Hypo Alpe Adria: Preparations for privatisation of the SEE network according to plan, no further capital increase necessary

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First half of 2014: result characterised by provisions in the amount of EUR -1.44 billion for affiliation process of banking subsidiaries in Italy and South-Eastern Europe

- Result of EUR -0.23 billion (without exceptional items) within the limits of what was expected in the EU restructuring plan for 2014.
- Portfolio reduction during the first half of the year leads to a further reduction in total assets by EUR 1.0 billion to EUR 25.2 billion.
- Own issues guaranteed by the federal and provincial governments in the first six months further reduced from EUR 13.4 billion to EUR 12.5 billion.
- Group result after tax and non-controlling interests negative at EUR -1.67 billion
- Exceptional charges in the amount of EUR -1.44 billion in the form of provisions for the preparation of the carve out of the Italian subsidiary and the SEE bank network.
- Core capital ratio (tier 1) as of 30 June 2014 at 4.1% and thus below the statutory minimum, but no further capital increase necessary.
- Second half of 2014 characterised by the organisational separation of the Italian and SEE business branches and by the focus on the remaining wind-down portfolio.

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

With total assets amounting to EUR 25.2 billion as at 30 June 2014, Hypo Alpe Adria is EUR 18.1 billion below the peak amount of EUR 43.3 billion, which had been reached as at 31 December 2008. This means that thus far almost 42% of the original business volume has been wound down. The lending volume significantly decreased in all Group companies and the former subsidiaries in Austria and the Ukraine were sold in their entirety.

In the first half of 2014, the reduction of the total assets continued. The ongoing reduction of total assets by EUR 1.0 billion to EUR 25.2 billion is the result of concentrated and consistent efforts of the entire Group and follows the reduction of portfolios through planned repayments or realisation of securities, the redemption of due liabilities and the restricted new businesses of the SEE units operating on the market as well as the depreciations of assets and receivables.

The amount of liquid assets (cash reserve) increased by about EUR 0.6 billion to EUR 2.9 billion. Despite further allocations of EUR 0.2 billion (net), loan loss provisions – which on 31 December 2013 amounted to EUR 3.9 billion – were at a slightly lower level at EUR 3.8 billion as at 30 June 2014.

Through the redemption of bonds according to plan it was possible to further reduce the guarantees provided by the state and provincial governments on own issues from EUR 13.4 billion (31 December 2013) to EUR 12.5 billion.

Result characterised by provisions

The consolidated result of Hypo Alpe Adria, which is characterised by the imminent sale of the SEE bank network and the Italian subsidiary, is clearly negative in the first half of 2014. The result for the first six months after taxes amounts to EUR -1,663.5 million (1 January to 30 June 2013: EUR -859.8 million); after non-controlling interests the result amounts to EUR -1,673.0 million (1 January to 30 June 2013: EUR -869.5 million).

Of that, EUR -1,440.7 million are accounted for by provisions, which had to be recognised on 30 June 2014 in connection with the carve out of the Italian subsidiary and of the SEE network as requested by the owner. The provisions reflect the expected sale proceeds and anticipate the loss on disposal in the event of a separation of these units from Hypo Alpe Adria.

With these provisions, the bank is in compliance with the requirements imposed by the government decision of 18 March 2014 for the transition of the bank into a deregulated company and with the legislative package for the wind-down of Hypo Alpe Adria, which entered into force on 1 August 2014. For this purpose it is necessary that the Italian subsidiary, Hypo Alpe-Adria-Bank S.p.A., and the bank units in SEE, which are pooled within Hypo SEE Holding AG, are separated from the Group.

Without the above-mentioned exceptional effects of the ongoing carve out process, the result for the first half of 2014 amounts to EUR -232.3 million and thus – if considered on a periodic basis – lies within the limits of what was expected in the restructuring plan approved by the EU Commission.

Operating expenses and number of personnel further reduced

Compared to the same period in the previous year, the bank managed to reduce operating expenses by EUR -14.3 million to EUR -204.3 million from originally EUR -218.6 million. This was possible due to strict cost management. As a result of the significantly smaller number of employees, personnel expenses decreased by EUR -3.1 million from EUR -107.2 million to EUR -104.1 million. Compared to the same period in the previous year, administrative expenses, at EUR -83.9 million, were also considerably reduced and, despite burdens from project expenses due to restructuring measures, are thus EUR -5.6 million below the previous year's amount. With EUR -16.3 million, the depreciations of fixed assets and intangible assets are also lower than those of the previous year (EUR -21.8 million).

No further capital contribution necessary

In April 2014, the Republic of Austria, as the bank's owner, increased the share capital by EUR 0.75 billion. Despite this capital measure and the increase in eligible supplementary capital, the bank's own funds were reduced due to the current losses during the first half of 2014. Consequently, the core capital ratio lies below the statutory minimum. On 30 June 2014, the Group's total own capital funds according to the CRR (Capital Requirements Regulation) amounted to EUR 2.19 billion respectively 11.4% of total risk weighted assets (31 December 2013: EUR 2.74 billion respectively 14.9%), which is EUR 0.7 billion above the statutory minimum. The core capital ratio, which must be at least 5.5%, stood at 4.1% at Group level on 30 June 2014 (EUR 276 million shortfall) and at single institute level at 1.5% (EUR 490 million shortfall).

However, an additional capital increase by the owner is not necessary due to the financial impact of the legislative package that was passed by the Austrian National Assembly on 8 July 2014 and entered into force on 1 August 2014 for the wind-down of Hypo Alpe Adria, which was put under emergency nationalisation. The effects of the Federal Law on Restructuring Measures for HYPO ALPE ADRIA BANK INTERNATIONAL AG (HaaSanG) will be reflected in the income statement of the Group as of August. This will also eliminate the temporary non-compliance with the regulatory provisions.

SEE close to break-even point again despite difficult market environment

Despite the difficult market environment and the restrictions on new business imposed by the EU Commission, the business units grouped together in the SEE segment managed to achieve a net interest result of EUR +113.4 million (1 January to 30 June 2013: EUR +121.7 million) and a commission result of EUR +31.3 million (1 January to 30 June 2013: EUR +30.2 million) during the first half of 2014. While risk provisions, at EUR -128.5 million as at 30 June 2013, reflected ongoing portfolio restructurings, risk costs reached more or less normal levels in the first half of 2014 and stood at EUR -38.3 million. The effects of the flood disaster in the Balkans in May of this year also turned out to be less significant than originally expected.

As at 30 June 2014 the result of this segment after tax is EUR -4.3 million (1 January to 30 June 2013: EUR -96.8 million). Accordingly, the SEE network shows a clearly improved result compared to last year’s figures and only narrowly fails to achieve the break-even point, which is still aimed for in this segment for the total year of 2014.

Forecast

In compliance with the Federal Act on the Creation of a Wind-Down Unit (GSA), Hypo Alpe Adria will be separated into three organisationally completely independent parts, and the Italian subsidiary as well as the SEE bank network will be carved out from the Group’s parent company. All this is to happen during the second half of 2014. Under the legally imposed deregulation, Hypo Alpe-Adria-Bank International AG will in future no longer have a banking license and is set to act as steering unit for the wind-down units, in addition to winding down its own portfolio.

The development of the result of the wind-down unit will also be clearly negative for the second half of 2014, since the proceeds from the portfolio will not be sufficient to cover the interest and wind-down costs. This development is in compliance with the consolidated result for the 2014 financial year as set out in the EU restructuring plan.

The development of the result for the second half of 2014, however, will be significantly impacted by the effect of the HaaSanG, which entered into force on 1 August 2014 and aims at a burden-sharing mechanism for certain providers of subordinated capital and Bayerische Landesbank (BayernLB). Based on that Act (HaaSanG) and the Order passed by the FMA on 7 August 2014, the liabilities of the bank in the amount of EUR 1.6 billion were declared as extinct. Hence, they shall be removed from the books in the third quarter of 2014. With regard to the Group’s income statement in the second half of 2014, the bank therefore expects clearly positive effects that should be able to cover essentially the losses posted for the financial year.

Individual subscribers of subordinated capital as well as BayernLB have announced that they will object the special law before the courts, since they doubt that its provisions are in compliance with the Austrian Constitution and with EU law. In this respect, there are risks for Hypo Alpe Adria which might affect its future results and consequently the Group’s development.

Financial report for the first half of the year

The interim financial report of Hypo Alpe Adria for the first half of 2014 will be published on 29 August 2014 and will be available for download in German and English at www.hypo-alpe-adria.com from that day on.

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