provisions item in the amount of EUR 39,535 thousand includes a provision of EUR 22,883 thousand (2012: EUR 5,588 thousand) for provisions from pending penalty payments pursuant to section 97 (1) BWG due to violations of regulatory requirements regarding minimum own capital funds and the limitation of large exposures.

Through the creation of provisions for pending losses, a loss sustained in pending transactions which are not shown in the balance sheet is recorded in the period in which it becomes probable and recognisable as a result of the developments in market conditions (section 198 (8) UGB). The amount of the provision is dependent on the size of the expected loss. There is no obligation to set aside provisions if the amounts in question are immaterial. The analysis takes into account the market values of all banking book derivatives. When calculating the provision for pending losses from banking book derivatives as at 31 December 2013 of EUR 2,871 thousand, there was compliance with the position of the Austrian Financial Reporting and Auditing Committee (AFRAC) as outlined in "Accounting for derivatives and hedging instruments under commercial law" published in September 2010. This meant that provisions for pending losses were only made for derivative transactions for which, in hedging terms, there was no underlying transaction. According to the AFRAC position paper, a provision should be formed for the ineffective parts of a derivative with a negative market value. In the case of a micro hedge, if all the parameters of the underlying transaction and the hedging transaction are identical but offset each other, this is an indicator of a fully effective hedging relationship. All micro hedges are monitored and the effectiveness of the hedge is documented.

Hypo Alpe-Adria-Bank International AG differentiates between the following types of hedge accounting:

- Hedge accounting of derivatives at fair value:

For transactions designated as fair value hedges in accordance with the IFRS international accounting standards, the same assumption of a micro-hedge is made under UGB/BWG. The base parameters of all fair value hedges are identical, although opposites; and their effectiveness is measured on a monthly basis. Only fair value hedges which serve to secure the market value of assets and obligations (underlying transactions) are used within the framework of hedge accounting. The risks to be hedged concern the interest risk and the foreign currency risk.

- Hedge accounting of Fair Value Option derivatives:

In IFRS it is assumed that FVO transactions will have a compensatory effect between underlying and hedge transactions. The connection is documented in this way. These transactions constitute identical, offsetting hedges, as the basic parameters of the underlying and hedge transactions match. For this reason, no provision was created. The risks to be hedged concern the interest risk and the foreign currency risk.

- Hedge accounting of stand-alone derivatives:

The remaining swap portfolio – cross-currency swaps and so-called mirror transactions for which the bank acts as counterparty for the external market participant and which are subsequently passed on to group companies – is monitored and included in the calculations. Cross-currency swaps are used to exchange currency liquidity; every cross-currency swap is treated as a measurement unit with its own counterpart as at 31 December 2013. This relationship is also documented. Mirror transactions are interest rate swaps, and care is taken to ensure the market values compensate for each other to a large extent (difference of a maximum of 1 to 3 basis points for the bank). If there is a negative balance at individual transaction level, a provision must be formed. A negative balance, resulting from the higher spread that we pay to our partners as the external swap is concluded at a later date, only remains in terms of swaps (I01416ÖR2 and I01416, I01528R1 and I02501R1).

According to the circular pertaining to accounting questions relating to derivatives for managing interest rates and relating to derivative valuation adjustments (section 57 BWG), the derivative valuation model must, provided that the risk is material to the valuation, take into account counterparty risks by using recognised financial methods. This either gives rise to a credit value adjustment (when the counterparty's default risk predominates) or a debt value adjustment (when the bank's own default risk dominates). This or alternative standard methods may be used. For the sake of prudence, there is no problem with not taking debt value adjustment into account. Provisions for credit value adjustment were established in the amount of EUR 178 thousand as at 31 December. The counterparty risks also did not impact the effectiveness of existing hedges.

An agreement was reached with a subsidiary bank in 2013 resulting in Hypo Alpe-Adria-Bank International assuming the exchange rate fluctuations for a share. Income from option premiums are realised evenly over the term of the agreement. Provisions for pending losses in the amount of EUR 1,733 thousand were set aside in the amount of the negative market value of the put option reported as at 31 December 2013.

Provisions for stand-alone derivates totalled EUR 2,871 thousand as at 31 December 2013 (2012: EUR 1,230 thousand).

## (12) Information on risk provisions

The following risk provisions were recognised in the balance sheet as at 31 December 2013:

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Loans and advances to credit institutions** | **2,332** | **2,412** |
| Specific risk provisions | 2,332 | 2,412 |
| Portfolio-based provisions | 0 | 0 |
| **Loans and advances to customers** | **2,054,837** | **1,385,687** |
| Specific risk provisions | 2,040,304 | 1,352,482 |
| Portfolio-based provisions | 14,533 | 33,205 |
| **Off-balance-sheet risks from the lending business** | **28,054** | **31,965** |
| Individual provisions | 25,114 | 28,138 |
| Portfolio-based provisions | 2,940 | 3,827 |
| **Total** | **2,085,223** | **1,420,064** |

For credit defaults existing on the balance sheet date but not yet identified as such, a portfolio value adjustment of EUR 17,473 thousand (2012: EUR 37,032 thousand) was created.

## (13) Deferred liabilities

This item contains income which must be spread over the term of the agreement to which it relates. The sum total of deferred liabilities as at 31 December2013 came to EUR 34,978 thousand (2012: EUR 45,262 thousand) and includes up-front payments received on derivative transactions.

Deferred liabilities primarily include an amount of EUR 33,364 thousand (2012: EUR 43,176 thousand) reflecting the recognition in the income statement of the unwinding of swaps forming part of other transactions.

## (14) Supplementary and subordinated capital

Supplementary and subordinated capital cannot be repaid prematurely, nor can it be pledged or assigned. In the event of liquidation or insolvency, the entitlements rank behind all other creditors' claims, and may not be set off against receivables of the bank.

The carrying amount of supplementary capital (excluding deferred interest) as at 31 December 2013 was EUR 0 thousand (2012: EUR 0 thousand). The carrying amount of subordinated capital (excluding deferred interest) came to EUR 1,892,095 thousand (2012: EUR 1,891,255 thousand). The bank held capital with a nominal value of EUR 0 thousand (2012: EUR 0 thousand). The carrying amount of the subordinated capital in accordance with the provisions of section 23 (8) BWG was EUR 1,572,095 thousand (2012: EUR 1,571,255 thousand). The supplementary and subordinated capital has a remaining term ranging from two years to over five years.

Hypo Alpe-Adria-Bank International AG has in the past issued supplementary capital pursuant to section 23 (7) BWG, which in accordance with regulations has been allocated to own capital funds. According to the restrictions laid down in section 23 (7) (2) BWG, interest can only be paid out "if it is covered by the annual profits (before movements in reserves)." As none of the previous financial statements for the financial years ending 31 December 2007 to 2012 nor the current financial statements for the financial year ending 31 December 2013 meet this criterion, and following the formal adoption of the financial statements, interest on the supplementary capital issues may not be paid out.

According to the specific legal provisions, payment of interest may only be resumed when subsequent adopted financial statements for Hypo Alpe-Adria-Bank International AG establish that sufficient annual profits (before movements in reserves) have been shown.

In accordance with section 23 (7) (3) BWG, supplementary capital prior to liquidation may only be paid back after proportionate deductions have been made for net losses reported during its term. This means that the losses must be allocated in proportion to the paid-in capital in accordance with section 23 (3) BWG and to the supplementary capital (pari passu) of the supplementary capital bond in question. The loss allocation must be applied not only in the case of redemption at term but also in the event of premature repayment by giving notice on the issue or through a premature buy-back of the issue. Please refer, in this connection, to the claim brought against Hypo Alpe-Adria-Bank International AG by UniCredit Bank AG for the payment of the nominal value plus all non-paid interest charges relating to a supplementary capital bond, which reached final maturity in April 2011 and was redeemed at no value because of the loss allocation provision applicable to it (see note (32.) Important proceedings).

Taking into account the loss allocation required by law, a complete financial loss in relation to the remaining supplementary capital issues by Hypo Alpe-Adria-Bank International AG has been established. Statistics (net loss for the year based on the figures as at the balance sheet date) and a dynamic perspective (when including forecasts) assume that investors would see a total loss, which becomes all the more likely the shorter the residual maturity of the bond in question. On the basis of the significant change in forward-looking assessment, future cash flows to investors had to be adjusted in 2012 so that no further positive supplementary capital was reported. In the 2012 financial year, the supplementary capital was therefore written down to the expected repayment amount; this is expected to be valued at zero in 2013.

Hypo Alpe-Adria-Bank International AG placed a subordinated bond of EUR 1.0 billion with institutional investors on 6 December 2012. This bond has a term of ten years and a coupon of 2.375% p.a. on the nominal value. The Republic of Austria has given an unconditional and irrevocable guarantee, and has received the necessary provisional approval of the European Commission. The European Commission authorised the guarantee from a state-aid perspective in its resolution dated 3 September 2013. In exchange for the guarantee, Hypo Alpe-Adria-Bank International AG has undertaken to pay the Republic of Austria a guarantee fee as calculated by the European Commission.

No subordinated loans were taken out in 2013. Existing subordinated capital which on a case-by-case basis exceeds 10% of the total sum for subordinated liabilities of EUR 1,903,073 thousand (2012: EUR 1,902,163 thousand), and which thus exceeds EUR 190,307 thousand, breaks down as follows:

| | ISIN | Nominal in EUR m | Due date | Interest rate |
|---|---|---|---|---|
| **2.375% HAAB GUARNT.NTS 12–22** | XS0863484035 | 1,000 | 13.12.2016 | 2.375 |
| **FRN HAAB VAR.ANL 07/17** | XS0283714896 | 230 | 23.01.2017 | variable |

The terms and conditions for the subordinated liabilities shown above, as well as for all subordinated liabilities, comply with the provisions of section 23 (8) BWG.

The total expenses paid for subordinated liabilities in the year under review came to EUR 51,383 thousand (2012: EUR 30,672 thousand); the fee and commission expenses paid amount to EUR 57,543 thousand (2012: EUR 10,737 thousand).

## (15) Issued capital

The share capital in Hypo Alpe-Adria-Bank International AG as at the reporting date amounts to EUR 1,669,097 thousand (2012: EUR 969,097 thousand) and is divided into 682,536,752 (2012: 396,288,732) no-par bearer shares.

The extraordinary shareholders' meeting on 23 July 2013 resolved to increase the company's share capital by EUR 700,000 thousand by issuing 286,248,020 new no-par bearer shares. The resolution intended for the new shares to be issued at the pro-rata amount of share capital per individual no-par bearer share (excluding premium). The sole shareholder (Republic of Austria) had the subscription right for newly issued shares.

As a result of the resolution passed in the general shareholders' meeting for Hypo Alpe-Adria-Bank International AG on 30 May 2011 to reduce share capital and the resolution passed in the extraordinary shareholders' meeting for Hypo Alpe-Adria-Bank International AG held on 30 June 2011 to convert some of the participation capital into share capital, the Tier 1-eligible participation capital held in Hypo Alpe-Adria-Bank International AG and subscribed by the Republic of Austria on 29 December 2008 now amounts to EUR 1,075,111 thousand (18,000 participation certificates each with a value of EUR 15.28394848). Under section 23 (3) (8) BWG there is no obligation to make back-payments of dividends on participation capital.

On the basis of the issue agreement and by applying section 102 BWG, the Republic of Austria is in principle entitled to exchange all the participation certificates it owns, at a conversion price to be determined in accordance with the conditions for the participation certificates, into no-par bearer shares in Hypo Alpe-Adria-Bank International AG.

The participation capital subscribed to by the previous owners in the course of the change in ownership of Hypo Alpe-Adria-Bank International AG which became effective on 29 December 2009 currently has a value, after allocation of losses and the capital reduction, of EUR 64,429 thousand.

According to the conditions for subscribing to the issue of participation capital in 2009, the holders of participation capital will be entitled to a dividend of 6.0% p.a. for the first time in the 2013 financial year, provided that this is covered by net income for the year after movements in reserves of Hypo Alpe-Adria-Bank International AG and the payment of dividends on the participation capital totalling EUR 1,075,111 thousand and held by the Republic of Austria, and that the relevant resolution has been passed by the Boards.

Participation capital is reported at its nominal amount under equity in the item issued capital in the separate financial statements for Hypo Alpe-Adria-Bank International AG. In the event of the liquidation of the issuer, holders of participation capital have the same rights to the proceeds of liquidation as holders of similarly-ranked capital; during its term, with the exception of capital corrections, no ongoing allocation of earnings is made. Payments of dividends relating to participation capital will be shown as appropriation of profits and not as interest expense. The basis of assessment for the payment of dividends is sufficient annual profit after movement in reserves. No participation capital can be distributed as no such annual profit exists.

## (16) Reserves

Changes in capital, revenue and liability reserves were as follows:

EUR thousand

| | At start of year 1.1.2013 | Additions | Reversals | Stock at end 31.12.2013 |
|---|---|---|---|---|
| **Capital reserves** | 0 | 250,000 | 0 | 250,000 |
| **Revenue reserves** | 0 | 0 | 0 | 0 |
| **Liability reserves** | 247,165 | 0 | 0 | 247,165 |

The addition to the additional paid-in capital relates to a shareholder contribution made in 2013, which was added to the uncommitted additional paid-in capital. There were no untaxed reserves as at 31 December 2013.

## IV. OFF-BALANCE-SHEET ITEMS

### (17) Derivative financial instruments

The following transactions were unsettled as at 31 December 2013:

EUR thousand

| | | Nominal purchase contracts | Nominal sales contracts | Fair value positive | Fair value negative |
|---|---|---|---|---|---|
| a) | **Interest-related business** | | | | |
| | **OTC-products** | **14,276,550** | **14,276,550** | **1,061,166** | **487,161** |
| | Interest rate swaps | 14,230,480 | 14,230,480 | 1,060,804 | 486,802 |
| | Interest swaptions | 0 | 0 | 0 | 0 |
| | Forward rate agreements | 0 | 0 | 0 | 0 |
| | Cap, Floor | 46,070 | 46,070 | 361 | 359 |
| | **Exchange-traded products** | **0** | **0** | **0** | **0** |
| | Future bond | 0 | 0 | 0 | 0 |
| b) | **Currency-related business** | | | | |
| | **OTC-products** | **3,972,759** | **3,975,264** | **12,333** | **297,129** |
| | Currency swaps | 1,178,643 | 1,178,643 | 7,930 | 291,225 |
| | Cross currency swaps | 2,750,439 | 2,752,945 | 4,131 | 5,632 |
| | Forward exchange contracts | 43,678 | 43,676 | 272 | 271 |
| | Currency swaptions | 0 | 0 | 0 | 0 |
| | **Exchange-traded products** | **0** | **0** | **0** | **0** |
| c) | **Shares and index-linked transactions** | | | | |
| | **OTC-products** | **6,180** | **6,180** | **0** | **1,988** |
| | Put option | 6,180 | 6,180 | 0 | 1,988 |
| d) | **Other** | | | | |
| | **OTC-products** | **0** | **0** | **0** | **0** |
| | Credit Default Swaps | 0 | 0 | 0 | 0 |
| | Total Return Swaps | 0 | 0 | 0 | 0 |
| | **Exchange-traded products** | **0** | **0** | **0** | **0** |

The majority of derivative transactions are used to hedge against fluctuations in interest rates, exchange rates or market prices. In most cases, micro-hedges are used to directly hedge individual transactions under assets and liabilities.

The comparative values as at 31 December 2012 were:

EUR thousand

| | Nominal purchase contracts | Nominal sales contracts | Fair value positive | Fair value negative |
|---|---|---|---|---|
| **a) Interest-related business** | | | | |
| **OTC-products** | **15,660,404** | **15,660,404** | **1,452,284** | **633,775** |
| Interest rate swaps | 15,615,995 | 15,615,995 | 1,451,949 | 633,439 |
| Interest swaptions | 0 | 0 | 0 | 0 |
| Forward rate agreements | 0 | 0 | 0 | 0 |
| Cap, Floor | 44,409 | 44,409 | 335 | 335 |
| **Exchange-traded products** | **0** | **0** | **0** | **0** |
| Future bond | 0 | 0 | 0 | 0 |
| **b) Currency-related business** | **0** | **0** | **0** | **0** |
| **OTC-products** | **3,776,025** | **3,771,144** | **119,625** | **328,737** |
| Currency swaps | 1,492,277 | 1,492,277 | 105,762 | 320,760 |
| Cross currency swaps | 2,282,080 | 2,277,199 | 13,857 | 7,971 |
| Forward exchange contracts | 1,668 | 1,668 | 7 | 6 |
| Currency swaptions | 0 | 0 | 0 | 0 |
| **Exchange-traded products** | **0** | **0** | **0** | **0** |
| **c) Shares and index-linked transactions** | **0** | **0** | **0** | **0** |
| **OTC-products** | **0** | **0** | **0** | **0** |
| **d) Other** | 0 | 0 | 0 | 0 |
| **OTC-products** | **0** | **0** | **0** | **0** |
| Credit Default Swaps | 0 | 0 | 0 | 0 |
| Total Return Swaps | 0 | 0 | 0 | 0 |
| **Exchange-traded products** | **0** | **0** | **0** | **0** |

## (18) Liability for commitments issued through the “Pfandbriefstelle”

As a member of the Mortgage Bond Division of the Austrian State Mortgage Banks (Pfandbriefstelle), Hypo Alpe-Adria-Bank International AG is, in accordance with section 2 (1) of the Austrian Pfandbriefstelle Act (PfBrStG), jointly liable with the other members for all the Pfandbriefstelle’s liabilities. This liability applies equally for all other member institutions and their legal successors as listed in section 1 (2) of the articles of association of the Pfandbriefstelle. For liabilities of the Pfandbriefstelle which arose before 2 April 2003, or after 2 April 2003 with a term not beyond 30 September 2017, the guarantors (the State of Carinthia) of the member institutions are according to section 2 (2) PfBrStG equally jointly liable. In the audit report for the Pfandbriefstelle setting out the legal obligations on liabilities, the value of the liabilities to be covered by the guarantors was put at approximately EUR 6.2 billion as at the reporting date 31 December 2013 (2012: EUR 7.6 billion). This equates to almost the entire sum of the Pfandbriefstelle’s liabilities as at 31 December 2013. After taking account of the funds taken up by the Pfandbriefstelle and forwarded to Hypo Alpe-Adria-Bank International AG, in the amount of EUR 1.2 billion (2013: EUR 1.3 billion), the resulting amount which must be reported in accordance with section 237 (8a) UGB comes to EUR 4.9 billion (2012: EUR 6.4 billion).

### (19) Other off-balance-sheet financial obligations

The financial obligations shown as below-the-line items in the balance sheet are as follows:

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Contingent liabilities** | **238,617** | **313,375** |
| Guarantees and other collateral securities | 217,346 | 297,888 |
| Letters of credit | 21,271 | 15,487 |
| Contingent guarantees from credit derivatives | 0 | 0 |
| **Loan exposures** | **734,293** | **929,726** |

Loan exposures comprise unused credit lines of EUR 734,293 thousand (2012: EUR 929,726 thousand).

In addition to the contingent liabilities disclosed below the line, there is also an obligation with respect to the obligatory membership of "Hypo-Haftungs-Gesellschaft m.b.H" in relation to the safety of deposits under section 93 BWG.

There is also another financial obligation consisting of a joint surety for the mortgage bonds issued by the Pfandbriefstelle (Mortgage Bond Division of the Austrian State Mortgage Banks).

Obligations arising in connection with the use of tangible fixed assets (leasing obligations) not included in the balance sheet of Hypo Alpe-Adria-Bank International AG will amount to EUR 1,828 thousand in the 2014 financial year (prior-year figure relating to 2013: EUR 1,959 thousand) and EUR 8,531 thousand in total for financial years 2014 to 2018 (prior-year figure relating to 2013 to 2017: EUR 9,163 thousand).

An unrestricted letter of comfort had to be issued to Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A., Udine, on5 July 2013 in order to be granted an unqualified audit opinion for the local annual financial statements as at 31 December 2012. This requires Hypo Alpe-Adria-Bank International AG to provide funding to finance the stipulated business activities and to provide the subsidiary bank with the funding required to maintain a regulatory capital ratio of 11.5%. Taking into account the capital increase of EUR 100 million implemented at the end of 2013, Hypo Alpe-Adria-Bank S.p.A. complied with this local requirement as at 31 December 2013. The letter of comfort will expire after a period of twelve months, i.e. on 5 July 2014. The binding commitment is reported under Guarantees at an amount of EUR 1.00.

A twelve-month commitment also had to be made to Italian leasing company Hypo Alpe-Adria-Leasing S.r.L. on 17 July 2013; however, this does not include an unlimited equity commitment. The letter of comfort is limited to the provision of financing. This has no material impact as the subsidiary already receives its financing exclusively from Hypo Alpe-Adria-Bank International AG.

In addition to the contingent liabilities and loan exposures shown below the line, there are liquidity guarantees and letters of comfort to individual group companies. Nearly all group companies are dependent on the provision of liquid funds and own funds by Hypo Alpe-Adria-Bank International AG for the continuation and maintenance of their business activities. This applies particularly to the group's leasing subsidiaries, which do not have access to their own sources of funding or liquidity and must therefore be financed by the ultimate holding company, as a result of which the risk of material loss also transfers to the bank providing the credit. Where these companies do not have sufficient own funds available which are not compensated by positive results during the planning period, thus placing the servicing of internal lines of refinancing for the group at risk, a recapitalisation of the company in question, which is shown as expense, is carried out by Hypo Alpe-Adria-Bank International AG.

There are no profit and loss transfer agreements or other obligations on the basis of which Hypo Alpe-Adria-Bank International AG would be obliged to absorb the losses of related group companies.

In 2011 Hypo Alpe-Adria-Bank International AG signed a purchase option agreement obliging it to acquire the leased real estate pertaining to the headquarters in Klagenfurt at residual carrying amount once the leasing agreements reach their term in 2019 to 2022, if requested in writing by its indirect subsidiary Hypo Immobilien- und Bauconsult GmbH.

## (20) Fiduciary transactions

The sum of fiduciary transactions at the end of the reporting period which are not shown in the statement of financial position was as follows:

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Loans and advances to credit institutions | 0 | 0 |
| Loans and advances to customers | 54,059 | 39,265 |
| Securities and shares in associated companies | 0 | 0 |
| other trust assets | 0 | 0 |
| **Trust assets** | **54,059** | **39,265** |
| Liabilities to credit institutions | 35,920 | 39,265 |
| Liabilities to customers | 18,139 | 0 |
| other fiduciary liabilities | 0 | 0 |
| **Fiduciary liabilities** | **54,059** | **39,265** |

Trust income and expenses were as follows:

EUR thousand

| | 1.1-31.12.2013 | 1.1-31.12.2012 |
|---|---|---|
| Trust income | 221 | 100 |
| Trust expenses | 0 | 0 |

# V. NOTES TO THE INCOME STATEMENT

## (21) Regional breakdown of income and expense

Interest income and expense is shown as a regional breakdown, with allocation to a region dependent on the location of the registered office of the company.

EUR thousand

| Interest and similar income | 1.1-31.12.2013 | 1.1-31.12.2012 |
|---|---|---|
| **Loans and advances to credit institutions and customers** | **271,702** | **392,917** |
| of which Austria | 33,461 | 38,147 |
| of which International | 238,241 | 354,770 |
| **Fixed-income securities** | **38,985** | **51,057** |
| of which Austria | 14,627 | 21,678 |
| of which International | 24,358 | 29,379 |
| **Other assets** | **439,639** | **521,367** |
| of which Austria | 439,238 | 521,348 |
| of which International | 401 | 19 |

EUR thousand

| Interest and similar expenses | 1.1-31.12.2013 | 1.1-31.12.2012 |
|---|---|---|
| **Liabilities to credit institutions and customers** | **158,851** | **192,547** |
| of which Austria | 3,358 | 6,181 |
| of which International | 155,493 | 186,366 |
| **Debt evidenced by certificates** | **353,506** | **404,779** |
| of which Austria | 353,506 | 404,779 |
| of which International | 0 | 0 |
| **Other liabilities** | **214,974** | **294,051** |
| of which Austria | 210,687 | 289,674 |
| of which International | 4,287 | 4,377 |

## (22) Income from equity interests and investments

Income from investments for the purposes of section 238 (4) UGB was as follows:

EUR thousand

| | 1.1-31.12.2013 | 1.1-31.12.2012 |
|---|---|---|
| **Dividends recognised in parent's accounts during the year earned, rather than the year the resolution was passed to distribute profit:** | **1,390** | **90,101** |
| Norica Investment Ltd., Jersey | 1,009 | 6,735 |
| HYPO ALPE-ADRIA-BANK AG, Klagenfurt | 0 | 48,000 |
| Hypo Alpe-Adria-Bank d.d., Zagreb | 0 | 34,585 |
| HBInt Credit Management Limited, Jersey | 381 | 781 |
| **Dividends received** | **6,037** | **5,441** |
| HYPO ALPE-ADRIA-BANK AG, Klagenfurt | 0 | 1,084 |
| Hypo Alpe-Adria-Bank d.d., Zagreb | 165 | 0 |
| Norica Investment Ltd., Jersey | 3,330 | 0 |
| Hypo Consultants Holding GmbH | 146 | 260 |
| HBInt Credit Management Limited, Jersey | 2,337 | 4,011 |
| Other | 59 | 86 |
| **Total** | **7,427** | **95,542** |

Impairment write-downs and other income and expenses connected to participations arising in 2013 are shown under the items "13./14. Net income/expense from remeasurement disposal of securities treated as financial asset, and from investments in associated and affiliated companies".

## (23) Net fee and commission income

The breakdown of fee and commission income is as follows:

EUR thousand

| | 1.1-31.12.2013 | 1.1-31.12.2012 |
|---|---|---|
| **From the lending business** | **–70,615** | **–16,672** |
| Fee and commission income | 8,442 | 12,280 |
| Fee and commission expenses | –79,057 | –28,952 |
| **From the securities business** | **–764** | **–1,009** |
| Fee and commission income | 1 | 75 |
| Fee and commission expenses | –765 | –1,084 |
| **From other transactions** | **–49** | **150** |
| Fee and commission income | 543 | 678 |
| Fee and commission expenses | –592 | –528 |
| **Total** | **–71,428** | **–17,531** |

Fee and commission expenses amounting to EUR 18.2 million in the 2013 financial year (2012: EUR 20.0 million) are as a result of the liability commission paid to the Republic of Austria in conjunction with the EUR 200 million guarantee agreement dating from 2010 (please also see note (31)) and liability expenses of EUR 57.5 million, resulting from the two government-backed bonds (GGB). The latter was reported under Other administrative expenses in 2012.

## (24) Other administration expenses (operating expenses)

The breakdown of other administration expenses is as follows:

EUR thousand

| | 1.1-31.12.2013 | 1.1-31.12.2012 |
|---|---:|---:|
| Legal and consultancy costs | 24,013 | 15,840 |
| Liability costs for government-guaranteed issues | 0 | 10,737 |
| Advertising expenses | 1,241 | 1,129 |
| Rental and leasing expenses | 4,988 | 5,035 |
| IT costs | 3,843 | 3,433 |
| Data centre costs | 5,335 | 2,010 |
| Training expenses | 842 | 1,264 |
| Issue costs | 140 | 861 |
| Travel expenses | 1,148 | 1,423 |
| Fleet costs | 713 | 926 |
| Insurance | 2,188 | 1,400 |
| Telephone/postage costs | 584 | 586 |
| Costs in connection with company legal structure | 282 | 205 |
| Office/stationery costs | 99 | 107 |
| Miscellaneous operating expenses | 4,334 | 4,276 |
| **Total** | **49,750** | **49,232** |

As a result of Hypo Alpe-Adria-Bank International AG's function as a holding company, some of the centrally procured third-party services are charged out to the group companies and the income from this is shown as other operating income.

## (25) Other operating income

The breakdown of other operating income is as follows:

EUR thousand

| | 1.1-31.12.2013 | 1.1-31.12.2012 |
|---|---:|---:|
| Income from rental and leasing contracts | 377 | 469 |
| Income from release of provisions | 6,894 | 11,722 |
| IC group internal charging | 10,576 | 12,735 |
| Other operating income | 629 | 2,553 |
| Income from selling real estates | 36 | 55 |
| **Total** | **18,512** | **27,534** |

## (26) Other operating expenses

This item, totalling EUR 31,080 thousand (2012: EUR 19,500 thousand), includes penalty expenses of EUR 18,295 thousand relating to the violation of minimum own capital funds requirements and the limitation of large exposures. It also includes expenses of EUR 9,200 thousand for incidental costs relating to the sale of participations and EUR 3,000 thousand for other contractual penalties.

### (27) Net gain/loss from the remeasurement and disposal of receivables, contingent liabilities, loan exposures and securities held as current assets

In 2013, this item, totalling EUR 850,802 thousand (2012: EUR 15,033 thousand), included impairments of EUR 516,963 thousand (2012: EUR 104,333 thousand) resulting from the allocation of provisions to lines of credit to subsidiaries. Allocated risk provisions to third-party customers amounted to EUR 345,984 thousand (2012: net allocation of EUR 47,790 million). This item also includes expenses of EUR 1,932 thousand (2012: income of EUR 31,165 thousand) from the reversal of derivative items. Existing swaps, which had previously been hedged, were reversed as the underlying transaction no longer exists. This item also include income of EUR 4,047 thousand (2012: EUR 68,015 thousand) from the reversal of a provision relating to supplementary capital bonds issued by the bank.

### (28) Net gain/loss from the impairments treated as financial assets and from investments in associated and affiliated companies

In 2013, this item, totalling EUR 1,835,436 thousand (2012: EUR 263,892 thousand), included negative measurement effects from participation of EUR 1,458,473 thousand (2012: EUR 167,256 thousand). Most of these impairments result from the SEE banking network, which had to be impaired to the expected disposal income.

The income generated in connection with banking book securities classified as fixed assets came to EUR 3,213 thousand and was thus slightly higher than the previous-year amount (2012: EUR 2,652 thousand).

### (29) Extraordinary result

The extraordinary result item in the amount of EUR +129,735 thousand (2012: EUR +7,357 thousand) includes the winding-up of the fund allocated in 2012 for general banking risks (EUR 153,000 thousand).

In addition, the extraordinary result includes the expenses from dealing with the past of the Hypo Alpe Adria Group ("CSI" or "Forensics"). The expenses arising to the bank primarily relate to forensic and legal consultancy costs, as well as the costs of legal proceedings. The item includes both costs which have been incurred in 2013 as well as estimates of future costs which the bank will incur from dealing with individual cases. Associated expenses amounted to EUR 23,285 thousand in 2013 (2012: EUR 5,568 thousand).

# VI. SUPPLEMENTARY INFORMATION

## (30) Assets pledged as collateral pursuant to section 64 (1) (8) BWG

Assets classed as other current assets and with a value of EUR 1,645,858 thousand (2012: EUR 1,335,701 thousand) were pledged as collateral for liabilities to credit institutions, in accordance with section 64 (1) (8) BWG.

The affected assets, primarily cash collaterals and securities held at Oesterreichische Nationalbank (OeNB), will continue to be recognised in Hypo Alpe-Adria-Bank International AG's balance sheet.

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Loans and advances to credit institutions | 470,612 | 378,162 |
| Securities | 1,175,246 | 957,539 |
| **Total** | **1,645,858** | **1,335,701** |

The loans and advances to credit institutions result from cash collaterals which are typical for the sector, pledged in connection with negative fair value from derivatives. Cash collaterals received for positive fair value are shown as liabilities to credit institutions.

Securities of EUR 126,225 thousand (2012: EUR 152,745 thousand) were lent within the scope of the securities lending business.

## (31) Debt evidenced by certificates falling due in the following year

In 2013, debt evidenced by certificates as defined in section 64 (1) (7) BWG issued by Hypo Alpe-Adria-Bank International AG and amounting to EUR 1,133,479 thousand (prior-year figure relating to 2012: EUR 2,201,095 thousand) shall become due.

## (32) Important proceedings

### 32.1. EU proceedings

The EU's state aid investigation into Hypo Alpe Adria was concluded in 2013.

Following the capital measures at Hypo Alpe-Adria-Bank International AG instituted by the Republic at the end of 2012 (EUR 500.0 million capital increase and the issuing of a state-guaranteed bond in the amount of EUR 1.0 billion), the European Commission imposed conditions (Behavioural Measures) with a decision dated 5 December 2012; the Behavioural Measures came into force on 1 January 2013 and mainly relate to the management of new business. The requirements stipulate, among other things, specific levels of creditworthiness, collateralisation ratios and terms, regulate the issue of foreign currency loans, and boost the level of self-refinancing 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.

Following a request by the European Commission, the restructuring plan up until that point was fundamentally revised and the talks between Vienna and Brussels were given a new structure under the direction of the sole owner, the Republic of Austria. The talks relate to the concrete ultimate form of the conditions that will probably need to be met when implementing the European Commission's final decision in terms of the schedule for sale and market presence. In line with the European Commission's resolution dated 3 September 2013, the acquisition of new lending and leasing customers was ceased and the bank allocated to wind-down activities. Operating units in the Balkan states were further developed as part of more intensive voting and governance guidelines as required by the European Commission's "behavioural measures."

On 3 September 2013, the European Commission presented its final report on the investigation into the state aid provided to Hypo Alpe Adria. This was based on the restructuring plan, which was presented at the end of June 2013. The new business requirements must be complied with until the bank has been reprivatised. The plan provides for the reprivatisation of the SEE network banks by mid-2015. The sale (closing) of the Austrian subsidiary bank – required by mid-2014 – was completed in 2013 in compliance with the European Commission's sale deadline. The Italian subsidiary bank was also allocated to the wind-down segment as at 1 July 2013. The resolution prepared by the shareholder and the European Commission, and adjusted for competition law-relevant data, was published in October 2013. An independent Monitoring Trustee will continue to monitor compliance with the restructuring plan as well as the imposed behavioural measures.

### 32.2. Proceedings relating to BayernLB

Hypo Alpe-Adria-Bank International AG, together with experts, has thoroughly analysed whether the financing extended to Hypo Alpe Adria by the former shareholder BayernLB since 2008 constitutes an equity-substituting shareholder's loan. On the basis of this and other investigations, the criteria for a qualification as replacement equity as stated in the law on equity substitution (Eigenkapitalersatz-Gesetz, EKEG) are seen to be met in all. Following Sec. 14 EKEG, a mandatory suspension of repayments applies regarding these financing lines granted by BayernLB. Accordingly, repayments on the relevant funds have to be suspended until a sustainable restructuring of Hypo Alpe Adria has been achieved and reclaiming by BayernLB is not permitted until such time. Payments already made on the majority of received funds have to be reclaimed from BayernLB. The outstanding loans amount to some EUR 2.3 billion. Moreover, Hypo Alpe-Adria-Bank International AG has also made repayments and interest rate payments also totalling approximately EUR 2.5 billion on the loans granted by BayernLB since 2008.

BayernLB has filed an application for a declaratory judgement at the District Court of Munich regarding the BayernLB equity replacement loans. Hypo Alpe-Adria-Bank International AG considers the claim to be unfounded and has contested the judgement. BayernLB has since converted the claim as one for payment. The first oral hearing was held on 25 November 2013; the bank is awaiting the refund of a court-commissioned legal report into the Austrian law on equity substitution (EKEG). 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 billion (including ancillary claims).

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; this is expected to continue until autumn 2014 at the least.

### 32.3. Other proceedings

#### a) Proceedings relating to the State of Carinthia

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 loss allocated to the participation capital is invalid and the entitlement of the participant involved to future interest payments 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 appealed 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; Hypo Alpe-Adria-Bank International AG was permitted to respond to the appeal in good time. The Supreme Court has yet to reach its decision.

#### b) Proceedings relating to loans and participations

At the end of 2010, a borrower filed a lawsuit against Hypo Alpe-Adria-Bank d.d., Zagreb, and against Hypo Alpe-Adria-Bank International AG. The action was only formally brought against Hypo Alpe-Adria-Bank International AG in November

2012. The plaintiff argues that the project related to the loan, the financing of a hotel in Croatia, should have received further financing/financing sufficient for its completion, above and beyond the credit lines previously granted. The plaintiff's claim is targeted at compensation for damages as well as loss of earnings; the amount in dispute is around EUR 130.0 million. Hypo Alpe Adria assumes that there is no basis whatsoever for this lawsuit in view of the borrower's previous violations of the contract and the improper use of funds which led to the termination of the credit lines. The complaint was answered in due time. A committee of creditors for one of the joint plaintiffs, which has since become insolvent, has withdrawn this com-plaint. The cases against the other joint plaintiffs continue.

Forensic investigations have been underway at Alpe Adria Privatbank AG i.L. Liechtenstein in Liquidation since the end of 2012; these were conducted by liquidator Ernst &Young Zürich under the direction of members of the administrative board and with the aid of Group Forensics (HBInt).

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 50 reports to the FIU/Liechtenstein public prosecutors, which will forward all facts relevant in Austria to Austrian authorities. Investigations relating to the processing of past cases in Liechtenstein are likely to last for the whole of 2014.

In working to process past cases (1,200 individual cases in eleven countries), a total of 86 cases relating to 117 individual cases were presented to the relevant public prosecutors in the Hypo Alpe Adria's Group countries as at reporting date 31 December 2013. The resulting criminal damages amount to approximately EUR 1.2 billion. Seven civil suits in which claims for EUR 109 million are being asserted have been filed with the courts.

Forensic project teams were established in Bulgaria and Italy during the course of 2013 to investigate malversion regarding fraudulent lending, interest calculations and service billing. The investigations in these countries are likely to last for the whole of 2014.

#### c) Proceedings relating to investors and experts

In April 2012, an investor filed a claim at the Regional Court in Klagenfurt against Hypo Alpe-Adria-Bank International AG asserting damages, warranty claims and made an application for a declaratory judgement. Specifically, the plaintiff calls for the repayment of the nominal value (including statutory interest on arrears) of a supplementary capital bond issued by Hypo Alpe-Adria-Bank International AG and redeemed in April 2011 at no value due to the statute on loss allocation contained in section 23 (7) (3) BWG. The plaintiff also calls for the payment of interest due on the bond from April 2009 to April 2011, including statutory interest on arrears. Hypo Alpe-Adria-Bank International AG takes the view that the redemption of the bond at no value upon reaching final maturity was correct. The first hearing before the Regional Court in Klagenfurt was only held in December 2013 due to multiple judge changes. At these hearings, it was decided to delegate the case to Commercial Court in Vienna.

In legal correspondence dated 23 September 2013, two investors filed a case against Hypo Alpe-Adria-Bank International AG in relation to the hybrid capital issued via two companies in Jersey. They claimed an alleged breach of contract in connection with the "HLH preference shares." No judicial assertion or details of the alleged claims as to reasons or amount have yet been given.

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 reversed the decision and returned it to the first instance for a new hearing. An appeal was filed against this ruling. The Supreme Court has yet to rule on the issue. 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.

#### d) 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 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 above-mentioned 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. Preliminary hearings were held between 24 February and 19 March 2014; the taking of evidence started on 12 May 2014 and is likely to last until the end of 2014 at the earliest.

### (33) Guarantee by the State of Carinthia

The legal guarantee of the State of Carinthia for all commitments of Hypo Alpe-Adria-Bank International AG is a statutory guarantee pursuant to section 1356 of the Austrian Civil Code (ABGB) and covers all commitments entered into before 3 April 2003 as well as commitments entered into between 3. April 2003 and 1 April 2007 whose term does not extend beyond 30 September 2017. The State will not guarantee any commitments entered into after 1 April 2007. The terms of the guarantee are regulated in the Carinthian State Holding Law (K-LHG).

A guarantee commission agreement between the State of Carinthia and Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) provides for a guarantee commission of 1 per mille p.a. of the amount guaranteed to be paid. Availing themselves of the contractually agreed rights to termination, notice was given by Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG (Austria) to terminate the guarantee commission agreement as at 31 December 2011, whereby the contractual obligation to pay guarantee commission would cease. Irrespective of the termination of this contractual guarantee commission agreement, the state guarantee provided for in law in section 5 of the Carinthian State Holding Law (K-LHG) applies. The supervisory commissioner of the Carinthian State holding company will continue to be given access to all relevant information at Hypo Alpe-Adria-Bank International AG.

Divergent legal positions exist between the bank and the State of Carinthia on the guarantee commission for 2011 that the bank has yet to pay. For the time being, the bank has entered into a waiver of statute of limitation (until 31 December 2015) against the state. In return, the State of Carinthia undertakes not to file a suit against the bank for the time being.

As at 31 December 2013, the State of Carinthia must extend guarantees for fixed-term and non-fixed-term commitments from Hypo Alpe-Adria-Bank International AG with a total value of EUR 12.2 billion (2012: EUR 13.9 billion).

### (34) Material agreements

On 28 December 2010, a guarantee agreement was concluded between the Republic and Hypo Alpe-Adria-Bank International AG, with the Republic taking on liability as a statutory guarantor pursuant to section 1356 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 provide for current liability commission for claims for which the guarantee was utilised only in the event the certain financial key figures (including covering the guarantee fees with profit) are met.

A claim on the guarantee given by the Republic of Austria was made for the first time in the second half of 2012 for two loans for which the relevant legal consequences apply.

In the event that these receivables are utilised, the Republic of Austria is also entitled to regress from Hypo Alpe-Adria-Bank International AG, dependent on certain key financial figures (including covering the distributable profit). The European Commission provisionally approved the initial guarantee agreement on 19 July 2011 until a final decision is made on the aid given to all banks. The European Commission was informed in advance of the possibility of extending the guarantee. The resolution of the European Commission dated 3 September that concluded the investigations into state aid gave final approval to the initial guarantee. The extension of the guarantee agreement was correctly reported to the European Commission, which also gave its approval.

From 1 January 2005 the group taxation option was exercised, with Hypo Alpe-Adria-Bank International AG acting as the lead company. The Group Taxation Agreement drawn up for this purpose includes, in addition to the compulsory arrangement on tax reconciliation (invoicing and settlement of tax contributions) in accordance with section 9 (8) KStG (Austrian Corporation Tax Law), the respective rights and duties of the lead company and group members. This covers in particular the procedure for filing the group application, calculation of each of the group members' tax results, rights to receive/duty to provide information, ceasing to be a member of the group, duration and dissolution of the group. The tax contribution method applied is essentially based on charges and any advantage arising is distributed to group members by means of a fixed charge/credit rate.

## (35) Own capital funds

The breakdown of own capital funds as defined in the Austrian Banking Act (BWG) and the Solvency Regulations (SolvaV) is as follows for Hypo Alpe-Adria-Bank International AG as a single institution:

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Core capital (Tier 1)** | **158,958** | **1,309,655** |
| Paid-in capital | 2,808,637 | 1,308,637 |
| Reserves | 497,165 | 247,165 |
| Funds for general banking risks | 0 | 153,000 |
| Intangible assets | –3,394 | –3,279 |
| Net accumulated losses | –3,143,450 | –395,868 |
| **Supplementary elements (Tier 2)** | **79,479** | **654,828** |
| Supplementary capital | 0 | 0 |
| Subordinated capital | 79,479 | 654,828 |
| **Deductions pursuant to section 23 (13) BWG** | **–7,390** | **–6,960** |
| **Tier 3 (reclassified Tier 2 capital)** | **0** | **9,494** |
| **Own capital funds** | **231,047** | **1,967,017** |
| **Own capital funds requirement according to BWG** | **990,205** | **1,314,781** |
| **Surplus/shortfall capital** | **–759,158** | **652,236** |
| **Surplus/shortfall (Tier 1)** | **–500,649** | **434,824** |
| Coverage | 23.3% | 149.6% |

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Risk-weighted basis for assessment in acc. with section 22 BWG (banking book)** | **12,035,341** | **15,948,857** |
| thereof 8% minimum own funds requirements | 962,827 | 1,275,909 |
| own funds requirement in acc. with section 22 (o) BWG (securities trading book) | 37 | 31 |
| own funds requirement in acc. with section 22 (o) BWG (open foreign exchange position) | 9,769 | 9,463 |
| own funds requirement – operational risk | 17,572 | 29,378 |
| **Total own capital funds requirement** | **990,205** | **1,314,781** |

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Assessment basis banking book (risk-weighted)** | **12,035,341** | **15,948,857** |
| Tier 1 ratio | 1.3% | 8.2% |
| Own capital funds ratio | 1.9% | 12.3% |
| **Assessment basis including market and operational risk** | **12,377,566** | **16,434,757** |
| Tier 1 ratio | 1.25% | 7.95% |
| Own capital funds ratio | 1.87% | 11.97% |

EUR thousand

| Large exposure limits according to BWG | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Assessment basis according to section 27 BWG** | **231,048** | **1,957,523** |
| thereof 10% according to section 27 Z 2 | 23,105 | 195,752 |
| thereof 25% according to section 27 Z 7 | 57,762 | 489,381 |

The breakdown of the own capital funds of the group as defined in the Austrian Banking Act (BWG) is as follows:

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Core capital (Tier 1)** | **1,808.2** | **2,022.1** |
| Paid-in capital | 2,808.6 | 1,308.6 |
| Reserves (incl. non-controlling interests in equity) | 828.5 | 774.4 |
| Funds for general banking risks | 0.7 | 153.7 |
| Intangible assets | –11.8 | –33.0 |
| Deduction net loss, material negative results | –1,817.8 | –181.6 |
| **Supplementary elements (Tier 2)** | **904.1** | **1,011.0** |
| Supplementary capital | 0.0 | 0.0 |
| Subordinated capital | 904.1 | 1,011.0 |
| **Deduction according to section 23 (13) BWG** | **–6.7** | **–9.0** |
| **Tier 3 (reclassified Tier 2 capital)** | **34.1** | **33.0** |
| **Own capital funds according to BWG** | **2,739.8** | **3,057.1** |
| **Own capital funds requirement according to BWG** | **1,473.8** | **1,883.2** |
| **Surplus/shortfall capital** | **1,266.0** | **1,173.9** |
| **Surplus/shortfall (Tier 1)** | **834.3** | **782.6** |
| Coverage | 185.9% | 162.3% |

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Risk-weighted basis for assessment in acc. with section 22 BWG (banking book)** | **16,643.6** | **21,323.5** |
| thereof 8% minimum own funds requirements | 1,331.5 | 1,705.9 |
| Own capital funds requirement – securities trading book | 6.0 | 8.1 |
| Own capital funds requirement – open foreign exchange position | 28.1 | 24.9 |
| Own capital funds requirement – operational risk | 108.2 | 144.3 |
| **Total own capital funds requirement** | **1,473.8** | **1,883.2** |

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Assessment basis banking book (risk-weighted)** | **16,643.6** | **21,323.5** |
| Tier 1 ratio | 10.8% | 9.5% |
| Own capital funds ratio | 16.5% | 14.3% |
| **Assessment basis incl. market and operational risk** | **18,422.2** | **23,540.1** |
| Tier 1 ratio | 9.8% | 8.6% |
| Own capital funds ratio | 14.9% | 13.0% |

EUR m

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **The group's large exposure limits according to BWG** | | |
| Assessment basis according to section 27 BWG | **2,705,724** | **3,024,090** |
| thereof 10% according to section 27 Z 2 | 270,572 | 302,409 |
| thereof 25% according to section 27 Z 7 | 676,431 | 756,023 |

In the 2013 financial year, Hypo Alpe-Adria-Bank International AG, as the ultimate holding company of Hypo Alpe Adria, was not in permanent compliance with the minimum own funds requirements as defined by the Austrian Banking Act, not at single institution or group level. At single institution level, the own capital fund ratios as at the end of June, July and August amounted to 1.63%, 1.49% and 0.79% respectively, while at group level they amounted to 7.62%, 7.94% and 7.36% respectively, below the statutory minimum of 8.0%. The bank was once again in compliance with statutory requirements following the EUR 700.0 million capital measure implemented by the shareholder in September 2013. Two additional capital measures in the amount of EUR 250.0 million, in the form of a shareholder contribution, and EUR 800.0 million, in the form of participation capital, were implemented in November and December 2013 respectively.

However, valuation period of the accounting of the separate financial statements for Hypo Alpe-Adria-Bank International AG in accordance with UGB/BWG revealed the need for additional risk provisions and write-downs on the value of the participation of the SEE network. This in turn resulted in the bank falling short of minimum own funds requirements as at 31 December 2013. The own capital funds ratio of the single institution consequently declined to 1.87% (core capital ratio: 1.25%). The shareholder resolved a further capital increase of EUR 750.0 million at the general shareholders' meeting held on 9 April 2014.

Provisions were therefore set aside accordingly in the 2013 annual financial statements for the penalties pursuant to section 97 (1) BWG pending for the violations.

### (36) Group structure/owners

Hypo Alpe-Adria-Bank International AG has been wholly owned by the Republic of Austria since 30 December 2009.

Hypo Alpe-Adria-Bank International AG is the ultimate parent company of the whole Hypo Alpe Adria group of companies. The consolidated financial statements for the group will be published in the official gazette (Wiener Zeitung) as well as on www.hypo-alpe-adria.com (-> Investor Relations ->Financial reports). Hypo Alpe-Adria-Bank International AG complies with the disclosure obligation pursuant to section 26 BWG on the basis of its consolidated financial position. Disclosure is made in the commercial register as well as at the address of Hypo Alpe-Adria-Bank International AG, Alpen-Adria-Platz 1, 9020 Klagenfurt am Wörthersee.

### (37) Audit expenses

The costs for the services of the audit company Ernst & Young, by area of activity, were as follows:

EUR thousand

| | 1.1-31.12.2013 | 1.1-31.12.2012 |
|---|---|---|
| **Audit fees for the annual financial statements** | **505** | **497** |
| Expenses for current year | 505 | 497 |
| Expenses relating to prior year | 0 | 0 |
| **Fees for other services** | **107** | **178** |
| Other assurance services | 30 | 71 |
| Tax consultancy | 0 | 0 |
| Other services | 77 | 107 |
| **Total** | **612** | **675** |

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (Vienna) was appointed to audit the financial statements for the 2013 financial year. The total audit expenses for the 2013 financial year amount to EUR 612 thousand (2012: EUR 675 thousand), of which EUR 597 thousand (2012: EUR 671 thousand) are for fees (excluding VAT) and EUR 16 thousand (2012: EUR 4 thousand) are for cash outlays. In addition to the services invoiced by the appointed auditors, Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (Vienna), invoices for services rendered directly by other companies within the Ernst & Young network to Hypo Alpe-Adria-Bank International AG have been included in the total sum.

The expenses for the audit of the financial statements do not include those expenses which are clearly separable from the costs for the audit of the consolidated financial statements. Where there is a flat-rate fee, the costs are all allocated to the expenses for the audit of the financial statements.

## (38) Other supplementary information

Liabilities to customers do not include any trustee savings accounts.

Participations in the leasing business within the meaning of section 64 (1) (1) BWG relate to the interests in Hypo Leasing d.o.o. (Ljubljana) as well as Hypo Alpe-Adria-Leasing OOD (Sofia) and Hypo Alpe-Adria-Autoleasing OOD (Sofia) and amount to EUR 0 thousand (2012: EUR 14,640 thousand).

Deferred tax assets (25%) not disclosed separately in the balance sheet and whose capitalisation is required according to section 198 (10) UGB amount to EUR 0 thousand (2012: EUR 0 thousand).

No income taxes impacted the extraordinary result of Hypo Alpe-Adria-Bank International AG (2012: EUR 10.1 million). The actually recognised tax expenses also include the tax contributions of EUR 1,447 thousand (2012: EUR 3,881 thousand) to group members pursuant to section 9 KStG.

The return on total assets (the ratio of profit for the year after taxes divided by total assets as at the reporting date) amounted to -15.5% for 2013.

Mortgage bond activities pursuant to PfandG were as follows:

EUR thousand

| | Debt evidenced by certificates | | Covering loans | | Surplus/shortfall in cover | |
|---|---|---|---|---|---|---|
| | 31.12.2013 | 31.12.2012 | 31.12.2013 | 31.12.2012 | 31.12.2013 | 31.12.2012 |
| Public sector mortgage bonds | 274,879 | 279,009 | 1,202,722 | 477,347 | 935,866 | 206,279 |

The balance sheet contains the following foreign currency amounts (equivalent value in EUR thousand):

EUR thousand

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Assets | 2,750,229 | 3,550,907 |
| Equity and liabilities | 3,160,315 | 3,339,101 |

The greater part of the EUR 410,086 thousand (2012: EUR 211,805 thousand) difference is hedged through currency swaps, cross-currency swaps and forward rate transactions.

There were no transactions concluded with related parties within the meaning of IAS 24, at conditions which were not typical for this sector.

## (39) Employees

The average number of employees (full-time equivalent) during the year for the purposes of section 239 (1) (1) UGB was as follows:

| | 2013 | 2012 |
|---|---|---|
| Salaried employees | 552 | 587 |
| Hourly-paid employees | 0 | 0 |
| **Total** | **552** | **587** |

### (40) Expenses for severance payments and pensions

These expenses as defined in section 239 (1) (3) UGB break down as follows:

EUR thousand

| | 1.1-31.12.2013 | | 1.1-31.12.2012 | |
|---|---|---|---|---|
| | Severance pay | Pensions | Severance pay | Pensions |
| Members of Executive Board | 32 | 86 | 35 | 0 |
| Key management personnel | 108 | 11 | 596 | 0 |
| Other employees | 1,008 | 247 | 1,412 | 92 |
| **Total** | **1,148** | **345** | **2,043** | **92** |

The expenses for severance payments and payments into the company's employee benefits fund break down into EUR 595 thousand (2012: EUR 1,493 thousand) for severance payments and EUR 553 thousand (2012: EUR 550 thousand) for payments into the company's employee benefits fund.

### (41) Information about members of the management bodies

The management bodies in the year under review are shown in Schedule 2 to the notes.

#### 41.1. Advances, loans and guarantees in respect of members of the management bodies

Until it was sold, all transactions relating to members of the Executive and Supervisory Boards were carried out through the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG, Klagenfurt am Wörthersee. Hypo Alpe-Adria-Bank AG was sold to an international investor in May 2013; the transaction was concluded (closed) on 19 December 2013. As at 31 December 2013, all pre-existing relationships with this bank are classified as relationships with an external bank.

Within the scope of the sale of Hypo Alpe-Adria-Bank AG (Austria), compensation was agreed for all favourable loan rates granted to employees.

#### 41.2. Remuneration of members of the Executive and Supervisory Boards

The breakdown of sums paid out to members of the Executive and Supervisory Boards during the financial year is as follows:

EUR thousand

| | 1.1-31.12.2013 | 1.1-31.12.2012 |
|---|---|---|
| **Executive Board** | **2,219** | **2,474** |
| of which on-going payments | 2,219 | 2,474 |
| **Supervisory Board** | **227** | **128** |
| **Remuneration paid to former members of the Executive and Supervisory Board and their surviving dependants** | **513** | **464** |
| thereof payments after termination | 513 | 464 |
| thereof related to termination | 0 | 0 |
| **Total** | **2,959** | **3,066** |

Remuneration of members of the Supervisory Board for 2013 (and 2012) did not include any variable elements.

Klagenfurt am Wörthersee, 14 April 2014
Hypo Alpe-Adria-Bank International AG
Executive Board

Alexander Picker
(Chairman)

Johannes Proksch

Rainer Sichert

# Fixes assets movement schedule Annex 1 to the notes to the financial statements

| | Asset | Acquisition costs 01.01.2013 | Addition 2013 | Disposals 2013 | Reclassifications 2013 |
|---|---|---|---|---|---|
| 2. | **Treasury bills** | | | | |
| | Financial investments | 211,583,480.39 | 4,643.86 | –6,419,449.70 | –5,050,302.86 |
| 3. | **Loans and advances to credit institutions** | | | | |
| | Financial investments | 0.05 | 0.00 | 0.00 | 0.00 |
| 4. | **Loans and advances to customers** | | | | |
| | Financial investments | 282,545,900.24 | 34,277.60 | –18,885,993.25 | 0.00 |
| 5. | **Bonds and other fixed income securities** | | | | |
| | Financial investments | 325,923,471.21 | 2,938,375.48 | –23,750,000.72 | 5,050,302.86 |
| 7. | **Shares in associated companies** | 2,892,306.17 | 0.00 | –1,173,208.71 | 17,374,701.48 |
| 8. | **Shares in affiliated companies** | 4,739,394,978.74 | 546,850,341.20 | –676,292,752.87 | –17,374,701.48 |
| 9. | **Intangible fixed assets** | 11,602,995.68 | 2,994,124.77 | –569,806.44 | 0.00 |
| 10. | **Tangible fixed assets** | 8,436,681.76 | 2,022,714.42 | –842,237.37 | 0.00 |
| | **Total** | **5,582,379,814.24** | **554,844,477.33** | **–727,933,449.06** | **0.00** |

| Acquisition costs 31.12.2013 | Accumulated depreciation | Accumulated write-ups | Carrying amount 31.12.2013 | Carrying amount 31.12.2012 | Write-ups 2013 | Depreciation 2013 |
|---|---|---|---|---|---|---|
| 200,118,371.69 | −20,369,590.16 | 0.00 | 179,748,781.53 | 191,213,890.23 | 0.00 | 0.00 |
| 0.05 | 0.00 | 0.00 | 0.05 | 0.05 | 0.00 | 0.00 |
| 263,694,184.59 | −27,579,492.48 | 0.00 | 236,114,692.11 | 251,982,326.83 | 0.00 | 0.00 |
| 310,162,148.83 | −86,995,829.44 | 0.00 | 223,166,319.39 | 237,960,556.64 | 0.00 | −8,750.00 |
| 19,093,798.94 | −14,230,609.66 | | 4,863,189.28 | 772,697.62 | 0.00 | −250,465.63 |
| 4,592,577,865.59 | −3,688,880,189.47 | 272,896,141.72 | 1,176,593,817.84 | 2,471,863,302.14 | 0.00 | −1,770,568,823.50 |
| 14,027,314.01 | −10,633,565.71 | 0.00 | 3,393,748.30 | 3,278,846.72 | 0.00 | −2,644,659.12 |
| 9,617,158.81 | −3,552,464.35 | 0.00 | 6,064,694.46 | 6,792,667.80 | 0.00 | −2,724,546.47 |
| **5,409,290,842.51** | **−3,852,241,741.27** | **272,896,141.72** | **1,829,945,242.96** | **3,163,864,288.03** | **0.00** | **−1,776,197,244.72** |

# Management bodies Annex 2 to the notes to the financial statements

**1 January to 31 December 2013**

## Members of the Supervisory Board

**Chairman of the Supervisory Board**
Johannes DITZ, until 3 June 2013
Klaus LIEBSCHER, from 21 June 2013

**Deputy Chairman of the supervisory Board**
Rudolf SCHOLTEN

**Members of the Supervisory Board**
Helmut DRAXLER
Alois STEINBICHLER
Ludwig SCHARINGER, from 21 June 2013
Adolf WALA, from 30 April 2013
Klaus LIEBSCHER, from 30 April 13

**Delegated by the Works Council**
Gerhard PLIESCHNIG, Chairman of the Works Council
Richard JOHAM

## Federal Supervisory Authorities

**State Commissioner**
Alexander PESCHETZ

**Depute State Commissioner**
Monika HUTTER

## Trustees

Alexander PESCHETZ, Federal Ministry of Finance

**Deputy**
Jakob KÖHLER, Federal Ministry of Finance

## Executive Board

Gottwald KRANEBITTER, Chairman,
until 31 August 2013
Wolfgang EDELMÜLLER, Deputy Chairman
Johannes PROKSCH, Member
Rainer SICHERT, Member

For more details on the changes to the composition Executive Board and the Supervisory Board, please refer to the explanations contained in the management report under Events after the balance sheet date.

# List of shareholdings Annex 3 to the notes to the financial statements

**pursuant to section 238 UGB**

1. Direct equity investments of Hypo Alpe-Adria-Bank International AG

The following list shows the direct equity investments held by Hypo Alpe-Adria-Bank International AG (more than 20%) pursuant to section 238 (2) UGB:

| Name of enterprise | Registered office | Capital share | Equity in EUR thousand | Profit/Loss in EUR thousand | Date of closing | Line of business |
|---|---|---|---|---|---|---|
| HYPO Vermögensverwaltung Gesellschaft m.b.H. | Klagenfurt am Wörthersee | 100.000 | 3,948 | –307 | 31.12.2013 | NDL |
| HYPO Consultants Holding GmbH | Klagenfurt am Wörthersee | 100.000 | 9,808 | 146 | 31.12.2012 | SU |
| Hypo Alpe-Adria Jersey Limited | St. Helier - Jersey | 100.000 | 0 | 0 | 31.12.2012 | SU |
| Alpe Adria Privatbank AG in liquidation | Vaduz | 100.000 | 8,491 | –1,076 | 31.12.2012 | KI |
| Hypo Alpe-Adria-Immobilien GmbH | Klagenfurt am Wörthersee | 100.000 | –6,824 | –3,548 | 31.12.2013 | NDL |
| HYPO ALPE-ADRIA-MARKETING UND ADVERTISING GmbH in Liqu. | Klagenfurt am Wörthersee | 100.000 | 365 | –3 | 31.12.2012 | SU |
| ALPE-ADRIA GASTRONOMIE GMBH | Klagenfurt am Wörthersee | 100.000 | –18 | –65 | 31.12.2012 | SU |
| HBInt Credit Management Limited (Subgroup) | St. Helier - Jersey | 51.000 | 552,536 | 5,645 | 31.12.2013 | FI |
| Alpe Adria Venture Fund GmbH & Co KG | Klagenfurt am Wörthersee | 100.000 | 2,770 | –1,551 | 31.12.2012 | SU |
| TCK d.o.o. | Ljubljana | 100.000 | –104,733 | –80,943 | 31.12.2013 | NDL |
| GRAND HOTEL LAV d.o.o. | Podstrana | 100.000 | –13,366 | –26,522 | 31.12.2012 | SU |
| GRAND MARINA LAV d.o.o. | Podstrana | 100.000 | 456 | 107 | 31.12.2012 | SU |
| IMPREGNACIJA - HOLZ d.o.o. Vitez[6)] | Vitez | 93.380 | - | - | - | SU |
| KONJUSKA d.o.o. | Primosten | 100.000 | –1,084 | 34 | 31.12.2012 | SU |
| HYPO CB d.o.o. | Ljubljana | 100.000 | - | - | founded in 2013 | SU |
| HYPO PREP d.o.o. | Ljubljana | 100.000 | - | - | founded in 2013 | SU |
| TCV d.o.o. | Ljubljana | 100.000 | –17,053 | –8,331 | 31.12.2013 | NDL |
| Hypo Group Netherlands Corporate Finance B.V.[5)] | Amsterdam Zuidoost | 100.000 | 1,465 | 11 | 31.12.2012 | SU |
| Hypo SEE Holding AG[7)] | Klagenfurt am Wörthersee | 100.000 | 20 | –5 | 31.12.2012 | SU |
| ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD | Novi Beograd | 100.000 | 5,365 | 1,204 | 31.12.2013 | NDL |
| HYPO ALPE-ADRIA-LEASING OOD[4)] | Sofia | 100.000 | –57,005 | –58,808 | 31.12.2013 | FI |

| Name of enterprise | Registered office | Capital share | Equity in EUR thousand | Profit/Loss in EUR thousand | Date of closing | Line of business |
|---|---|---|---|---|---|---|
| HYPO ALPE-ADRIA-AUTOLEASING OOD | Sofia | 100.000 | - | - | 31.12.2013 | FI |
| HYPO LEASING d.o.o. | Ljubljana | 100.000 | –55,872 | –113,059 | 31.12.2013 | FI |
| HYPO ALPE-ADRIA-BANK S.P.A. | Udine | 100.000 | 273,247 | –237,087 | 31.12.2013 | KI |
| Hypo Alpe-Adria (Jersey) II Limited | St. Helier - Jersey | 100.000 | 0 | 0 | 31.12.2012 | SU |
| Hypo Alpe Adria IT Holding GmbH | Klagenfurt am Wörthersee | 100.000 | 67 | –5 | 31.12.2012 | SU |
| Norica Investments Limited | St. Helier - Jersey | 51.000 | 506,772 | 16,603 | 31.12.2013 | FI |
| HYPO Facility Services GmbH in Liqu. | Klagenfurt am Wörthersee | 100.000 | 62 | –9 | 31.12.2013 | SU |
| REZIDENCIJA SKIPER d.o.o. | Savudrija | 100.000 | –22,863 | –1,658 | 31.12.2012 | SU |
| CEDRUS Handels- und Beteiligungs GmbH | Klagenfurt am Wörthersee | 100.000 | 4,626 | –247,583 | 31.12.2013 | NDL |

The equity and profit/loss values shown above were calculated uniformly in accordance with the provisions of UGB/BWG for consolidated companies and could therefore differ from the values shown in published separate financial statements, which were drawn up in each case in accordance with the national laws prevailing. The information is based on data prior to consolidation.

Hypo Alpe-Adria-Bank International AG transferred the following six investments in Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro to wholly-owned subsidiary HYPO SEE Holding AG, Klagenfurt am Wörthersee, by means of a contribution-in-kind and contribition agreement dated 28 June 2013:

| Name of enterprise | Registered office | Ownership[1] | Equity in EUR thousand[2] | Profit/loss in EUR thousand[3] | Date of closing | Line of business |
|---|---|---|---|---|---|---|
| HYPO ALPE-ADRIA-BANK d.d. | Ljubljana | 100.00 | 126,418 | -89,038 | 31.12.2013 | KI |
| HYPO ALPE-ADRIA-BANK d.d. (sub-group) | Mostar | 100.00 | 130,026 | -54,622 | 31.12.2013 | KI |
| HYPO ALPE-ADRIA-BANK d.d. | Zagreb | 100.00 | 664,894 | -84,854 | 31.12.2013 | KI |
| HYPO ALPE-ADRIA-BANK AD BEOGRAD | Belgrade | 100.00 | 250,260 | -44,399 | 31.12.2013 | KI |
| Hypo Alpe-Adria-Bank A.D. Banja Luka | Banja Luka | 99.78 | 100,196 | -33,324 | 31.12.2013 | KI |
| HYPO ALPE-ADRIA-BANK A.D. PODGORICA | Podgorica | 100.00 | 50,347 | -3,283 | 31.12.2013 | KI |

The accounting took into account expert opinion KFS/RL 25 “Rechnungslegung bei Umgründungen” (accounting for reorganisations) (expert opinion dated 3 December 2012).

Sub-groups: The values for equity and the result from the financial statements take into account the consolidated subsidiary companies

[1] Calculated percentage share from the point of view of Hypo Alpe-Adria-Bank International AG; minority shareholders with a holding smaller than 0.001% are not shown

[2] Equity = total equity for the company within the meaning of section 229 UGB plus untaxed reserves; proportional equity has not been shown

[3] Result = net profit/loss prior to reserves and non-controlling interests; pro-rata results have not been shown

[4] The equity and results for HYPO ALPE-ADRIA-AUTOLEASING OOD are included in the figures for the direct holding company HYPO ALPE-ADRIA-LEASING OOD

[5] The equity and profit/loss values shown for Hypo Group Netherlands Corporate Finance B.V. correspond to the subgroup amounts as at 31 December 2012 (including former parent company Hypo Group Netherlands Holding B.V. in liqidatie)

[6] IMPREGANCIJA – HOLZ d.o.o. is inactive and does not prepare a balance sheet

[7] Hypo SEE Holding AG (previously named ‘Hypo Phoenix Absicherungs GmbH’) is the sponsoring company of the investments in South-Eastern Europe (SEE)

2. Scope of consolidation pursuant to UGB/BWG

Hypo Alpe-Adria-Bank International AG prepares its official consolidated financial statements as at 31 December 2013 according to the International Financial Reporting Standards (IFRS). The published consolidated financial statements are based on the scope of consolidation according to IFRS and are disclosed separately.

For regulatory purposes, Hypo Alpe-Adria-Bank International AG is the superordinate credit institution, within the meaning of section 30 BWG, of the domestic group of credit institutions. The scope of consolidation for regulatory purposes is based on the provisions in UGB/BWG and has the following composition as at 31 December 2013:

| Name of associated enterprise | Registered office | C | Capital share [1] indirect | Line of business |
|---|---|---|---|---|
| Alpe Adria Privatbank AG in liquidation | Vaduz | AE | 100.000 | KI |
| HYPO-BA Leasing Süd GmbH | Klagenfurt am Wörthersee | AE | 50.000 | FI |
| HYPO ALPE-ADRIA-BANK d.d. | Ljubljana | F | 100.000 | KI |
| HYPO ALPE-ADRIA-BANK d.d. | Mostar | F | 99.998 | KI |
| HYPO-ALPE-ADRIA-INVEST d.o.o. Mostar | Mostar | F | 99.998 | FI |
| HYPO ALPE-ADRIA-BANK d.d. | Zagreb | F | 100.000 | KI |
| HYPO ALPE-ADRIA-LEASING d.o.o. | Zagreb | F | 100.000 | FI |
| HYPO ALPE-ADRIA-NEKRETNINE d.o.o. | Zagreb | F | 100.000 | NDL |
| HYPO ALPE-ADRIA-INVEST d.d. | Zagreb | F | 100.000 | FI |
| HYPO Vermögensverwaltung Gesellschaft m.b.H. | Klagenfurt am Wörthersee | F | 100.000 | NDL |
| HYPO ALPE-ADRIA-BANK AD BEOGRAD | Belgrade | F | 99.999 | KI |
| Hypo Alpe-Adria-Bank A.D. Banja Luka | Banja Luka | F | 99.777 | KI |
| Hypo Alpe-Adria-Leasing d.o.o. Banja Luka | Banja Luka | F | 99.777 | FI |
| Hypo Alpe-Adria-Immobilien GmbH | Klagenfurt am Wörthersee | F | 100.000 | NDL |
| HBInt Credit Management Limited | St. Helier - Jersey | F | 51.000 | FI |
| Carinthia I Limited | St. Helier - Jersey | F | 51.000 | FI |
| Carinthia II Limited | St. Helier - Jersey | F | 51.000 | FI |
| TCK d.o.o. | Ljubljana | F | 100.000 | NDL |
| TCV d.o.o. | Ljubljana | F | 100.000 | NDL |
| ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD | Novi Beograd | F | 100.000 | NDL |
| HYPO ALPE-ADRIA-LEASING OOD | Sofia | F | 100.000 | FI |
| HYPO ALPE-ADRIA-AUTOLEASING OOD | Sofia | F | 100.000 | FI |
| HYPO LEASING d.o.o. | Ljubljana | F | 100.000 | FI |
| HYPO ALPE-ADRIA-BANK S.P.A. | Udine | F | 100.000 | KI |
| HYPO SERVICE S.R.L. | Tavagnacco | F | 100.000 | NDL |
| HYPO ALPE-ADRIA-BANK A.D. PODGORICA | Podgorica | F | 100.000 | KI |
| Norica Investments Limited | St. Helier - Jersey | F | 51.000 | FI |
| CEDRUS Handels- und Beteiligungs GmbH | Klagenfurt am Wörthersee | F | 100.000 | NDL |
| HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH | Klagenfurt am Wörthersee | F | 100.000 | NDL |
| HYPO Luftfahrzeuge Leasing GmbH | Klagenfurt am Wörthersee | F | 100.000 | FI |
| PROBUS Real Estate GmbH | Vienna | F | 100.000 | NDL |
| HETA Asset Resolution GmbH | Klagenfurt am Wörthersee | F | 100.000 | FI |
| BORA d.o.o. Banja Luka | Banja Luka | F | 100.000 | NDL |
| H-ABDUCO d.o.o. | Zagreb | F | 100.000 | NDL |

| Name of associated enterprise | Registered office | C | Capital share [1) ] indirect | Line of business |
|---|---|---|---|---|
| HETA REAL ESTATE D.O.O. BELGRAD | Belgrade | F | 100.000 | NDL |
| HYPO ALPE-ADRIA-LEASING GMBH | Klagenfurt am Wörthersee | F | 100.000 | FI |
| HYPO ALPE-ADRIA-Verwaltung 2011 GmbH | Munich | F | 100.000 | FI |
| HETA Real Estate GmbH | Klagenfurt am Wörthersee | F | 100.000 | NDL |
| HYPO Grund- und Bau-Leasing Gesellschaft m.b.H. | Klagenfurt am Wörthersee | F | 100.000 | FI |
| HYPO-Leasing Kärnten GmbH & Co KG | Klagenfurt am Wörthersee | F | 100.000 | FI |
| HYPO Immobilien- und Bauconsult GmbH | Klagenfurt am Wörthersee | F | 100.000 | FI |
| HYPO ALPE-ADRIA-LEASING D.O.O. - PODGORICA | Podgorica | F | 100.000 | FI |
| HYPO HOUSE D.O.O. - PODGORICA | Podgorica | F | 100.000 | NDL |
| HYPO ALPE-ADRIA-DEVELOPMENT D.O.O. PODGORICA | Podgorica | F | 100.000 | FI |
| HETA d.o.o. Sarajevo | Sarajevo | F | 100.000 | FI |
| HYPO ALPE-ADRIA-ZASTUPNIK - Društvo za zastupanje u osiguranju d.o.o. | Sarajevo | F | 100.000 | NDL |
| HYPO ALPE-ADRIA-LEASING DOO BEOGRAD | Belgrade | F | 100.000 | FI |
| HYPO-LEASING KROATIEN d.o.o. | Zagreb | F | 100.000 | FI |
| Alpe-Adria poslovodstvo d.o.o. | Zagreb | F | 100.000 | FI |
| ZAJEDNIČKI INFORMACIJSKI SUSTAVI d.o.o. | Zagreb | F | 100.000 | NDL |
| HYPO ALPE-ADRIA-LEASING DOOEL Skopje | Skopje | F | 100.000 | FI |
| HYPO Alpe-Adria Leasing Zrt. | Budapest | F | 100.000 | FI |
| HETA Asset Resolution Germany GmbH | Munich | F | 100.000 | FI |
| Alpe-Adria-Projekt GmbH | Munich | F | 100.000 | FI |
| Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG | Wittenburg | F | 100.000 | FI |
| Alpe Adria Snow Fun Park Grundstücks GmbH | Wittenburg | F | 100.000 | FI |
| HYPO ALPE-ADRIA-RENT DOO BEOGRAD | Belgrade | F | 100.000 | NDL |
| HYPO ALPE-ADRIA-LEASING S.r.l. | Udine | F | 100.000 | FI |
| HYPO ALPE-ADRIA-LEASING TOV | Kiev | F | 100.000 | FI |

C = method of consolidation used in the consolidated financial statements for regulatory purposes, F = full consolidation, AE = At Equity

[1)] Percentage from the point of view of HYPO Alpe-Adria-Bank International AG. Minority shareholders with an interest smaller than 0.001% are not shown.

Abbreviations:

| | |
|---|---|
| KI | Credit institutes |
| FI | Financial services |
| NDL | Provider of ancillary services |

# Major holdings Annex 4 to the notes to the financial statements

## as at 31 December 2013

Material subsidiaries of HAA as of 31.12.2013

### HYPO ALPE-ADRIA-BANK INTERNATIONAL AG

#### SEE NETWORK

- Austria:
  - Hypo SEE Holding AG, Klagenfurt/WS
- Slovenia:
  - HYPO ALPE-ADRIA-BANK d.d., Ljubljana
  - HYPO LEASING[1] d.o.o., Ljubljana 25/75 %
- Croatia:
  - HYPO ALPE-ADRIA-BANK d.d., Zagreb
  - HYPO ALPE-ADRIA-LEASING d.o.o., Zagreb
- Bosnia and Herzegovina:
  - Hypo Alpe-Adria-Bank A.D., Banja Luka 99,777 %
  - Hypo Alpe-Adria-Leasing d.o.o., Banja Luka 99,777 %
  - HYPO ALPE-ADRIA-BANK d.d., Mostar 99,9985 %
- Serbia:
  - HYPO ALPE-ADRIA-BANK AD, Belgrade 99,9990 %
- Montenegro:
  - HYPO ALPE-ADRIA-BANK[2] A.D., Podgorica 99,88/0,12%

#### OTHER BANKS

- Italy:
  - HYPO ALPE-ADRIA-BANK S.P.A., Udine 99,9998 %

#### ASSET RESOLUTION - FINANCIALS

- Austria:
  - HETA Asset Resolution GmbH, Klagenfurt/WS
  - HYPO ALPE-ADRIA-LEASING GmbH, Klagenfurt/WS
  - HETA Real Estate GmbH, Klagenfurt/WS
- Slovenia:
  - TCV d.o.o.,[1] Ljubljana 25/75 %
  - TCK d.o.o.,[1] Ljubljana 25/75 %
- Croatia:
  - HYPO-LEASING KROATIEN d.o.o., Zagreb
  - HYPO ULAGANJA d.o.o., Zagreb
  - H-ABDUCO d.o.o., Zagreb
- Bosnia and Herzegovina:
  - HETA d.o.o., Sarajevo
  - BORA d.o.o., Banja Luka
- Serbia:
  - HYPO ALPE-ADRIA-LEASING DOO, Belgrade
  - HYPO ALPE-ADRIA-RENT DOO, Belgrade
  - HYPO DEVELOPMENT DOO, BELGRADE
  - HETA REAL ESTATE D.O.O., BELGRADE
- Italy:
  - HYPO ALPE-ADRIA-LEASING S.r.l., Udine
- Bulgaria:
  - HYPO ALPE-ADRIA-LEASING[3] OOD, Sofia 99,87/0,13 %
  - HYPO ALPE-ADRIA AUTOLEASING[3] OOD, Sofia 99,78/0,22 %
- Montenegro:
  - HYPO ALPE-ADRIA-LEASING D.O.O., Podgorica
  - HYPO ALPE-ADRIA-DEVELOPMENT, D.O.O. PODGORICA
- Macedonia:
  - HYPO ALPE-ADRIA-LEASING DOOEL, Skopje
- Hungary:
  - HYPO Alpe-Adria-Leasing Zrt., Budapest
- Ukraine:
  - HYPO ALPE-ADRIA-LEASING TOV, Kiev
- Germany:
  - HYPO ALPE-ADRIA-LEASING GmbH, Munich

#### ASSET RESOLUTION – OTHER

- Austria:
  - CEDRUS Handels- und Beteiligungs GmbH, Klagenfurt/WS
  - HYPO ALPE-ADRIA BETEILIGUNGEN GMBH, Klagenfurt/WS
  - Hypo Alpe-Adria-Immobilien GmbH, Klagenfurt/WS
  - PROBUS Real Estate GmbH, Vienna
- Croatia:
  - REZIDENCIJA SKIPER d.o.o.,[4] Savudrija
  - GRAND HOTEL LAV d.o.o., Podstrana 75/25 %
- Serbia:
  - ZAJEDNIČKI INFORMACIONI SISTEM, DOO BELGRADE

Participations without additional percentage are direct or indirect 100 % participations of HYPO ALPE-ADRIA-BANK INTERNATIONAL AG.

1) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of the minority share of 25 % of HYPO LEASING d.o.o., Ljubljana as well as of TCK d.o.o. and TCV d.o.o.; 75 % is owned by HETA Asset Resolution GmbH.

2) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of 99,88 % of HYPO ALPE-ADRIA-BANK A.D., Podgorica; 0,12 % are owned by HETA Asset Resolution GmbH.

3) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of the majority share of the two bulgarian leasingcompanies; the small minority share is owned by HETA Asset Resolution GmbH.

4) HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is direct owner of the majority share of 75% of REZIDENCIJA SKIPER d.o.o.; the minority share of 25 % is owned by HYPO ALPE-ADRIA-BETEILIGUNGEN GmbH.

# Statement of all legal representatives

“We confirm to the best of our knowledge that the separate financial statements for Hypo Alpe-Adria-Bank International AG give a true and fair view of the assets, liabilities, financial position and profit or loss of the business as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business, together with a description of the principal risks and uncertainties the business faces.”

Klagenfurt am Wörthersee, 14 April 2014
Hypo Alpe-Adria-Bank International AG
Executive Board

Alexander Picker
(Chairman)

Johannes Proksch

Rainer Sichert

# Auditors' Report

## Report on the financial statements

We have audited the accompanying financial statements of **HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt**, for the fiscal year from 1 January 2012 to 31 December 2013. These financial statements comprise the balance sheet as at 31 December 2013, the income statement for the financial year ended on 31 December 2013, and the notes.

### Management's responsibility for the financial statements and for the accounting system

The company's management is responsible for the accounting system and for the preparation and fair presentation of these financial statements in accordance with Austrian Generally Accepted Accounting Principles and the provisions of Austrian commercial and banking law. Their responsibilities include: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting and measurement policies and making accounting estimates that are reasonable in the circumstances.

### Auditors' responsibility and description of type and scope of the statutory audit

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria, Austrian Standards on Auditing and Austrian Standards on Auditing of Banks. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

### Opinion

Our audit has not led to any reservations. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of the company as at 31 December 2013 and of its financial performance for the fiscal year from 1 January to 31 December 2013, in accordance with Austrian Generally Accepted Accounting Principles.

Without qualifying our opinion we draw attention to the following:

- Disclosure made by the company's management in the notes to the financial statements in section VI (35) "Equity" in which reference is made the significant shortfall of EUR 501 million with regard to tier 1 capitalisation at the individual company level: The capital increase of EUR 750 million agreed on 9 April 2014, which was executed directly thereafter means the required state of affairs was achieved and continued to be met until the date of the financial statements. The joint decision of the banking regulator of January 2013 effective as at 31 December 2013 regarding minimum capitalisation requirements for the banking group was set a level of 12.4% – as presented correctly by the executive board in section I. (2) of the notes to the financial statements "Significant Events" – that was met as at 31 December 2013. As noted in section I. (2) of the notes to the financial statements "Significant Events", the executive board expects that this recapitalisation will allow it to meet the capitalisation requirements of the bank and banking group with regard to normal business operations until the wind-down unit announced by its owner is established in September 2014. In case value corrections are required in the future and losses are made in the course of the sale of assets, significant insecurities remain with regard to the fulfilment of regulatory capitalisation requirements; the executive board does not expect that the owner will be forced to provide additional capital in such a case.
- Disclosure made by the company's management in the notes to the financial statements in section II "Accounting and measurement policies": According to the decision of the European Commission regarding the restructuring of the company made in the course of the process of providing assistance, the SEE bank network must be sold by 30 June 2015.

Otherwise it must be wound down. The executive board expects to sell the SEE bank network by the deadline set. That is why the evaluation was made on the basis of a sale-oriented valuation and assuming that the SEE bank network is sold as a whole. As a result of the current market situation and the specific conditions it cannot, however, be guaranteed that the actual sale price will not be below the value listed in the balance sheet of 31 December 2013, and that a loss will therefore be made. There is still significant insecurity with regard to the extent and timing of any such losses.

- Disclosure made by the company's management in the notes to the financial statements in section II "Accounting and measurement policies" regarding the explanation of risk from the lending business: The quality of the loan portfolio in the SEE region and/or the measurement of loans and advances to customers as well as the appropriateness of related loan loss provisions depend to a very great extent on future macro-economic developments in these markets. In addition, the executive board expects that the majority of securities can be realised at market values and in the planned periods. An unfavourable change in economic conditions and/or in the real estate markets – which cannot be excluded – could have a significant influence on the asset values disclosed in the financial statements for loans and advances to customers as well as the risk provisions for loans and advances and thus its equity and own capital funds. Further significant insecurity exists with regard the plans of the owner to transfer considerable parts of its loan portfolio to an unregulated wind-down unit to be established in September 2014. If these factors should depart from the valuation principles on which the financial statements are based and which are presented in section II, "accounting and measurement policies", then the possibility of additional losses cannot be excluded.

**Comments on the management report**
Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the company's position. The auditors' report also has to contain a statement as to whether the management report is consistent with the financial statements and whether the disclosures pursuant to section 243a (2) UGB (Austrian Commercial Code) are appropriate. In our opinion, the management report is consistent with the financial statements. The disclosures pursuant to section 243a (2) UGB (Austrian Commercial Code) are appropriate.

Vienna, 14 April 2014

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Helmut Maukner
Wirtschaftsprüfer

Friedrich O. Hief
Wirtschaftsprüfer