HYPO ALPE ADRIA
SUPPORTIVE. FRIENDLY. FAIR.

Interim Financial Report 2013

Hypo Alpe Adria

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

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

	2013	2012	2011
income statement*	**1.1.-30.6.**	**1.1.-30.6.**	**1.1.-30.6.**
Net interest income	245.2	321.1	389.5
Net fee and commission income	24.9	22.0	37.7
Risk provisions on loans and advances	-623.0	-123.1	-134.9
Operating expenses (administrative expenses)	-237.4	-227.1	-266.4
Operating result – prior to risk provisions on loans and advances	-205.4	155.4	225.9
Operating result – after risk provisions on loans and advances	-828.4	32.3	91.0
Result for the period before tax (from continued operation)	-828.4	32.3	90.8
Result for the period after tax	-859.8	3.4	77.5
Statement of financial position	**30.6.**	**31.12.**	**31.12.**
Loans and advances to customers	20,539.0	24,401.5	26,722.4
Liabilities to customers	6,570.2	8,405.9	8,201.1
Debt securities in issue and subordinated capital and hybrid capital	14,293.2	16,799.1	18,303.0
Equity (including non-controlling interests)	1,121.4	1,968.4	1,413.3
Total assets	31,273.2	33,803.7	35,132.5
Risk-weighted assets (banking book)	20,294.3	21,323.5	23,111.0
Key figures*	**1.1.-30.6.**	**1.1.-30.6.**	**1.1.-30.6.**
Cost/income ratio	740.5%	59.4%	54.1%
Net interest income/Ø risk-weighted assets (banking book)	1.2%	1.4%	1.6%
Risk/earnings ratio	254.1%	38.3%	34.6%
Risk/Ø risk-weighted assets (banking book)	3.0%	0.5%	0.6%
Bank-specific figures	**30.6.**	**31.12.**	**31.12.**
Own capital funds according to BWG	1,761.3	3,057.1	2,498.7
Own capital funds requirement according to BWG	1,807.3	1,883.2	2,048.9
Surplus capital/shortage	-46.0	1,173.9	449.8
Core capital (Tier 1)	1,153.9	2,022.1	1,602.8
Tier 1 ratio – banking book	5.7%(9.1%**)	9.5%	6.9%
Tier 1 ratio – including market and operational risk	5.1%(8.2%**)	8.6%	6.2%
Own capital funds ratio – total (solvency ratio)	7.8%(12.4%**)	13.0%	9.8%
Moody's rating	**30.6.**	**31.12.**	**31.12.**
Long-term (liabilities not covered by statutory guarantee)	withdrawn	withdrawn	withdrawn
Long-term (liabilities covered by statutory guarantee)	A1	A1	Aa3
Short-term	withdrawn	withdrawn	withdrawn
Bank Financial Strength Rating (BFSR)	withdrawn	withdrawn	withdrawn
Employees and locations	**30.6.**	**31.12.**	**31.12.**
Employees at closing date (Full Time Equivalent – FTE)	6,700	6,576	7,690
thereof banks	4,581	4,783	5,119
Employees average (FTE)	6,612	7,371	7,774
thereof banks	4,680	4,928	5,062
Number of locations	319	317	330

* Previous year's figures for 2012 were adjusted in connection with the disclosure of Austrian subsidiary bank Hypo Alpe-Adria-Bank AG as a discontinued operation, see note (4), as well as the retrospective application of IAS 19.

** Own capital funds or Tier 1 ratio on a pro forma basis as at 30 June 2013 taking into account the capital increase of EUR 700.0 million resolved by the general shareholders' meeting on 23 July 2013. The measure is slated to be carried out immediately following the receipt of the European Commission's decision on state aid in autumn of 2013, which is expected to be positive.

Interim Financial Report 2013

Letter from the Executive Board

Dear partners,
Dear customers,
Dear staff, Dear tax payers!

The first half of 2013 made it clear which forces are capable of having an effect on an institution that has undergone emergency nationalisation, such as Hypo Alpe Adria. Every single development in the state-aid investigation, on the markets, in the European regulatory environment and within the individual parts of the group alone would have been enough to have a significant and long-lasting impact on the course of the company. Together, these events and decisions necessitated fundamental modifications to the envisioned restructuring and privatisation plan in the second quarter that entailed wide-ranging changes to its scheduling and structure and, consequentially, to its financial framework. The Republic of Austria's willingness to approve the necessary capital measures without delay in light of this situation, thereby creating the necessary basis for an orderly continuation of business, highlights the government's great sense of responsibility, for which we offer our heartfelt thanks on behalf of the bank.

The interim result as at 30 June 2013 is predominantly characterised by the regulatory and competitive conditions that banks in the EU face, especially those supported by state aid. The final approval of state aid by the European Commission, which is expected in autumn 2013, will entail meeting additional restrictions and requirements in terms of market presence that will also affect the scope and time horizon of the efforts aimed at privatisation. These will inevitably result in massive consequences for the value of the subsidiaries, the valuation of loan commitments and the profitability of the parts of the company remaining in competition. The price of the sweeping and immediate priority afforded to protecting competition in Hypo Alpe Adria's EU markets – and even beyond those borders – is reflected in the interim report in the form of major losses and will likely have an impact on the future path of restructuring.

Whereas the framework for the course of the planned break-up and partial privatisation of the former banking group has changed substantially as a result, the core strategy defined in 2010 that calls for a separation (one that has so far been internal) between marketable banks on the one hand and an international wind-down unit on the other hand remains essentially in place. The signing in May of the purchase agreement for the Austrian subsidiary bank laid the foundation for a successful conclusion of the first segment and an international prospect for the sustainably restructured regional institution "Hypo in Kärnten". A plan covering a range of options is being developed for the creation of a legally independent, clearly structured wind-down unit aimed at easing the burden on the operating banks and continuing the capital-preserving liquidation of assets. The plan – which has been strengthened by the mandate issued by the owner and is being overseen by international experts – is being drafted following intensive preliminary efforts within the bank.

On the other hand, the interim financial statement also shows the continued recession in Hypo Alpe Adria's core markets in South and South-Eastern Europe, which did not see any tangible momentum come from one-time effects, such as Croatia's final steps towards becoming a member of the European Union. The market successes achieved within the SEE network in light of this negative growth are welcome indeed. However, they cannot compensate for the fact that the potential forecast for the region by economists following the emergency nationalisation has yet to materialise at all.

The extent and duration of the crisis in Italy have also been unexpected. For some time already, the crisis has no longer been limited to the financial sector, but has also had a profound impact on the structures of the EU's fourth-largest economy. This longest phase of negative economic data since the Second World War has also affected many long-time commercial customers of Hypo Alpe Adria in Northern Italy. On behalf of the bank, we particularly regret that additional indefensible local irregularities in the invoicing of leasing agreements are putting a strain on the bank's relationship to its customers, according to information that the bank has been receiving since early this year. The Austrian holding company immediately ordered all of the necessary internal and external measures in this context for clearing up the matter in the eyes of the law. Furthermore, wide-ranging capital measures have since stabilised the Italian holdings and put them in a position to take steps towards refunding affected customers within the year.

Despite these developments, the interim financial statement also reflects the restructuring successes achieved since the emergency nationalisation. The bank's risk was further reduced as planned. Hypo Alpe Adria's total assets have already shrunk by more than EUR 12 billion since the end of 2008, and a large share has been transferred to wind-down mode. Moreover, in recent times, Hypo Alpe Adria has been operating in a banking market that is only about half the size of what it was at the time of the emergency nationalisation. The fact that customer deposits grew by around 10% since the emergency nationalisation and that the bank managed to keep the number of employees largely stable while cutting costs indicates a customer-oriented, socially responsible restructuring process. It is also a clear sign that the bank is seen by customers in its core countries as a reliable and proven partner. An analysis of the portfolio's development reveals a sustainable shift in the bank's focus – especially in new business – away from high-risk, high-volume commitments towards fewer, yet higher-quality contracts in the segment of customers with above-average creditworthiness. This is also confirmed by the successful focus on service quality and risk-adequate pricing.

The taxpayer's risk, reflected in public guarantees for Hypo Alpe Adria, has been reduced by EUR 7.5 billion since its peak. In the first half of the year alone, the bank paid back EUR 0.9 billion in liabilities for which liability was assumed. These achievements were built on the consistent efforts and unwavering commitment on behalf of the bank and the government, for which we would especially like to thank our employees at all of our company's locations.

The decisions slated for the remainder of 2013 will determine the structural and financial framework in which the ongoing restructuring, partial privatisation and liquidation of the various parts of Hypo Alpe Adria will be continued.

The next steps will be taken with a new team leading the holding company's Executive Board, as has long been public knowledge. The Executive Board team remains committed to the path chosen together in 2010 and would like to thank the departing Chairman of the Executive Board for his tremendous contribution over the past three and a half years.

EXECUTIVE BOARD
Hypo Alpe-Adria-Bank International AG

Gottwald Kranebitter
(Chairman)

Wolfgang Edelmüller
(Deputy Chairman)

Johannes Proksch

Rainer Sichert

Interim Management Report

1. Overview of the first half of 2013

The first half of 2013 was characterised by the progress of work aimed at preparing for the privatisation of the marketable units in the SEE countries and the signing of the purchase agreement for the Austrian subsidiary bank as well as the pending decision by the European Commission, which will determine the further path of restructuring and influence events within the bank as well as its relationships to customers, business partners and additional stakeholders. The impact of the public debate and, in particular, the speculation regarding various scenarios, including a total wind-down in the immediate future and the associated budgetary consequences, have also had a negative effect on the development of customer deposits. The obligations that the European Commission is likely to impose on the basis of the modified and accelerated restructuring plan submitted by the Republic of Austria in June 2013 and that will probably need to be met when implementing the European Commission's final decision had – and continue to have – an additional fundamental effect on the measurement of loans and other assets and are resulting in unavoidable massive losses.

1.1. Group result after tax for the period

Whereas the two comparable periods (first half of 2011 and 2012) showed slightly positive group results at the very least, the group result in the first half of 2013 was clearly negative.

The group result after tax and before non-controlling interests amounted to EUR -859.8 million (1 January to 30 June 2012: EUR +3.4 million); after allowing for non-controlling interests, the result fell to EUR -869.5 million (1 January to 30 June 2012: EUR -9.2 million). Due to the implementation of the group's redimensioning strategy, the operating result continued to fall significantly in the first half of 2013 despite stable operating expenses. At EUR -623.0 million (1 January to 30 June 2012: EUR -123.1 million), newly required risk provisions on loans and advances increased fivefold as a result of the expected EU decisions and the expected subsequent stipulations. Additional negative one-time effects, at EUR -94.1 million, were due to the forecast results from the sale of the Austrian subsidiary bank as well as provisions for interest refunds to customers.

1.2. Changes to the Executive Board and the Supervisory Board

Effective 30 April 2013, the Supervisory Board, which had previously consisted of four members (excluding employee representatives), was expanded to include six members when Klaus Liebscher and Adolf Wala joined the board. Following the resignation of Chairman of the Supervisory Board Johannes Ditz on 3 June, the general shareholders' meeting on 21 June elected Ludwig Scharinger to the Supervisory Board. In the Supervisory Board meeting held the same day, Klaus Liebscher was appointed as the new Chairman of the Supervisory Board.

On 2 July 2013, Chairman of the Executive Board Gottwald Kranebitter announced that he would step down from his post in August. Deputy Chairman of the Executive Board Wolfgang Edelmüller will act as Chairman of the Executive Board until further notice.

1.3. Reprivatisation activities

Following an intensive phase in the bidding process that lasted for several months and careful due diligence of the offers, the purchase agreement between Hypo Alpe-Adria-Bank International AG and Anadi Financial Holdings Pte. Ltd. concerning 100% of the shares in Hypo Alpe Adria in Austria was signed at the end of May 2013. The agreement is expected to be closed by the end of 2013 once the conditions stipulated in the agreement have been fulfilled.

The bidding process for Hypo Alpe Adria's SEE network initiated in the fourth quarter of 2012 was continued as planned in the first half of 2013. The necessary preparations for the establishment of a holding and management company for this part of the company were also defined and continued. This framework is the prerequisite for the sale of the six Balkan subsidiary banks and a transparent differentiation from the bank's wind-down units. Comprehensive sales documentation was sent to the interested parties in late April. The bank expects to have a sound short list of potential investors by the end of the year.

The sales processes for larger hotel holdings in the Balkan region initiated in the first quarter of 2013 also continue.

1.4. Portfolio transfers

Comprehensive portfolio transfers were carried out in 2011 and 2012 in Slovenia, Bosnia and Herzegovina, Montenegro, Croatia, Austria and Italy to make the reprivatisation of the marketable units easier.

An additional portfolio transfer took place in the first half of 2013. The transfer concerned a Slovenian leasing portfolio. This represented a further step towards focusing the Slovenian leasing company on the core business "movables". A demerger of the leasing company is also planned for 2013 in order to implement this envisioned structure.

Legal amendments to allow the portfolio adjustments were formally implemented in Serbia in the first half of the year. The implementation will follow in several transactions, a number of which already took place in the first half of 2013. The ultimate implementation is planned for the coming months. As part of the reprivatisation process of the SEE network, the feasibility of further portfolio transfers is being reviewed in light of the conditions that the European Commission is expected to impose regarding already granted state aid.

The creation of risk provisions in the amount of EUR -128.5 million in the SEE network in the first half of 2013 is directly connected with a further portfolio adjustment aimed at opening the door to additional planned sales or transfers of problem portfolios in order to increase saleability.

1.5. Current events at the Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A.

The subsidiary bank in Italy has been confronted with allegations that long-running interest rate adjustment clauses in leasing agreements were applied incorrectly for the benefit of the bank, resulting in overly high interest calculations for customers in many cases. The issue primarily concerns the fact that the bank did not pass on drops in the EUR/CHF benchmark interest rate to customers in a timely manner and/or to the correct extent, while the bank offset an increase that in fact was higher than the actual rise. After becoming aware of the problem, Hypo Alpe Adria immediately ordered the necessary internal investigations to clear up the matter, which resulted in criminal charges being brought, investigations by local financial police and Italian banking regulatory authorities as well as consequences in terms of staffing and organisation. A process to compensate affected customers financially was also initiated immediately, and the staffing of the bank necessary for handling the individual cases affected by this issue was ensured. The cases reviewed so far by a dedicated team have led to a nearly double-digit million-euro sum being paid to the affected customers. For the group holding, the matter has resulted in a need for recapitalisation as well as the issuing of a letter of comfort regarding its Italian subsidiary bank.

Together with the obligations entered into by the Republic of Austria in the modified EU restructuring plan, the malversations that have come to light have led to the Italian subsidiaries being classified within the bank entirely to the wind-down business portfolio as from early July (see also note 1.6). Due to the associated additional requirements for impairments and provisions, the Italy segment reported a significantly negative result in the first half of the year.

1.6. Status of EU proceedings

The final decision by the European Commission regarding the state aid granted since 2008 had long been slated for 2013. In spring, following the public statements by representatives of the European Commission, this issue became Hypo Alpe Adria's business policy focus. Following an urgent 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 submission of the new plan at the end of June 2013 and the wide-ranging obligations outlined in the document made it possible to avoid a complete winding-down in the immediate future, which had been put forward for discussion in the run-up to the agreement. The talks currently underway 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. These are considered to be a requirement for the European Commission to issue a positive decision. The acquisition of new customers in the credit and leasing business was temporarily discontinued at the Italian subsidiary bank effective July 2013. These activities will remain suspended in anticipation of the final decision on measures already taken. In addition, the "behavioural measures" imposed by the European Commission were further defined in the operating units in the Balkan region following intensive meetings and in keeping with governance requirements. At the time of writing, Hypo Alpe Adria will continue to own these operating units after the end of the year.

The European Commission expects to fully conclude its investigation in autumn 2013. However, Hypo Alpe Adria's current interim consolidated financial statements as at 30 June 2013 already take the aforementioned provisional measures in anticipation of the final decisions by the European Commission into account and anticipate future conditions that will probably need to be met when implementing the European Commission's final decision with care and to the greatest extent possible. The associated additional impact on the measurement approaches for loans and other assets has had an effect on the results as at 30 June 2013. Under these circumstances, it was not possible to avoid realising massive losses in the triple-digit millions.

1.7. Evaluation of wind-down concepts

At the same time as the intensified talks with the European Commission, attention turned once again in the first half of 2013 to evaluating alternative organisational structures for a wind-down entity. A clearly defined unit of this sort should comprise all units not slated for operating continuance and ensure their orderly wind-down in the long term while reducing the burden on the operating banks at the same time. A concept that seeks to do so with as little impact on the household budget as possible is being developed with the close cooperation of the owner.

1.8. Joint Risk Assessment Decision (JRAD)

Following an examination of the economic capital in 2011, the Austrian Financial Market Authority (FMA) has obliged Hypo Alpe Adria to increase its total own capital funds ratio to 12.04% and ensure that the shortfall, as the difference between the expected losses in the area of credit risk and total risk provisions, is covered from 31 December 2012 onwards (JRAD 1). Although Hypo Alpe Adria met this obligation as at 31 December 2012 with an own capital funds ratio of 13.0%, fulfilment of the guidelines is not guaranteed through the resulting own capital funds ratio of 7.8% as at 30 June 2013. The regulatory authorities have given the bank until 31 December 2013 to restore its own capital funds ratio to the prescribed level. In an updated JRAD study for 2012, the regulatory authority concluded – based on figures as at April 2012 – that the bank's minimum capital ratio must be 12.4% from 31 December 2013 onwards (JRAD 2). The real shortfall will only be established on the date the notification is settled. A new study of capital adequacy has been underway since May 2013 (JRAD 3).

1.9. Equity-like loans from BayernLB

At the end of 2012, Hypo Alpe Adria's former majority shareholder, BayernLB, filed an application at the Regional Court in Munich for a declaratory judgement regarding financing that Hypo Alpe Adria believes to be subject to the Austrian law on equity substitution (Eigenkapitalersatzgesetz, EKEG) and may therefore neither be serviced through payment of interest nor repaid until further notice. Hypo Alpe-Adria-Bank International AG has responded extensively to the lawsuit and has refuted the plaintiff's claims in full. The responsible civil chamber has set the first date of hearing for late November 2013. Both sides have the possibility to make an additional statement until that time.

Hypo Alpe-Adria-Bank International AG also made repayments on lines of credit from BayernLB from August 2008 until it became aware of the conditions required to suspend repayment under the Austrian law on equity substitution. The repayments were then recognised as equity substitution. Due to the Austrian law on equity substitution, Hypo Alpe-Adria-Bank International AG is entitled to claim a refund on these payments from BayernLB. To avoid statutory limitations that otherwise could have loomed, Hypo Alpe-Adria-Bank International AG was forced to take the claim for repayments of around EUR 500.0 million made in 2008 plus around EUR 210.0 million in accessory claims to court and filed a countersuit against BayernLB in Munich on 22 August 2013.

1.10. Ratings

Hypo Alpe Adria has not had its own institutional rating since November 2011. All state-guaranteed bonds and the "Pfandbrief" rating remain unaffected by this step and continue to be rated.

Information on the individual ratings, as well as all corresponding and previous Moody's publications, are available on the group website (www.hypo-alpe-adria.com) under Investor Relations.

On 1 August 2013, ratings agency Moody's announced that it had placed the rating for unguaranteed "Pfandbriefe" from Hypo Alpe-Adria-Bank International AG on "review". The agency based its decision on the re-assessment of the planned restructuring measures and potential influences from the outcome of the EU proceedings. In its publication, Moody's stresses that it has no expectations regarding the findings of the review at the start of the process. It additionally classifies the publication as "uncertain".

1.11. Outlook for the second half of the year

Assuming that the European Commission's final decision will be made in autumn, the second half of the year will correspondingly be characterised by the implementation of the expected compensatory measures.

In connection with the planned reprivatisation measures, management expects two significant milestones in the second half of the year. One of these is the closing of the sale of the Austrian subsidiary bank "Hypo in Kärnten" as well as the further organisational split and focusing of competencies on the two main fields of activity in the future: the management of the SEE units to be reprivatised (an authorised holding and management company will be developed depending on the conditions and demand by strategic and financial investors) and the value-preserving wind-down of the non-strategic portfolios in an equally operating wind-down platform (Heta Asset Resolution).

2. Economic development of the group

2.1. Development of results

The first half of 2013 was influenced by the European Commission's impending decision on the ongoing restructuring proceedings. The conditions imposed by the European Commission in light of the amended restructuring plan submitted by the Republic of Austria at the end of June 2013, that will probably need to be met when implementing the European Commission's final decision, have already had a material effect on the valuation of loans and other assets in the interim consolidated financial statements as at 30 June 2013.

In addition to these effects, failed cases of restructuring and an required accelerated liquidation of collaterals led to an extra need for risk provisions, which had a significant impact due to the continuing crisis in the asset markets (particularly in the real estate sector). Further adjustments to the portfolio were necessary in order to secure the privatisation of the banks in the SEE network. The shareholder's commitment within the amended EU restructuring plan to assign the segment Italy to the wind-down portfolio starting with 1 July 2013 also led to a fundamental restructuring of the portfolios and impairment write-downs on assets (in particular real estate). In addition to the impact of the signing of the sale of the Austrian subsidiary bank in the first half of 2013, provisions for refunding interest payments to customers of the Italian subsidiary bank had additional negative one-time effects on the group result.

Compared to previous year operating expenses remained unchanged, whereas operating income declined, amounting as a result of the aforementioned effects to a group result for the period after taxes of EUR -859.8 million (1 January to 30 June 2012: EUR +3.4 million).

The group's net interest income fell from EUR +321.1 million to EUR +245.2 million (-23.6%), which was mainly attributable to the reduction in interest-bearing assets due to the maturing portfolio and the low market interest level. This trend, which has persisted for more than two years and is also the result of subdued new business in light of the current EU restrictions, was also particularly evident in Hypo Alpe Adria's core markets (SEE network, Austria, Italy). Besides a reduction in cash interest income, the so-called "unwinding" effect that results from increasing the net present value of net receivables of non-performing loans (NPL) over time also decreased. Expenses in the amount of EUR -26.4 million arising from the guarantee commission for the EUR 1.0 billion state-guaranteed subordinated bond issued in December 2012 as well as expenses for the guarantee agreement with the Federal Republic totalling EUR -9.0 million had an additional negative effect on interest income in the first half of 2013.

Net interest income
in EUR m

Net fee and commission income, which contributed approximately EUR +22.0 million to the result in the same period of the previous year, increased by EUR 2.8 million to EUR +24.9 million in the first half of 2013.
This increase is mainly due to the fact that commitment commission for credit lines with a former owner no longer exists and also due to the improved performance of the SEE-network banks.

Contrary to the development in the previous period, the result from trading fell from EUR +25.8 million to EUR +7.4 million in the reporting period, which corresponds to a decrease of EUR 18.4 million. This is in general due to the extremely limited trading activity of the group and in particular due to the effects of hedging the Serbian dinar (RSD) compared to the Euro in the previous year.

The result from hedge accounting, which is derived from hedge inefficiencies, was EUR -3.8 million in the first half of the financial year, and showed a worse result in comparison to previous year (1 January to 30 June 2012: EUR +0.6 million).

The result from financial investments designated at fair value through profit or loss (fair value option) amounted to EUR -5.8 million (1 January to 30 June 2012: EUR -0.7 million) and decreased by EUR -5.0 million in the first half of 2013. The fluctuations that occurred in the past in the fair value measurement of issues accounted for as liabilities were almost completely eliminated by buying back hybrid- and supplementary capital in the previous year, as well as through the impairment of existing issues on the balance sheet. The effects from the measurement of these issues thus amounted to EUR +12.0 million in the first half of 2013. The measurement result of EUR 6.2 million included in the fair value option shows the result of the portfolio investment company HBInt. Credit Management Ltd., which Hypo Alpe-Adria-Bank International AG operates together with a third-party investor.

The result of available for sale (afs) financial assets, which amounted to EUR +1.4 million in the previous year, decreased in the first half of the financial year by EUR 2.1 million to EUR -0.7 million, which was mainly attributable to measurement effects.

While the result from other financial investments was positive in the same period of the previous year (EUR 15.3

million), the result for the first half of 2013 was significantly negative (EUR -38.7 million). The result in the previous year was primarily due to the one-time effect from the buy-back of hybrid capital, whereas necessary impairment write-downs on investment property, of which EUR -37.7 million alone was attributable to the Italian leasing company, were recognised in the financial year 2013.

Other operating income also deteriorated from EUR -2.9 million in the same period of the previous year to EUR -196.3 million, which was due, among other things, to the one-time effect of malversation in the Italian subsidiary bank, which came to light in the first half of 2013. The bank had charged its customers incorrect calculated interests for years, which led to a requirement for provision in amount of EUR 77.2 million in the first half of 2013. In Serbia and Bosnia, provisions totalling EUR 28.3 million were made due to potentially incorrect applied interest-rate-adjustment and currency clauses in connection with foreign-currency loans. Furthermore, the bank levy and the results of operations from non-banking parts of the group are shown in this position. Additional effects are related to impairment write-downs in the amount of EUR -23.0 million on Croatian tourism properties held for sale as well as a provision for the own-capital-funds shortage from 30 June onwards on individual-company and group level.

Risk provisions have quintupled compared to previous year, from EUR -123.1 million to EUR -623.0 million. This is due to several factors: on the one hand, it is due to the ongoing economic crisis in Hypo Alpe Adria's core markets, which has made it increasingly difficult to liquidate collaterals and has caused restructuring measures to fail, and on the other hand, it is caused by the impact of the expected requirements of the EU as part of the EU restructuring plan. Fundamental restructuring of the portfolio was carried out in Italy in the course of winding down the business area, while further portfolio adjustments had to be made in the SEE banks in order to ensure a fast privatization.

Risk provisions
in EUR m

Costs remained more or less unchanged compared to previous year; operating expenses increased only slightly from EUR -227.1 million to EUR -237.4 million, whereas within the position opposing trends became effective:

Personnel expenses fell significantly from EUR -119.7 million to EUR -107.2 million, which is mainly due to the fact that the personnel expenses for the Croatian industrial participations sold in the previous year were included in the first half of 2012. The EUR -7.4 million increase in administrative expenses, to EUR -89.5 million, is primarily due to costs associated with Hypo Alpe Adria's commitment to forensics investigations on the past. Depreciation on tangible and intangible assets increased to EUR -40.7 million (1 January to 30 June 2012: EUR -25.3 million) in the first half of the financial year and included one-time effects of the impairment write-downs on real estate, which are own-used by the Italian subsidiary bank, in the amount of EUR -10.3 million, which is based on the actual applied wind-down premise, extraordinary impairments on software amounting to EUR -7.4 million and the impairment of Croatian tourism properties belonging to the group in the amount of EUR -6.3 million.

Overall, risk provisions on loans and advances of EUR -623.0 million (1 January to 30 June 2012: EUR -123.1 million) and operating expenses of EUR -237.4 million (1 January to 30 June 2012: EUR -227.1 million) were recorded against operating income of EUR +32.1 million (1 January to 30 June 2012: EUR 382.5 million). This resulted in an operating result of EUR -828.4 million, which corresponds to a significantly negative change compared to previous year (1 January to 30 June 2012: EUR +32.3 million).

There was no result from investments accounted for at equity either in the first half of 2013 or in the same period of the previous year, which is why the result for the period before taxes is equal to the operating result.

Taxes on income/expenses amounted to EUR +62.7 million (1 January to 30 June 2012: EUR -31.8 million) in the reporting period. Whereas impairment write-downs on deferred tax assets (e.g. due to changes in the tax rate in Slovenia) as well as tax deferrals as a result of one-time effects from the buy-back of issues had to be carried out in the interim result of the previous year, the income tax result in the first half of 2013 was primarily influenced by positive tax effects in the Italian subsidiary bank that resulted from the interest corrections and the creation of additional risk provisions made there.

In the result after tax from discontinued operations, the result for the period of the Austrian subsidiary bank, for which the signing was undertaken in the first half of 2013, and the expected result from the sale of assets (EUR -94.1 million) are reported separately in accordance with IFRS 5. As requested by IFRS 5 a corresponding reclassification of the previous year's values from all other positions to this position was undertaken.

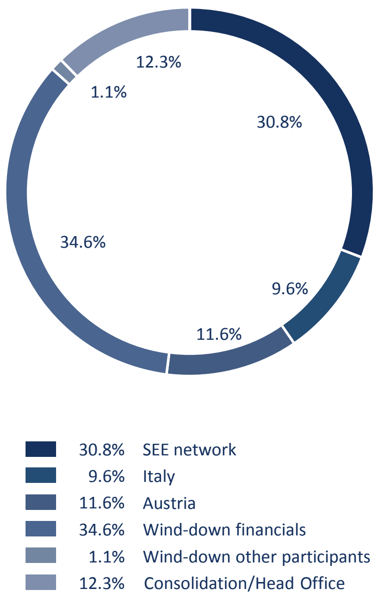
After allocating the share in the results attributable to non-controlling interests in the group, which amounted to EUR 9.7 million (1 January to 30 June 2012: EUR 12.6 million), the result for the period after taxes comes to EUR -869.5 million (1 January to 30 June 2012: EUR -9.2 million).

2.2. Statement of financial position

With total assets of EUR 31.3 billion as at 30 June 2013, Hypo Alpe Adria's total assets are EUR 12.0 billion below the peak level of EUR 43.3 billion, which was reached as at 31 December 2008. This means that almost 28% of the original business volume has already been reduced in line with the group's restructuring plan. In the first half of 2013, total assets were reduced by EUR 2.5 billion, from EUR 33.8 billion to EUR 31.3 billion.

The main reason for the reduction is primarily from the scheduled repayment of liabilities, the extremely low volume of new business in the units remaining in Hypo Alpe Adria after 2013 that are still active in the market, which is only conducted in accordance with the expected final requirements of the owner and the EU, in the wind-down plan for the non-going concern units and in impairment write-downs on assets and risk provisions. Loans and advances to customers in particular decreased by approximately EUR 1.2 billion to EUR 23.2 billion. The figures were adjusted for the effects of the assets and liabilities of the Austrian subsidiary bank, whose sale was contractually agreed in the first half of the year, as reported in a separate balance sheet item. In addition, funds used for the repayment of credit agreements, which are included in the balance sheet items cash and balances at central banks and loans and advances to credit institutions, decreased by approximately EUR -0.2 billion to EUR 2.7 billion and EUR -0.4 billion to EUR 1.6 billion respectively.

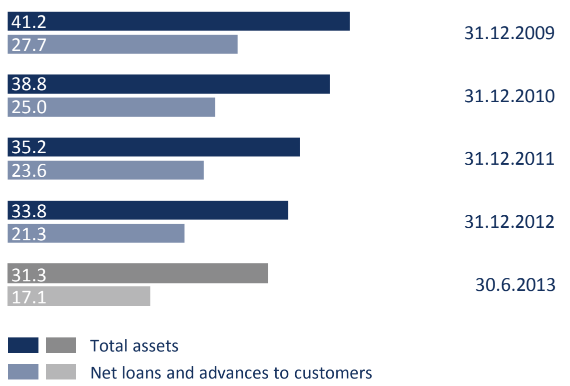
Total assets per segment as of 30 June 2013
in percent



In total, net loans and advances to customers (loans and advances less risk provisions) decreased from EUR 21.3 billion to EUR 17.1 billion (a decrease of EUR -4.2 billion, or approximately -19.7%). However, EUR 2.5 billion of this sum results from the reclassification of loans and advances to assets of the disposal group.

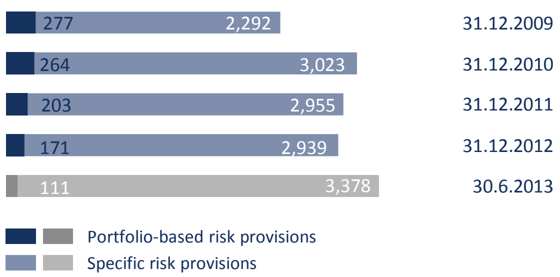
Particularly as the group faces difficult economic conditions in its core markets, Hypo Alpe Adria continues to be highly restrictive in granting of new loans. Overall, loans and advances to customers decreased from EUR 24.4 billion to EUR 20.5 billion, a reduction of approximately -15.8%.

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



The level of risk provisions on loans and advances, which amounted to EUR 3.1 billion as at 31 December 2012, increased to EUR 3.5 billion as at 30 June 2013, is attributable to the impact of the economic and financial crisis and the consequences of the EU's decision that is expected in autumn 2013.

Development of risk provisions on loans and advances
in EUR m



Compared with year-end 2012, derivative financial instruments decreased from EUR 1.4 billion to EUR 1.1 billion, which was mainly attributable to the decrease of the positive market value for interest rate derivatives.

Financial investments designated at fair value through profit or loss (FVO) decreased from EUR 0.8 billion to EUR 0.5 billion in comparison to the previous year, which was primarily due to the reclassification of assets in a disposal group. This was also the reason for the decrease in available for sale financial investments (afs) from EUR 2.7 billion to EUR 2.3 billion.

Other financial investments, which primarily include investment properties and movables from operating leases, remained unchanged at EUR 1.3 billion compared to 31 December 2012 (EUR 1.4 billion).

The value of tangible and intangible assets remained basically unchanged at EUR 0.4 billion in the year under review despite necessary impairment write-downs.

The increase in income tax assets to EUR 0.2 billion (31 December 2012: EUR 0.1 billion) in the reporting period is mainly due to an increase in deferred tax assets in the Italian subsidiary bank. This was caused by temporary differences in the accounting systems in conjunction with a new local law that makes it easier to realise deferred tax assets.

The assets of the disposal group include those assets that should be reduced in line with the group's strategy by means of sales processes and that fulfil the criteria of IFRS 5. In the financial year 2013, this includes the assets of the Austrian subsidiary bank. Of the EUR 3.5 billion total assets, EUR 2.6 billion are attributable to loans and advances to customers.

On the liabilities side, liabilities to credit institutions decreased only slightly in the first half of 2013, from EUR 5.3 billion to EUR 4.6 billion. Adjusted by the reclassification of Hypo Alpe-Adria-Bank AG, the decrease amounted to approximately EUR 0.2 billion.

Reversing the trend of the previous years, liabilities to customers decreased drastically by EUR 1.9 billion to EUR 6.6 billion in the first half of 2013. Without the effect of the reclassification of the Austrian subsidiary bank, the decrease nevertheless amounts to EUR 0.6 billion. This effect, which is mainly attributable to cash outflows from saving deposits in the Austrian and Italian subsidiary banks, is undoubtedly partly the result of a drop in customer confidence caused by continuing public discussion on the future of the two banks.

Liabilities evidenced by certificates decreased significantly in the reporting period, by EUR 2.5 billion from EUR 14.8 billion to EUR 12.3 billion, which corresponds to a drop of -16.9%. Approximately EUR 1.1 billion of this sum was attributable to the scheduled repayment of liabilities and EUR 1.5 billion was attributable to the reclassification of liabilities in a disposal group.

The liabilities in a disposal group in the amount of EUR 3.3 billion include the liabilities of Hypo Alpe-Adria-Bank AG, which are reported separately and mainly consist of liabilities to credit institutions, customers and liabilities evidenced by certificates.

The value of subordinated capital decreased only marginally in the reporting period, from EUR 2.0 billion to EUR 1.9 billion. Following the buy-backs in 2012, the impairment write-downs on outstanding capital issues and the absence of new issues, hybrid capital fell to EUR 2.0 million.

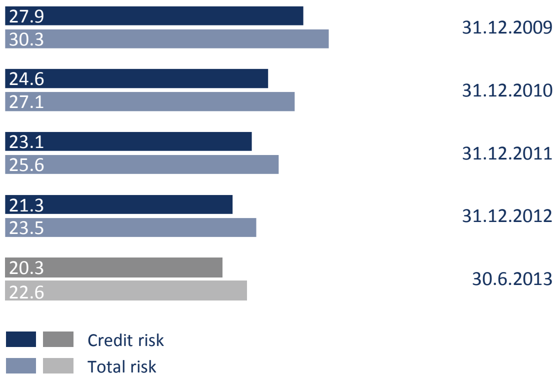
The change in equity in the first half of 2013 is attributable to the result for the reporting period, which decreased from EUR 2.0 billion to EUR 1.1 billion.

2.3. Own capital funds

Own capital funds have decreased significantly since 31 December 2012, especially as a result of the losses in the first half of the year. As at 30 June 2013, the total own capital funds as defined in the Austrian Banking Act (BWG) amounted to EUR 1.76 billion (31 December 2012: EUR 3.06

billion), while the minimum legal requirement was EUR 1.81 billion (31 December 2012: EUR 1.88 billion). This resulted in a shortage of EUR -0.05 billion (31 December 2012: surplus of EUR 1.17 billion) in terms of the legal own capital funds ratio of 8.0%.

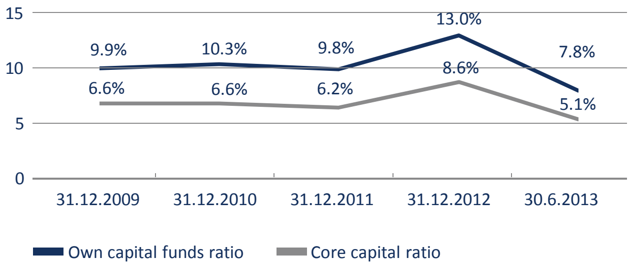
Risk-weighted assets (RWA) related to total risk/credit risk
in EUR bn



As at 30 June 2013, risk-weighted assets (RWA) of the credit risk (banking book) decreased by EUR 1.03 billion to EUR 20.29 billion. This reduction in RWA is mainly due to the impairment write-downs and risk provisions in the first half of 2013 as well as the maturity of the portfolio, accompanied by a still highly restrictive granting of new loans. Taking into account the market and operational risk, total risk-weighted assets declined from EUR 23.54 billion (31 December 2012) to EUR 22.59 billion (30 June 2013).

The group's own capital funds ratio in relation to the total capital assessment basis (including market and operational risk) results to 7.8% as at 30 June 2013 (13.0% as at 31 December 2012), which is under the legally required minimum level of 8.0% in Austria.

Change in own capital funds and core capital ratio
in percent



Hypo Alpe-Adria-Bank International AG, as the holding company of the group, reported in its local annual financial statements (UGB/BWG) as at 31 December 2012 own capital funds (including funds for general banking risks) of EUR 1.3 billion. Due to the conditions that will probably need to be met when implementing the European Commission's final decision and are anticipated as a result of the EU restructuring plan for the group, significant impairment write-downs on participations and loans became necessary for the half year. This results for the bank in a core capital of around EUR 0.16 billion as at 30 June 2013. The calculated own capital funds ratio to be achieved by the parent company in accordance with regulatory requirements was 1.6% as at 30 June 2013 and was therefore 6.4 percentage points below the legal minimum of 8.0%.

In its role as owner of the bank, the Republic of Austria resolved a capital measure totalling in EUR 700.0 million at the general shareholders' meeting on 23 July 2013. The measure will be carried out immediately following the receipt of the European Commission's decision on state aid, which is expected to be positive in autumn 2013.

Taking into account the capital increase of EUR 700.0 million resolved by the sole shareholder, the (group's) own capital funds ratio resulted in a pro forma calculation to 12.4%, which is above the legally required minimum.

2.4. Key profit indicators

The cost/income ratio, which shows the ratio of operating expenses to operating income, came to over 700% as at 30 June 2013 (1 January to 30 June 2012: 59.4%). This significant increase reflects the drastic decrease in operating income (lower operating earnings and a high need for impairment write-downs on current assets that can be seen in the other operating result) accompanied by somewhat constant operating expenses.

Credit risk in relation to net interest income (the risk/earnings ratio) also increased from 38.3% in the previous year to 254.1% in the period under review. This change is due to both a decline in net interest income and an increase in risk provisions on loans.

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

3. Outlook for the second half of 2013

According to the European Commission, a final decision regarding the approval of state aid can be expected in the second half of the year. The whole second half of the year will thus be characterised by the preparations for and implementation of the expected obligations that will probably need to be met when implementing the European Commission's final decision in the market and as pertains to sales efforts. First and foremost, these include the portfolio transfers in SEE as well as the continuing reduction of operating activities in Italy that has already been initiated in anticipation of the final decision.

In terms of the segments of the core strategy, the upcoming restructuring and privatisation measures reflect the varying states of progress so far. The closing of the purchase agreement for the Austrian subsidiary bank "Hypo in Kärnten" and its complete transfer to the new owner is scheduled to be completed by 31 December 2013. The efforts to sell or wind down the assets of the Italian holdings in the best possible way will be stepped up in consideration of the European Commission's requirements, while the bidding process for Hypo Alpe Adria's SEE banks is slated to enter the phase of first direct talks with investors. The bank continues to pursue a reprivatisation strategy that seeks to maximise value while keeping all options open and is pooling the South-Eastern European units into a group managed as a holding for a full sale to strategic and financial investors. The full sale of the SEE core units, including the management holding, promises the maximum preservation of value and is therefore the preferred solution.

In the second half of the year, the bank will continue to advance the process of creating the organisational conditions in order to support the privatisation efforts and the further anchoring of a clear structure in terms of its continuation and wind-down business portfolios. The ultimate form and implementation depend to a great extent on the findings of the options analysis concerning an independent wind-down business portfolio. The owner plans to make a decision on this matter once it has received solid findings.

Whether or not Hypo Alpe Adria requires additional capital to meet regulatory requirements and special demands in terms of own capital depends to a great extent on the overall structure in the future and the relationship between the operating banks, which are to be privatised, and the wind-down business portfolio, which is to be sold. Due to the wide range of possible scenarios, the bank does not feel that it is possible to make a sound forecast in this regard at this time. However, it is important to bear in mind that the income that can be generated in the current economic climate will also only be able to partially compensate for risk costs incurred and corrections in measurement in the second half of the year.

Interim Consolidated Financial Statements

as at 30 June 2013
for Hypo Alpe-Adria-Bank International AG

I. Group statement of comprehensive income

Income statement

EUR m

	Note	1.1. - 30.6.2013	1.1. - 30.6.2012*
Interest and similar income	(7)	610.2	743.3
Interest and similar expenses	(8)	-365.0	-422.2
Net interest income		**245.2**	**321.1**
Fee and commission income	(9)	46.7	48.0
Fee and commission expenses	(10)	-21.8	-25.9
Net fee and commission income		**24.9**	**22.0**
Result from trading		7.4	25.8
Result from hedge accounting		-3.8	0.6
Result from fin. investments – designated at fair value through profit or loss	(11)	-5.8	-0.7
Result from fin. investments – available for sale		-0.7	1.4
Result from fin. investments – held to maturity		-0.2	0.0
Result from other financial investments	(12)	-38.7	15.3
Other operating result		-196.3	-2.9
Operating income		**32.1**	**382.5**
Risk provisions on loans and advances	(13)	-623.0	-123.1
Operating income after risk provisions on loans and advances		**-590.9**	**259.4**
Personnel expenses		-107.2	-119.7
Other administrative expenses	(14)	-89.5	-82.2
Depreciation and amortization on tangible and intangible assets		-40.7	-25.3
Operating expenses		**-237.4**	**-227.1**
Operating result		**-828.4**	**32.3**
Result from companies accounted for at equity		0.0	0.0
Result for the period before tax from continued operation		**-828.4**	**32.3**
Taxes on income		62.7	-31.8
Result for the period after tax from continued operation		**-765.6**	**0.5**
Result after tax from discontinued operations	(4)	**-94.1**	**2.8**
Result for the period after tax		**-859.8**	**3.4**
thereof attributable to non-controlling interests		9.7	12.6
thereof from continued operations		9.7	12.6
thereof from discontinued operations		0.0	0.0
thereof attributable to equity holders of parent (consolidated result for the period after tax and non-controlling interest)		-869.5	-9.2
thereof from continued operations		-775.4	-12.0
thereof from discontinued operations		-94.1	2.8

* Previous year's figures for 2012 were adjusted in connection with the disclosure of Austrian subsidiary bank Hypo Alpe-Adria-Bank AG as a discontinued operation, see note (4), as well as the retrospective application of IAS 19.

Other comprehensive income

EUR m

		1.1. - 30.6.2013	1.1. - 30.6.2012
Result for the period after tax		**-859.8**	**3.4**
Remeasurement of the net defined benefit liability		-0.4	-0.7
Deferred taxes 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		**-0.4**	**-0.7**
Available for sale reserve		25.9	56.3
Gains/losses on available-for sale evaluation		22.6	46.1
Effects of deferred taxes		-0.3	-0.2
Gains/losses on available-for sale disposal (reclassification)		-0.4	-0.4
Effects of deferred taxes		0.0	0.0
Gains/losses on available-for sale impairment (reclassification)		0.0	0.0
Effects of deferred taxes		0.0	0.1
Gains/losses from discontinued operation	(4)	4.0	10.7
Foreign exchange differences (change in foreign currency reserve)		8.2	-31.0
Total items that will be reclassified to profit or loss		**34.1**	**25.3**
Total other comprehensive income		**33.7**	**24.6**
Total comprehensive income		**-826.1**	**28.0**
thereof attributable to non-controlling interests		8.4	17.7
thereof from continued operations		8.4	17.7
thereof from discontinued operations		0.0	0.0
thereof attributable to equity holders of parent		-834.5	10.3
thereof from continued operations		-744.6	-2.5
thereof from discontinued operations		-89.9	12.7

II. Group statement of financial position

EUR m

	Note	30.6.2013	31.12.2012
ASSETS			
Cash and balances at central banks		2,642.8	2,873.2
Loans and advances to credit institutions	(15)	1,468.8	1,993.1
Risk provisions on loans and advances to credit institutions	(17)	-1.4	-3.0
Loans and advances to customers	(16)	20,539.0	24,401.5
Risk provisions on loans and advances to customers	(17)	-3,455.9	-3,070.2
Trading assets	(18)	9.5	1.5
Derivative financial instruments	(19)	1,096.9	1,426.1
Financial investments – designated at fair value through profit or loss	(20)	529.1	783.4
Financial investments – available for sale	(21)	2,288.8	2,688.3
Financial investments – held to maturity		84.1	90.5
Investments in companies accounted for at equity		7.4	7.4
Other financial investments	(22)	1,307.3	1,392.0
thereof investment properties		1,191.1	1,279.2
thereof operate leases		116.1	112.9
Intangible assets		39.5	44.6
Tangible assets		382.1	392.0
Tax assets		142.5	77.0
thereof current tax assets		20.5	18.4
thereof deferred tax assets		122.0	58.6
Assets of the disposal group	(4)	3,453.4	0.0
Other assets	(23)	751.8	716.9
Risk provisions on loans and advances on other assets	(17)	-12.4	-10.5
Total assets		**31,273.2**	**33,803.7**
EQUITY AND LIABILITIES			
Liabilities to credit institutions	(24)	4,628.9	5,252.5
Liabilities to customers	(25)	6,570.2	8,405.9
Liabilities evidenced by certificates	(26)	12,347.8	14,835.8
Derivative financial instruments	(27)	676.3	781.9
Provisions		314.8	128.1
Tax liabilities		23.6	40.1
thereof current tax liabilities		5.8	18.1
thereof deferred tax liabilities		17.8	22.0
Liabilities of the disposal group	(4)	3,335.1	0.0
Other liabilities	(28)	309.6	427.6
Subordinated capital	(29)	1,943.4	1,957.3
Hybrid capital	(30)	2.0	6.0
Equity		1,121.4	1,968.4
thereof attributable to equity holders of parent		613.1	1,447.6
thereof attributable to non-controlling interests		508.3	520.9
Total equity and liabilities		**31,273.2**	**33,803.7**

III. Group statement of changes in equity

EUR m

	Issued 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	**1,308.6**	**0.0**	**-43.1**	**-95.7**	**277.7**	**1,447.6**	**520.9**	**1,968.4**
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	-20.9	-20.9
Total comprehensive income	0.0	0.0	27.2	8.2	-869.9	-834.5	8.4	-826.1
Result for the period after tax	0.0	0.0	0.0	-0.2	-869.5	-869.7	9.7	-860.0
Other comprehensive income	0.0	0.0	27.2	8.4	-0.4	35.2	-1.3	33.9
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity as at 30.6.2013	**1,308.6**	**0.0**	**-15.9**	**-87.5**	**-592.1**	**613.1**	**508.3**	**1,121.4**

As at 30 June 2013, the values of the disposal groups are included in item available-for-sale reserve in the amount of EUR 9.8 million, see note (4) Discontinued operations.

EUR m

	Issued 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	**808.6**	**0.0**	**-121.4**	**-67.4**	**305.8**	**925.6**	**487.7**	**1,413.3**
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	-3.0	-3.0
Total comprehensive income	0.0	0.0	51.2	-31.0	-9.9	10.3	17.7	28.0
Result for the period after tax	0.0	0.0	0.0	0.1	-9.2	-9.1	12.6	3.4
Other comprehensive income	0.0	0.0	51.2	-31.0	-0.7	19.5	5.1	24.5
Other changes	0.0	0.0	0.0	0.3	-0.6	-0.3	0.2	-0.1
Equity as at 30.6.2012	**808.6**	**0.0**	**-70.2**	**-98.0**	**295.3**	**935.6**	**502.6**	**1,438.2**

*Previous year’s adjustments due to the retrospective application of IAS 19.

IV. Condensed group statement of cash flows

EUR m

	2013	2012
Cash and cash equivalents at end of previous period (1.1.)	**2,873.2**	**757.5**
Cash flows from operating activities	-225.3	151.2
Cash flows from investing activities	8.0	-48.2
Cash flows from financing activities	-18.6	-69.7
Effect of exchange rate changes	5.6	-29.1
Cash and cash equivalents at end of period (30.6.)	**2,642.8**	**761.7**

V. Notes to the interim consolidated financial statements

Accounting policies and basis of consolidation

(1) Significant accounting policies

1.1. Going concern principle

In its separate annual financial statements (at the level of the single institution UGB/BWG) as at 31 December 2012, Hypo Alpe-Adria-Bank International AG, the holding company of Hypo Alpe Adria group, had own capital funds (including the fund for general banking risks) of EUR 1.3 billion. As macroeconomic conditions remain difficult and due to the conditions resulting from the EU restructuring plan that will probably need to be met by the group when implementing the European Commission's final decision, the group was forced to take into account losses on equity investments (participations) and loans, which resulted in a remaining core capital of approximately EUR 0.16 billion as at 30 June 2013. The own capital funds ratio of the parent company, which is determined pursuant to regulatory requirements, amounted to 1.6% as at 30 June 2013, and therefore does not meet the statutory minimum of 8.0%. The core capital gap for meeting the legal requirements amounts to EUR 618.8 million. The group's own capital funds ratio as at 30 June 2013 amounts to 7.8%; the core capital gap on the statutory minimum of 8.0% is EUR 30.7 million. This was primarily due to the allowance of required risk provisions on loans and advances, write-downs relating to the sale of the Austrian subsidiary bank as well as provisions for interest refunds to customers in Italy. The bank fulfilled its statutory obligations and informed the regulatory authorities of these circumstances.

At the general shareholders' meeting held on 23 July 2013, the Republic of Austria as the bank's shareholder resolved a capital measure in the amount of EUR 700.0 million, which will be conducted immediately after the European Commission hands down the positive state aid decision expected in autumn of 2013. Taking into account the planned capital increase of EUR 700.0 million, the statutory minimum equity requirements have been met as at 30 June 2013.

In drawing up the interim consolidated financial statements, the Executive Board applied the going concern principle, taking into account the capital increase resolved by the shareholder on 23 July 2013. The going concern assumption is based on one hand on the timely implementation of the resolved capital increase of EUR 700.0 million and, on the other hand, on the additional measures which will be implemented in the future to meet these statutory requirements. The Executive Board is counting on the restructuring plan submitted to the European Commission by the sole shareholder, which assumes that the company will continue as a going concern following the implementation of additional measures.

The bank is currently unable to meet the requirements set as part of the Joint Risk Assessment & Decision Process ("JRAD 1") initiated by the regulatory authorities; these requirements include a minimum total capital ratio of 12.04% and the covering of the so-called "shortfall". The regulatory authorities have given the bank a deadline until 31 December 2013 to meet these requirements. The bank was informed on 11 March 2013 ("JRAD 2") that the requirements to have a minimum total capital ratio of 12.40% and to cover the shortfall also come into force on the same date (31 December 2013) and will therefore replace JRAD 1.

The bank assumes that the SEE bank network will be disposed in the first half of 2015 in accordance with the expected EU decision. Material effects on the annual financial statements of Hypo Alpe-Adria-Bank International AG and the consolidated financial statements of Hypo Alpe Adria for the financial year 2013 cannot be ruled out in the event that economic conditions and/or the defined overall disposal strategy were to change significantly.

The necessary risk provisions on loans and advances were based on the expected realisation amounts and the recovery period according to the specific asset and the macroeconomic factors supporting normal business assessment. A different assessment of these assumptions would result in significantly different valuations of risk provisions on loans and advances, and would also have impact on the amount of own capital funds accordingly. Furthermore, the group is working on changing the method used in the retail portfolio for SRP collective impaired (SRP ci), the effects of which can only be taken into account following the validation of the new model in the risk provisions for the full year. The effects already detected using sample analyses were taken into account as a pull-forward effect in retail risk provisioning as at the end of the first half of the year. In addition a project for a further portfolio adjustment in the SEE core corporate segment was set up; this is designed to perform a further portfolio transfer in the wind-down area, taking into consideration all regulatory requirements. An initial estimation was made for the first half of the year and was recognized in risk provisions on loans and advances. Both measures support that the SEE network banks can be privatised, although this could result in additional risk provisions on loans and advances for the total year.

The group also faces significant reputational risks; these could lead to the entire group losing significant amounts of liquidity due to the outflow of customer deposits, which would make it more difficult for the company to service its liabilities. Consequently, the group would have to rely on external support.

For more details on other risks, please refer to the explanations contained in the risk report. For more information on the EU state aid proceedings and the Joint Risk Assessment & Decision process (JRAD), please refer to note (61) Important proceedings and note (35) JRAD – Joint Risk Assessment and Decision process.

1.2. Other significant accounting policies

The interim consolidated financial statements of Hypo Alpe Adria as at 30 June 2013 were drawn up in accordance with the IFRS as adopted by the EU for interim reporting (IAS 34). The condensed interim financial statements do not contain all the information and notes required for the full consolidated financial statements. For this reason, the interim consolidated financial statements should be read in conjunction with the most recently published consolidated financial statements for the year as at 31 December 2012.

The interim consolidated financial statements as at 30 June 2013 have neither been audited nor reviewed by the auditors.

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

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

Unless otherwise stated, the same accounting and measurement principles as well as methods of calculation have been applied in these interim consolidated financial statements as in the recently published consolidated financial statements as at 31 December 2012, apart from where new standards, amendments and interpretations, which are valid for financial years beginning on or after 1 January 2013, have been applied.

IFRS, whose application was mandatory as at the balance sheet date, have been used in these interim consolidated financial statements. The following new or amended IFRS/IAS standards and interpretations, which were issued by the IASB and adopted by the EU, were applied for the first time in 2013:

Standard	Description		Compulsory for annual period
IAS 1	Presentation of Financial Statements	Presenting Comprehensive income	2013
IAS 12	Taxes on income	Recovery of Underlying Assets, Amendment (2010)	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
Collective Standard	IFRS May 2012 (Improvements 2009–2011)	Annual Improvements IAS 1, IAS 16, IAS 32, IAS 34, IFRS 1	2013

The standards that affect the interim 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 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 have therefore been adjusted pursuant to the required retrospective application of IAS 19.

IFRS 13 provides uniform benchmarks for the recognition of fair value which apply to all standards and comprises both financial and non-financial items. The application of IFRS 13 involves detailed disclosures in the notes.

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

There were no material changes to estimates in the first half of 2013.

With regard to the assessment of the continuance of the Hypo Alpe Adria group as a going concern, please refer to note (61) Important proceedings and (35) JRAD – Joint Risk Assessment and Decision Process.

The parameters for calculating portfolio-based risk provisions were validated as at 30 June 2013. The validations of the default probabilities and cure rates did not lead to any significant changes (difference < 1%). The Loss Identification Period (LIP) factors are estimated for specific segments, dependent upon the prevailing processes for, and developments in, risk monitoring. The LIP factors currently valid for banks and states remain at 0.1. The minimum threshold for retail and corporate customers also remains unchanged at 0.5. All parameters are checked regularly and adjusted as required.

For further information on discretionary decisions regarding estimates and assumptions, please refer to the most recently published group annual report as at 31 December 2012.

(3) Scope of consolidation

The interim consolidated financial statements comprise 23 Austrian companies (31 December 2012: 21) – including Hypo Alpe-Adria-Bank International AG – and 86 (31 December 2012: 85) foreign subsidiaries:

	30.6.2013		31.12.2012	
	Fully consolidated	Equity method	Fully consolidated	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	0	0	-1	0
Excluded in period under review	-3	0	-7	0
Reclassified	0	0	0	0
End of period (30.6./31.12.)	**105**	**4**	**102**	**4**
thereof Austrian companies	21	2	19	2
thereof foreign companies	84	2	83	2

In the first half of 2013 the following six companies were included for the first time in the interim consolidated financial statements. With the exception of Hypo SEE Holding AG, the purpose of which is the realisation of collaterals.

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
HETA REAL ESTATE D.O.O. BELGRAD	Belgrad	100.0%	Fully consolidated	Materiality
Victor Retail I	Sarajevo	100.0%	Fully consolidated	Foundation
BLOK 67 GmbH	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Acquisition
BLOK 67 ASSOCIATES DOO BEOGRAD	Belgrad - Novi Beograd	100.0%	Fully consolidated	Acquisition
Hypo SEE Holding AG	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Materiality
TERME SPROSTITVENI PROGRAM AKTIVNOSTI ROGASKA, HOTELI IN TURIZEM D.D.	Rogaska Slatina	0.0%	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 a rescue purchase. This company was consolidated in the first half of 2013 on grounds of materiality.

Victor Retail I, which was founded in 2013, also serves to acquire assets taken over as part of rescue purchases in Bosnia.

The remaining 50% share in Austrian company BLOK 67 GmbH, previously held by a third party, was acquired at the end of June 2013. The company 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.

Hypo Phoenix Absicherungs GmbH, which had not been previously consolidated due to immateriality, was transformed into Hypo SEE Holding AG at the end of June 2013; in future, this holding company will act on behalf of Hypo Alpe-Adria-Bank International AG's equity investments in group credit institutions in SEE countries.

TERME SPROSTITVENI PROGRAM AKTIVNOSTI ROGASKA, HOTELI IN TURIZEM D.D. is a hotel operator in Slovenia which, in the past, had received financing from a Slovenian subsidiary of Hypo Alpe Adria. The asset being financed (tourist facilities) was repossessed by Hypo Alpe Adria in the context of credit restructuring; the bank then commissioned an external and experienced management company to assume the shares in the operator by means of a trust agreement. The trust agreement between Hypo Alpe Adria and the external management company stipulates that the shares in the company are to be held on behalf and at the risk of Hypo Alpe Adria and are therefore controlled by the group. For this reason, the company was consolidated in the first half of 2013.

Companies that are of secondary importance to Hypo Alpe Adria, either because of reduced business activities or because of planned liquidation, are excluded from the scope of consolidation. Three fully-consolidated subsidiaries were excluded from the scope of consolidation in the course of the first six months of the 2013 financial year:

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
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
HILLTOP Holding Anstalt	Vaduz	100.0%	Fully consolidated	Materiality

The elimination of these three companies from the group had no material effects on the result of Hypo Alpe Adria.

(4) Discontinued operations

a) Disposal of the Austrian subsidiary bank

The result of discontinued operations includes the result of the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG. The share purchase agreement with a strategic investor, whereby Hypo Alpe-Adria-Bank International AG transfers all of its shares in Hypo Alpe-Adria-Bank AG, was signed on 31 May 2013. The agreed purchase price consists of a fixed and a variable component which, on fulfilment of all conditions stipulated in the agreement, amounts to EUR 65.5 million.

Based on a current estimation, these conditions are expected to be fulfilled within the next six months; as a result, the transaction is forecasted to be closed (transfer of shares) and Hypo Alpe-Adria-Bank AG to be disposed from Hypo Alpe Adria group in the fourth quarter of 2013.

The presentation of comparative figures from the previous year in the income statement was adjusted in accordance with IFRS 5. Intragroup income and expenses were no longer eliminated as at the balance sheet date, to show the correctly existing business relationships with Hypo Alpe-Adria-Bank AG in the future.

The income statement of the Austrian subsidiary bank is as follows:

EUR m

	1.1. - 30.6.2013	1.1. - 30.6.2012
Interest and similar income	70.2	122.6
Interest and similar expenses	-52.2	-99.4
Net interest income	**18.0**	**23.1**
Fee and commission income	8.9	8.5
Fee and commission expenses	-0.8	-1.0
Net fee and commission income	**8.1**	**7.5**
Result from trading	0.5	1.1
Result from hedge accounting	0.4	0.2
Result from fin. investments – designated at fair value through profit or loss	0.3	-1.1
Result from fin. investments – available for sale	3.3	-0.4
Result from fin. investments – held to maturity	0.0	0.0
Result from other financial investments	0.0	-0.1
Other operating result	1.0	0.9
Operating income	**31.5**	**31.1**
Risk provisions on loans and advances	-7.3	-2.1
Operating income after risk provisions on loans and advances	**24.2**	**29.1**
Personnel expenses	-18.3	-15.9
Other administrative expenses	-7.0	-9.7
Depreciation and amortization on tangible and intangible assets	-0.5	-0.6
Operating expenses	**-25.8**	**-26.2**
Operating result	**-1.6**	**2.9**
Result from companies accounted for at equity	0.0	0.0
Result for the period before tax	**-1.6**	**2.9**
Taxes on income	0.4	0.0
Result for the period after tax	**-1.1**	**2.8**

The group result for the period after tax from the discontinued operation items in the income statement in accordance with IFRS includes an operating result of EUR -1.1 million (in accordance with Austrian accounting regulations UGB/BWG: EUR +0.8 million) as well as losses of EUR 93.0 million from the disposal of Hypo Alpe-Adria-Bank AG determined on the basis of the expected purchase price. This impairment loss resulted in a write-down of existing non-financial assets; additional losses were recognised in the interim consolidated financial statements by setting aside reserves for onerous contracts (IAS 37).

The assets of the Austrian subsidiary bank were classified as assets of a disposal group for the first time as at 30 June 2013 and are as follows:

EUR m

	30.6.2013
ASSETS	
Cash and balances at central banks	26.3
Loans and advances to credit institutions	156.4
Loans and advances to customers	2,635.4
Risk provisions for loans and advances	-56.5
Trading assets	0.1
Derivative financial instruments	27.0
Financial investments – designated at fair value through profit or loss	233.0
Financial investments – available for sale	431.8
Financial investments – held to maturity	0.0
Investments in companies accounted for at equity	0.0
Other financial investments	0.0
Intangible assets	0.0
Tangible assets	0.0
Tax assets	0.0
Other assets	0.0
Total assets	**3,453.4**
LIABILITIES	
Liabilities to credit institutions	427.5
Liabilities to customers	1,350.6
Liabilities evidenced by certificates	1,475.5
Derivative financial instruments	0.5
Provisions	28.5
Tax liabilities	3.3
Other liabilities	28.6
Subordinated capital	20.6
Hybrid capital	0.0
Total liabilities	**3,335.1**

The cash flow statement for Hypo Alpe-Adria-Bank AG 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	41.0	-13.2
Cash flows from investing activities	4.1	-0.4
Cash flows from financing activities	-48.2	-9.7
Cash and cash equivalents at end of period (30.6.)	**26.3**	**18.1**

The development of the available-for-sale reserve item at Hypo Alpe-Adria-Bank AG as at 30 June is as follows:

EUR m

	1.1. - 30.6.2013	1.1. - 30.6.2012
Gains/losses from discontinued operation	**4.0**	**10.7**
Gains/losses on available-for sale evaluation	6.2	9.0
Effects of deferred taxes	-1.5	0.0
Gains/losses on available-for sale disposal (reclassification)	-0.8	1.8
Effects of deferred taxes	0.2	0.0
Gains/losses on available-for sale impairment (reclassification)	0.0	0.0
Effects of deferred taxes	0.0	0.0

b) Sales activities in the SEE network

The EU restructuring plan submitted to the EU by the Federal Ministry of Finance (BMF) at the end of June 2013 provides for the sale of the bank network in the SEE countries by mid-2015; the European Commission has yet to make a final decision on this plan.

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:

- 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

As a number of these conditions have not been met as at 30 June 2013, the assets and liabilities of the SEE bank group will not be taken into account in accordance with the requirements of IFRS 5; instead, these will continue to be consolidated.

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.

(5) Business combinations and acquisitions

BLOK 67 ASSOCIATES DOO BEOGRAD is fully consolidated as of June 2013 due to the mandatory consolidation of the parent company, BLOK 67 GmbH. 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 credit institutions	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 BLOK 67 GmbH, the parent holding company of 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.

Pursuant to IFRS 3, details also do not need to be provided for TERME SPROSTITVENI PROGRAM AKTIVNOSTI ROGASKA, HOTELI IN TURIZEM D.D. as this company largely provides intragroup services.

Notes to the income statement

(6) Segment reporting

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

In line with the restructuring plan prepared for the purpose of the EU proceedings, 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 "continuance" group units consist of the SEE network, i.e. bank and continuance leasing companies in Slovenia, Croatia, Bosnia and Herzegovina, as well as the banking units in Serbia, Montenegro and the domestic banking operations, which are represented by the "Austria" segment. The result for the period of the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG, which is expected to be sold by the end of the year, were reclassified as the result for the period from discontinued operations in accordance with IFRS 5 in the first half of 2013. The "Italy" segment comprises the Italian subsidiary bank, which was first allocated to the wind-down segment effective 1 July 2013.

The remaining business activities classified as "wind-down" are subdivided into the segments "financials" and "other participations". Included under "financials" are all group leasing companies which operate in the countries Croatia, Germany, Austria, Hungary, Macedonia, Montenegro, Bulgaria, Bosnia, Serbia, Ukraine and in Italy, whose business activities focus solely on winding down assets. Also included in this segment are the securities portfolios of the investment companies HBInt. Credit Management ltd. and Norica Investments ltd. as well as the customer portfolio of Hypo Alpe-Adria-Bank International AG, which largely relate to cross-border and large-volume corporate and public lending transactions.

All other equity investments (participation companies) which are not banking and leasing businesses operating in the areas of industry, tourism or real estate are shown in the column "participations" and are to be sold off.

The "Consolidation/Head Office" division includes the effects from consolidation between different business segments as well as the part of the group holding company that is linked to the core business activities.

6.1. SEE network

The business units included in this segment generated total net interest income of EUR +121.7 million (1 January to 30 June 2012: EUR +153.1 million) and net fee and commission income of EUR +30.2 million (1 January to 30 June 2012: EUR +29.0 million) and therefore continues to be the most profitable segment for the group in the first half of 2013. Compared to the previous year, however, this represented a decline of EUR 31.4 million in net interest income. A large part of the decrease in net interest income is due to the continuing recession, low market interest rates, as well as the low level of new business due to EU requirements and additional downsizing of the portfolio, mainly as a result of intragroup portfolio transfers from the SEE segment. Net interest income stabilised due to active liquidity management (reducing expensive customer deposits in 2013 by approximately EUR 43.0 million), taking into account negative, external factors. Net fee and commission income still rose by EUR 1.2 million. The trading result, which includes the result from foreign currency translation, came to EUR +8.0 million (1 January to 30 June 2012: EUR +9.4 million); the other operating result was negative, at EUR -22.4 million (1 January to 30 June 2012: EUR -9.8 million). Compared to the previous year's period (1 January to 30 June 2012: EUR -28.6 million), the level of new risk provisions, at EUR -128.5 million, has more than quadrupled, reflecting the effects of the expected commitments in conjunction with the European Commission's decision on the statement of financial position. The greater part of these was due to the Slovenian and Croatian subsidiary banks.
Thanks to continued and systematic cost management, operating expenses for the SEE network fell to EUR -106.5 million (1 January to 30 June 2012: EUR -115.5 million), which represents a decrease of EUR 9.0 million or -7.8% year on year, continuing the trend seen in 2011 and 2012.
The SEE network therefore reported a remarkable operating result before risk provisions – marked by the effects of the expected commitments – of approximately EUR 30.6 million.
In total, therefore, the segment result before tax was negative at EUR -97.8 million (1 January to 30 June 2012: EUR +37.9 million). After taking into account income tax expense of EUR +1.1 million (1 January to 30 June 2012: EUR -11.9 million), the segment result after tax comes to EUR -96.8 million (1 January to 30 June 2012: EUR +26.0 million).

The segment's assets decreased considerably year on year, from EUR 11.9 billion in 2012 to EUR 9.6 billion. This reduction was primarily due to the wind-down process, additional portfolio transfers from the Slovenian leasing unit and the first-time portfolio transfer from the Serbian bank into the wind-down units.

6.2. Italy

The Italy segment, which is represented by the bank in Udine, is mainly composed of lease transactions in the real estate segment. Market conditions continued to be very difficult, which resulted in the volume of new business declining year on year in the first half of 2013 and remaining below forecasts.

Overall, the Italy segment generated net interest income of EUR +33.7 million (1 January to 30 June 2012: EUR +41.7 million) and net fee and commission income of EUR +3.9 million (1 January to 30 June 2012: EUR +4.7 million). The other operating income decreased drastically, to EUR -94.9 million (1 January to 30 June 2012: EUR -1.2 million), mainly because of the detected malversation regarding incorrectly charged interest prescriptions to costumers, which resulted in more provisioning requirements.. Risk provisions increased considerably in the first half of the year to EUR -121.4 million (1 January to 30 June 2012: EUR -16.1 million) as a result of the deterioration in economic conditions in Italy and the planned speedier winding down of assets held by the subsidiary bank.

At EUR -178.6 million (1 January to 30 June 2012: EUR 1.4 million), the segment result after tax includes a positive tax effect of EUR +33.8 million and reflects the EU's restructuring plan, which provides for a wind-up of the subsidiary bank Hypo Alpe-Adria-Bank S.p.A.

The segment's assets decreased considerably by EUR 3.5 billion to EUR 3.0 billion year on year due to the maturing portfolio and the low level of new business.

6.3. Austria

Austrian banking operations generated a result for the period in accordance with IFRS of EUR -1.1 million (according to Austria accounting regulations UBG/BWG: EUR +0.8 million), down significantly year on year (1 January to 30 June 2012: EUR +7.8 million); pursuant to IFRS 5, this amount is reported in a separate item ("Result for the period after tax from discontinued operations") as the bank is expected to be completely sold off to an investor by the end of 2013. Please see note (4) Discontinued operations for a detailed list of the individual items. The segment reporting as at 30 June 2013 anticipated the splitting of the Austrian subsidiary bank in the second half of 2012 and took these into the account in the allocation of results and assets, which is why this does not conform with the figures for the previous year listed under note (4) Discontinued operations.

6.4. Wind-down financials

The group leasing and financing companies and the sub-divisions of the Austrian banks, which are not considered to be part of the future continuance group, generated lower net interest income of EUR +64.8 million (1 January to 30 June 2012: EUR +95.9 million) year on year. This decrease is due in particular to the EUR -26.4 million in guarantee commission arising from the EUR 1.0 billion state-guaranteed subordinated bond issued in December 2012. In contrast, net fee and commission income is negative, at EUR -11.6 million (1 January to 30 June 2012: EUR -10.5 million), which is primarily as a result of the guarantee charges of EUR -20.0 million p.a. in connection with the guarantee agreement concluded with the Republic at the end of 2010. Newly-created risk provisions on loans and advances led to a clearly negative development in this item compared to the first half of 2012: at EUR -364.7 million (1 January to 30 June 2012: EUR -78.9 million), this was mainly due to the transfer of wind-down portfolios from the SEE countries, but also due to the deterioration of the group holding company's wind-down portfolio. Operating expenses rose sharply from EUR -40.8 million to EUR -75.3 million, mainly due to the change in allocation of personnel and administrative expenses at the parent, Hypo Alpe-Adria-Bank International AG, to the segments Wind-down financials and Consolidation/Head Office segments. The latter segment reported contrary effects. Taking into account operating expenses, the result after tax for this segment is negative, at EUR -420.3 million (1 January to 30 June 2012: EUR -44.0 million). The assets allocated to this segment have a value of EUR 10.8 billion as at 30 June 2013 (as at 30 June 2012: EUR 10.0 billion) and, compared to the same period of the previous year, include the non-performing loans (NPL) transferred or still to be transferred as a consequence of the portfolio rationalisation project for the "going concern" units.

6.5. Wind-down other participations

The real estate, industrial and tourism participations, which are also being wound down, posted negative net interest income (due to the nature of their operations) of EUR -0.9 million (1 January to 30 June 2012: EUR -5.7 million) and negative net fee and commission income of EUR -0.1 million (1 January to 30 June 2012: EUR -1.4 million). As the funding of some of these companies is conducted in a foreign currency, there was a slightly positive trading result of EUR +2.4 million (1 January to 30 June 2012: EUR +1.6 million) due to exchange rate movements. Due to the business operations of the above-mentioned participations, other operating income includes, among other things, sales revenues and expense directly related to service provision and was negative at EUR -14.6 million (1 January to 30 June 2012: EUR +19.0 million) mainly as a result of the necessary impairment write-downs of a Croatian hotel. At EUR -18.3 million (1 January to 30 June 2012: EUR -20.2 million), operating expenses were higher than the income generated and, taking into account the financing result, led to a negative segment result for the period after tax of EUR -39.5 million (1 January to 30 June 2011: EUR -9.7 million). Segment assets remain almost unchanged year on year at EUR 0.3 billion.

6.6. 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. As a result of the financing function performed for the group, this segment reported positive net interest income of EUR +26.0 million (1 January to 30 June 2012: EUR +36.1 million).

Net fee and commission income amounted to EUR +2.5 million and was therefore higher than the comparable figure for the previous year (1 January to 30 June 2012: EUR +0.2 million). The trading result amounted to EUR +1.4 million (1 January to 30 June 2012: EUR +17.1 million) and was primarily due to the positive effects of currency hedging of the Serbian dinar (RSD) against the euro carried out by the Austrian holding company in the previous year.

The result from other financial investments broke even in the first half of 2013 (1 January to 30 June 2012: EUR +16.5 million). A large share of the positive result in the previous year was due to the earnings generated from the buy-back of hybrid capital at below its nominal value.

The other operating result includes EUR -13.5 million in expenses arising from the allocation of provisions that had to be set aside as provisions for expected penalty payments in accordance with section 97 BWG. This item also includes provisions for penalty payments due to violations of contractual provisions relating to state participation capital in the amount of EUR -3.0 million as well as expenses for bank taxes of EUR -10.6 million. The result in the first half of 2013 is down considerably year on year as a result of the inclusion of these effects.

The above-mentioned effects in particular contributed to a segment result for the period before tax of EUR -28.4 million (1 January to 30 June 2012: EUR +37.2 million) and a segment result for the period after tax of EUR -30.5 million (1 January to 30 June 2012: EUR +27.0 million) for the segment as a whole. At EUR -93.0 million, the expected result from the sales of the Austrian subsidiary bank was reported in the result from discontinued operations.

The value of total assets for the segment amounts to EUR 3.9 billion and is therefore on par with the previous year's value.

6.7. Segment presentation

EUR m

Period 1.1. - 30.6.2013	SEE-network	Italy	Austria	Wind-Down Financial	Wind-Down Partici-pations	Consolidation/Head Office	sum
Net interest income	121.7	33.7	0.0	64.8	-0.9	26.0	245.2
Net fee and commission income	30.2	3.9	0.0	-11.6	-0.1	2.5	24.9
Result from trading	8.0	-1.2	0.0	-3.1	2.4	1.4	7.4
Result from hedge accounting	0.0	0.1	0.0	0.0	0.0	-3.9	-3.8
Result from fin. investments – afvtpl	0.0	0.0	0.0	6.2	0.1	-12.0	-5.8
Result from fin. investments – afs	-1.1	0.0	0.0	0.0	0.0	0.4	-0.7
Result from fin. investments – htm	-0.2	0.0	0.0	0.0	0.0	0.0	-0.2
Result from other financial investments	1.0	0.1	0.0	-39.6	-0.3	0.0	-38.7
Other operating result	-22.4	-94.9	0.0	-26.3	-14.6	-38.1	-196.3
Operating income	**137.2**	**-58.3**	**0.0**	**-9.6**	**-13.4**	**-23.8**	**32.1**
Risk provisions on loans and advances	-128.5	-121.4	0.0	-364.7	-8.4	0.0	-623.0
Operating income after risk provisions	**8.7**	**-179.7**	**0.0**	**-374.3**	**-21.8**	**-23.8**	**-590.9**
Personnel expenses	-48.9	-12.5	0.0	-30.6	-5.8	-9.4	-107.2
Other administrative expenses	-43.4	-9.5	0.0	-40.4	-4.5	8.2	-89.5
Depreciation and amortization on tangible and intangible assets	-14.2	-10.8	0.0	-4.3	-8.0	-3.4	-40.7
Operating expenses	**-106.5**	**-32.8**	**0.0**	**-75.3**	**-18.3**	**-4.6**	**-237.4**
Segment result (Operating result)	**-97.8**	**-212.4**	**0.0**	**-449.6**	**-40.1**	**-28.4**	**-828.4**
Result from companies accounted for at equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Segment result for the period before tax from continued operation	**-97.8**	**-212.4**	**0.0**	**-449.6**	**-40.1**	**-28.4**	**-828.4**
Taxes on income	1.1	33.8	0.0	29.3	0.6	-2.1	62.7
Segment result for the period after tax from continued operation	**-96.8**	**-178.6**	**0.0**	**-420.3**	**-39.5**	**-30.5**	**-765.6**
Result after tax from discontinued operations	0.0	0.0	-1.1	0.0	0.0	-93.0	-94.1
Segment result for the period after tax	**-96.8**	**-178.6**	**-1.1**	**-420.3**	**-39.5**	**-123.5**	**-859.8**
Segment assets	9,635.5	3,007.7	3,637.1	10,808.5	336.5	3,847.9	31,273.2
thereof non current-assets	290.3	28.6	0.0	1,281.0	135.8	-6.9	1,728.8
Loans and advances to customers	7,387.2	2,889.6	0.0	10,144.1	-1.0	119.1	20,539.0
Liabilities to customers	4,600.4	517.3	0.0	57.6	1.0	1,393.9	6,570.2

Abbreviations:
ha: hedge accounting
afvtpl: at fair value through profit or loss (fair value option)
afs: available for sale
htm: held to maturity

EUR m

Period 1.1. - 30.6.2012*	SEE-network	Italy	Austria	Wind-Down Financial	Wind-Down Partici-pations	Consolidation/Head Office	sum
Net interest income	153.1	41.7	0.0	95.9	-5.7	36.1	321.1
Net fee and commission income	29.0	4.7	0.0	-10.5	-1.4	0.2	22.0
Result from trading	9.4	1.8	0.0	-4.0	1.6	17.1	25.8
Result from hedge accounting	0.0	0.0	0.0	1.1	0.0	-0.5	0.6
Result from fin. investments – afvtpl	0.0	-0.2	0.0	4.1	-0.8	-3.9	-0.7
Result from fin. investments – afs	0.0	0.0	0.0	-3.7	-0.4	5.5	1.4
Result from other financial investments	0.3	0.2	0.0	-1.8	0.2	16.5	15.3
Other operating result	-9.8	-1.2	0.0	3.3	19.0	-14.2	-2.9
Operating income	**182.0**	**47.0**	**0.0**	**84.3**	**12.4**	**56.9**	**382.5**
Risk provisions on loans and advances	-28.6	-16.6	0.0	-78.9	-2.4	3.6	-123.1
Operating income after risk provisions	**153.4**	**30.3**	**0.0**	**5.4**	**10.0**	**60.4**	**259.5**
Personnel expenses	-55.5	-14.2	0.0	-15.1	-11.9	-23.0	-119.7
Other administrative expenses	-47.3	-11.3	0.0	-19.7	-4.9	1.1	-82.2
Depreciation and amortization on tangible and intangible assets	-12.7	-2.0	0.0	-5.9	-3.4	-1.3	-25.3
Operating expenses	**-115.5**	**-27.4**	**0.0**	**-40.8**	**-20.2**	**-23.2**	**-227.1**
Segment result (Operating result)	**37.9**	**2.9**	**0.0**	**-35.4**	**-10.3**	**37.2**	**32.3**
Result from companies accounted for at equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Segment result for the period before tax from continued operation	**37.9**	**2.9**	**0.0**	**-35.4**	**-10.3**	**37.2**	**32.3**
Taxes on income	-11.9	-1.5	0.0	-8.7	0.6	-10.2	-31.8
Segment result for the period after tax from continued operation	**26.0**	**1.4**	**0.0**	**-44.0**	**-9.7**	**27.0**	**0.6**
Result after tax from discontinued operations	0.0	0.0	7.8	0.0	0.0	-4.9	2.8
Segment result for the period after tax	**26.0**	**1.4**	**7.8**	**-44.0**	**-9.7**	**22.0**	**3.4**
Segment assets	11,936.4	3,459.0	4,161.6	9,992.0	307.1	3,843.8	33,699.9
thereof non current-assets	1,051.6	40.8	6.0	282.1	47.8	-23.9	1,404.4
Loans and advances to customers	8,722.5	3,269.2	2,850.6	10,445.3	4.3	537.4	25,829.3
Liabilities to customers	4,490.2	726.3	1,647.2	70.4	1.3	1,389.4	8,324.8

* Previous year's figures for 2012 were adjusted in connection with the disclosure of Austrian subsidiary bank Hypo Alpe-Adria-Bank AG as a discontinued operation, see note (4).

Abbreviations:
ha: hedge accounting
afvtpl: at fair value through profit or loss (fair value option)
afs: available for sale
htm: held to maturity

(7) Interest and similar income

EUR m

	1.1. - 30.6.2013	1.1. - 30.6.2012*
Interest income	**511.1**	**614.1**
from loans and advances to credit institutions	28.7	65.9
from loans and advances to customers	340.9	396.4
from bonds, treasury bills and other fixed-interest securities	29.3	38.7
from derivative financial instruments, net	108.5	109.8
Other interest income	3.7	3.3
Current income	**99.1**	**129.1**
from shares and other non-fixed interest securities	0.2	0.6
from leasing business	80.7	111.4
from investment properties	18.2	17.1
Total	**610.2**	**743.3**

* Previous year's figures for 2012 were adjusted in connection with the disclosure of Austrian subsidiary bank Hypo Alpe-Adria-Bank AG as a discontinued operation, see note (4).

(8) Interest and similar expenses

EUR m

	1.1. - 30.6.2013	1.1. - 30.6.2012*
Interest expenses	**-334.8**	**-410.8**
for liabilities to credit institutions	-54.5	-81.2
for liabilities to customers	-111.2	-118.7
for debt securities in issue	-142.1	-194.8
for subordinated capital	-25.8	-15.3
for other liabilities	-1.2	-0.8
Similar expenses	**-30.2**	**-11.4**
Total	**-365.0**	**-422.2**

* Previous year's figures for 2012 were adjusted in connection with the disclosure of Austrian subsidiary bank Hypo Alpe-Adria-Bank AG as a discontinued operation, see note (4).

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

(9) Fee and commission income

EUR m

	1.1. - 30.6.2013	1.1. - 30.6.2012*
Credit business	11.4	13.1
Securities and custodian business	5.3	4.9
Bank transfers including payment transactions	18.2	18.0
Other financial services	11.8	12.0
Total	**46.7**	**48.0**

* Previous year's figures for 2012 were adjusted in connection with the disclosure of Austrian subsidiary bank Hypo Alpe-Adria-Bank AG as a discontinued operation, see note (4).

(10) Fee and commission expenses

EUR m

	1.1. - 30.6.2013	1.1. - 30.6.2012*
Credit business	-12.2	-16.3
Securities and custodian business	-2.9	-2.9
Bank transfers including payment transactions	-3.3	-3.7
Other financial services	-3.3	-3.1
Total	**-21.8**	**-25.9**

* Previous year's figures for 2012 were adjusted in connection with the disclosure of Austrian subsidiary bank Hypo Alpe-Adria-Bank AG as a discontinued operation, see note (4).

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

EUR m

	1.1. - 30.6.2013	1.1. - 30.6.2012*
Result from financial assets and related derivatives	8.7	-2.3
Result from long-term financial liabilities and related derivatives	-14.4	1.6
Total	**-5.8**	**-0.7**

* Previous year's figures for 2012 were adjusted in connection with the disclosure of Austrian subsidiary bank Hypo Alpe-Adria-Bank AG as a discontinued operation, see note (4).

Changes in the fair value of financial liabilities attributable to a change in the bank's own credit spread or to those resulting from third-party liabilities amounted cumulatively to EUR 84.4 million in the period under review (31 December 2012: EUR 98.8 million), which led to a negative effect of EUR -14.4 million on the income statement (30 June 2012: positive effect of EUR +4.7 million). These amounts do not include the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG due to its disclosure as a discontinued operation.

(12) Result from other financial investments

EUR m

	1.1. - 30.6.2013	1.1. - 30.6.2012*
Result from investment properties	-40.9	-1.2
Result from operate lease assets	2.0	4.4
Other income from financial investments	0.2	12.2
Total	**-38.7**	**15.3**

* Previous year's figures for 2012 were adjusted in connection with the disclosure of Austrian subsidiary bank Hypo Alpe-Adria-Bank AG as a discontinued operation, see note (4).

The result from other financial investments item includes impairment of assets held by the Italian leasing unit (EUR -37.7 million).

(13) Risk provisions on loans and advances

Risk provisions on loans and advances for on- and off-balance-sheet transactions are composed as follows:

EUR m

	1.1. - 30.6.2013	1.1. - 30.6.2012*
Allocations	-779.5	-240.1
Releases	159.4	111.7
Receipts from loans and advances previously impaired	11.6	13.0
Directly recognised impairment losses	-14.4	-7.7
Total	**-623.0**	**-123.1**

* Previous year's figures for 2012 were adjusted in connection with the disclosure of Austrian subsidiary bank Hypo Alpe-Adria-Bank AG as a discontinued operation, see note (4).

(14) Other administrative expenses

EUR m

	1.1. - 30.6.2013	1.1. - 30.6.2012*
Infrastructure costs	-20.5	-19.5
IT and telecommunications	-19.0	-19.4
Advertising costs	-4.2	-4.6
Legal and advisory costs	-11.7	-12.6
Expense for audit and audit-related services	-2.2	-2.0
Expenses related to reorganisation and restructuring	-3.1	-3.2
Investigation of the past	-7.1	-1.6
Staff training cost	-1.0	-1.6
Administration expenses related to HBInt. Credit Management	-0.8	-0.8
Other general administrative expenses	-19.9	-16.7
Total	**-89.5**	**-82.2**

* Previous year's figures for 2012 were adjusted in connection with the disclosure of Austrian subsidiary bank Hypo Alpe-Adria-Bank AG as a discontinued operation, see note (4).

Notes to the statement of financial position

(15) Loans and advances to credit institutions

EUR m

	30.6.2013	31.12.2012
Austria	97.3	623.8
Central and Eastern Europe (CEE)	548.8	579.3
Other countries	822.7	790.0
Total	**1,468.8**	**1,993.1**

(16) Loans and advances to customers

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

EUR m

	30.6.2013	31.12.2012
Public sector	2,083.4	3,390.8
Corporate clients	13,017.4	14,498.8
Retail clients	5,438.1	6,511.9
Total	**20,539.0**	**24,401.5**

16.2. Loans and advances to customers – by region

EUR m

	30.6.2013	31.12.2012
Austria	1,253.8	3,886.8
Central and Eastern Europe (CEE)	14,607.7	15,288.0
Other countries	4,677.4	5,226.7
Total	**20,539.0**	**24,401.5**

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

EUR m

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

EUR m

	as at 1.1.2012	Foreign exchange-differences	Allocations	Releases	Use	Changes to the consolidated Group and due to IFRS 5	Un-winding	as at 30.6.2012
Specific risk provisions	-2,934.0	-5.3	-223.2	73.9	75.9	23.0	88.1	-2,901.7
Portfolio-based risk provisions	-176.0	0.0	-14.7	27.3	0.0	-0.7	0.0	-164.1
Subtotal risk provisions on loans and advances	**-3,110.0**	**-5.3**	**-237.9**	**101.3**	**75.9**	**22.3**	**88.1**	**-3,065.8**
Provisions for credit commitments and guarantees	-48.2	0.1	-2.2	10.4	0.3	5.2	0.0	-34.4
Total	**-3,158.2**	**-5.2**	**-240.1**	**111.7**	**76.1**	**27.5**	**88.1**	**-3,100.2**

* Previous year's figures for 2012 were adjusted in connection with the disclosure of Austrian subsidiary bank Hypo Alpe-Adria-Bank AG as a discontinued operation, see note (4).

(18) Trading assets

EUR m

	30.6.2013	31.12.2012
Bonds and other fixed-interest securities	9.5	1.4
Shares and other non-fixed-interest securities	0.0	0.1
Total	**9.5**	**1.5**

(19) Derivative financial instruments

EUR m

	30.6.2013	31.12.2012
Positive market value of derivative financial instruments – trading	18.5	32.8
Positive market value of derivative financial instruments – banking book	1,078.5	1,393.3
Total	**1,096.9**	**1,426.1**

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

EUR m

	30.6.2013	31.12.2012
Loans and advances to customers and credit institutions	318.7	579.1
Bonds and other fixed-interest securities	191.6	185.2
Shares and other non-fixed-interest securities	18.8	19.1
Total	**529.1**	**783.4**

(21) Financial investments – available for sale

EUR m

	30.6.2013	31.12.2012
Bonds and other fixed-interest securities	2,232.0	2,627.0
Shares and other non-fixed-interest securities	34.4	40.8
Participations without intention for sale (< 20 %)	2.5	6.6
Other participations (associated companies 20 %–50 %)	2.7	2.8
Shares in affiliated, non-consolidated companies (> 50 %)	11.3	11.0
Loans and advances to customers/credit institutions	6.0	0.0
Total	**2,288.8**	**2,688.3**

(22) Other financial investments

EUR m

	30.6.2013	31.12.2012
Investment properties	1,191.1	1,279.2
Assets used for operate lease	116.1	112.9
Total	**1,307.3**	**1,392.0**

(23) Other assets

EUR m

	30.6.2013	31.12.2012
Deferred income	39.5	55.7
Other assets	712.3	661.2
Total	**751.8**	**716.9**

(24) Liabilities to credit institutions – by region

EUR m

	30.6.2013	31.12.2012
Austria	79.0	290.8
Central and Eastern Europe (CEE)	455.9	530.2
Other countries	4,094.1	4,431.5
Total	**4,628.9**	**5,252.5**

(25) Liabilities to customers

25.1. Liabilities to customers – by type of customer

EUR m

	30.6.2013	31.12.2012
Saving deposits	**600.4**	**1,414.6**
Demand and time deposits	**5,969.8**	**6,991.2**
from public sector	392.1	555.8
from corporate clients	2,956.4	3,350.7
from retail clients	2,621.2	3,084.7
Total	**6,570.2**	**8,405.9**

25.2. Liabilities to customers – by region

EUR m

	30.6.2013	31.12.2012
Austria	62.3	1,445.2
Central and Eastern Europe (CEE)	4,421.0	4,489.2
Other countries	2,086.9	2,471.5
Total	**6,570.2**	**8,405.9**

(26) Liabilities evidenced by certificates

EUR m

	30.6.2013	31.12.2012
Issued bonds	11,113.3	12,875.1
Liabilities issued by the "Pfandbriefstelle"	1,205.7	1,960.0
Other liabilities evidenced by certificates	28.9	0.7
Total	**12,347.8**	**14,835.8**

(27) Derivative financial instruments

EUR m

	30.6.2013	31.12.2012
Negative market value of derivative financial instruments – trading	14.0	31.0
Negative market value of derivative financial instruments – banking book	662.3	750.9
Total	**676.3**	**781.9**

(28) Other liabilities

EUR m

	30.6.2013	31.12.2012
Deferred expenses	90.3	206.7
Accruals and other obligations	219.3	220.9
Total	**309.6**	**427.6**

(29) Subordinated capital

EUR m

	30.6.2013	31.12.2012
Subordinated liabilities	1,942.9	1,956.6
Supplementary capital	0.5	0.7
Total	**1,943.4**	**1,957.3**

(30) Hybrid capital

EUR m

	30.6.2013	31.12.2012
Hybrid capital	2.0	6.0
Total	**2.0**	**6.0**

Risk report

(31) Current portfolio developments

The overall exposure was reduced in the first half of 2013 by approximately EUR 2.3 billion to EUR 33.3 billion. The greatest decline can be noted in the Financial Institutions segment and is primarily due to a drop in deposits at Oesterreichische Nationalbank (Austrian national bank).

The situation with non-performing loans (NPLs) in Hypo Alpe Adria has stabilised further in the first half of 2013 at EUR 9.5 billion, even falling by EUR 53.8 million. This was primarily due to the systematic application of the early warning system and the strict monitoring of customer accounts with a risk of default.

When distributed among Hypo Alpe Adria's four business segments, it is clear that NPLs in the wind-down segment fell significantly (EUR -237.9 million). Conversely, the share of NPLs in the SEE portfolio has risen by EUR 58.7 million. Of this amount, a considerable portion relates to the recession in Slovenia. At EUR 118.5 million, the largest rise in NPLs was reported by the Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A. which is reflecting the ongoing stagnation in Northern Italy. Appropriate action to protect assets has already been taken.

(32) Rise in risk provisions

Hypo Alpe Adria expects the European Commission to issue its decision regarding state aid proceedings soon, given the progress made thus far.

This decision will have a considerable influence on the allocation of risk provisions in the first half of 2013; it is expected that the following effects will result from this:

a) The SEE credit portfolio will need to be subjected to a radical clean-up to ensure that the SEE network banks can be privatised in the limited time available. This applies to both the corporate loan portfolio with an additional "brush" as well as the retail loan portfolio with the planned sale (debt sale) of all NPLs that are overdue by more than 180 days. These measures will bring the loan to deposit ratios (LTD) and the SEE network bank's NPL ratios close to privatisation benchmarks.
b) 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 (partial carve-out in the Italian leasing company Hypo Alpe-Adria-Leasing S.r.L.) require increased provisions for the NPL portfolio in light of 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. mean that the reduction of assets in the Italian subsidiary units needs to take place soon 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. remains within contractual limits. The provisions were also in line with the expected results of the ongoing audit by Banca d'Italia.

"Failed restructurings" have increasingly become apparent in the course of the ongoing monitoring process; this is due to the fact that the initial restructuring concepts are no longer valid given the negative economic developments in Hypo Alpe Adria's core SEE markets.

In some cases, the market values of collateral have also fallen further for reasons already mentioned.

The effects of the European Commission's expected decision and other drivers mentioned in this section require an unscheduled increase in risk provisions; total provisions therefore amount to EUR -623.0 million at the end of the first half of the year.

(33) Allocation of Hypo Alpe-Adria-Bank S.p.A. to the wind-down portfolio

The allocation of Hypo Alpe-Adria-Bank S.p.A. to Hypo Alpe Adria's wind-down portfolio as at 1 July 2013 (see also note (61.1) EU proceedings) initiated the realignment of the bank's Risk Office following the discontinuation of risk-relevant business operations. At the same time the credit portfolio of Hypo Alpe-Adria-Bank S.p.A. will be reduced, either to be able to sell Hypo Alpe-Adria-Bank S.p.A. as a fully regulated financial institution with a sustainable stabilised credit portfolio, or to wind down the financial assets of Hypo Alpe-Adria-Bank S.p.A. or the Italian participations respectively.

At the same time, the wind-down portfolio of Hypo Alpe-Adria-Leasing S.r.L. (non-performing and watch list exposures as well as commitments without an adequate risk/reward profile) will be activated and, optimally disposed of, liquidated or wound down over the respective term. Hypo Alpe-Adria-Leasing S.r.L. implements a specific monitoring process to reduce the migration of the performing exposure into the non-performing segment, thereby initiating timely credit monitoring based on appropriate early warning indicators.

(34) New business requirements in the context of the EU proceedings

As part of the EU proceedings (see also note (61.1) EU proceedings) against Hypo Alpe Adria, the European Commission imposed provisional behavioural measures that must be applied for new and existing business in the relevant segments of the marketable, non-privatised units. The object 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 oversee these behavioural measures. 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. The Credit Management units (underwriting) of the relevant booking entities, together with Local/Group Credit Risk Control divisions, are essentially in charge of reviewing the transactions. The results of the reporting on new business shall be given to the Monitoring Trustee on a quarterly basis. This information serves as a basis for the Monitoring Trustee’s report to the European Commission.

(35) JRAD – Joint Risk Assessment and Decision process

As part of the JRAD process, the Austrian Financial Market Authority (FMA) obliged Hypo Alpe Adria to have a total capital ratio of 12.04% from 31 December 2012, including covering the shortfall between the expected losses in the area of credit risk and total risk provisions. The bank was recapitalised by the shareholder on the basis of the preliminary authorisation by the European Commission, consisting of a capital increase by the Republic of Austria (EUR 500.0 million) and the issue of a state-guaranteed subordinated bond (EUR 1.0 billion). In the recent JRAD analysis for 2012, the FMA concluded –based on risk figures as at 30 April 2012 – that the bank had an additional shortfall of EUR 621.9 million and determined that the bank’s minimum capital ratio must be 12.40% from 31 December 2013 onwards. The current JRAD analysis has been ongoing since May 2013 (JRAD 3). No conclusion has yet been reached.

(36) Refining the new 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 improved and validated 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.

(37) Adjusting risk parameters

The WebFER loss database was rolled out in additional subsidiaries in the first half of 2013 and is expected to be available to all core businesses by the end of the year. The data already gathered will be used to improve the existing LGD/CCF estimates.

(38) Monitoring collateral

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

Real Estate collaterals account for 71% of collaterals internally reported as recoverable; the remaining collaterals are split between Guarantees (16.9%), Rights/Receivables (6.5%) and Other (5.6%). As was the case at 31 December 2012, 99% of all collaterals were up to date as at 30 June 2013.

All commercial real estate with a market value above EUR 1.0 million is assessed individually, and all real estate collaterals with market values of less than EUR 1.0 million are evaluated by an own statistical tool. A group-wide “collateral workflow” has been implemented to ensure that the process is up to date.

(39) Monitoring - Early Warning System

In 2011, Hypo Alpe Adria introduced a group-wide corporate monitoring process (based on the Early Warning System – EWS – installed by the bank) in all core countries, in order to ensure uniform and ongoing monitoring of the actual corporate credit portfolio.

The monitoring process is an important part of the Credit Management division's duties (underwriting, reviewing and monitoring). It is different than the review process, which is heavily oriented towards the continuous monitoring of each Group of Borrowers (GoB), and has the following primary aims:

- Preventing the migration of performing loans into the non-performing segment, in the interests of risk prevention
- Preventing the migration of performing loans (1A-3E) to the watch loan segment (4A-4E), in the interests of risk prevention
- Defining and implementing appropriate measures to prevent uncovered risk/net exposure from commitments at risk of default (e.g. through demanding more collateral or reducing non-secured liabilities)
- Determining and monitoring exit strategies for commitments with an unacceptable risk profile

The corporate monitoring process also has the following secondary aims:

- Standardising the handling process for potential risks
- Fully integrating the monitoring and watch list process in the credit process
- Increasing efficiency when processing watch list customers
- Clearly defined rules for the cooperation between Monitoring, Underwriting and Sales when dealing with watch list customers
- Highly transparent management and handling of the watch list portfolio
- Active involvement in reprogramming customers with a high default risk.

In 2012 and 2013, the corporate monitoring process was improved and expanded considerably. The previous early warning system was integrated in Hypo Alpe Adria’s IT landscape and launched as a web-based application at the beginning of February 2013. The integrated workflow system also helped to show the entire early warning process (including individual role definitions and user authorisations) as well as the monitoring of risk-minimising measures in the application. This aims to provide an even more efficient, effective and prompt monitoring of the watch list portfolio. The central steering of the corporate monitoring process and the new EWS application are also key to effectively supervise the local units. Changes are documented and can be traced at all times thanks to the direct link to the database.

(40) 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 function. It reports directly to the Group Chief Risk Officer.

Its responsibilities include retail portfolio management, data analysis and reporting, fraud prevention, determining the collection strategy as well as making decisions on credit and checking/assuring quality. The “Development Plan” drawn up in

2011 was 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 countries
- Implementing the Retail Credit Policy as well as centralising Underwriting, which now comprises both the private customer and retail SME 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
- Holding portfolio analysis and fraud prevention training.

The above development went hand in hand with the preparation of comprehensive guidelines (including credit, restructuring, fraud, review and monitoring policy) that provide the group with a credit risk-focused framework for the retail business.

The previously implemented measures are having a positive impact on the quality of new private customer business when evaluating vintage analyses.

(41) Improving the financial statements analysis system and implementing enhanced analytical methods

Further improvements were made to the system of presenting and evaluating financial statements in the Group Credit Management division in the first half of 2013. 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 (ARZ) was evaluated and expanded based on these specific requirements.

The focus was on developing binding provisions 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.

(42) Operational risk and internal control system

Many changes were made in the area of operational risk management in the first half of 2013. The related internal policy was rolled out anew and systematically adjusted for the relevant recipients. This was the first step in raising awareness among all employees. The second step in this process was aimed at all group management levels. A number of workshops and training sessions were held to underline the importance of taking a proactive approach to managing operational risks. The third step is providing all employees with online OP risk training.
The priority was placed on ensuring the completeness of the collection of loss data and on improving the quality of the data. There were also increased training measures to ensure the sustainability of the improvements.

An incident occurred at the Italian subsidiary bank in the first half of the year relating to the adjustment of interest rates. This incident was recorded and the recognised errors and weaknesses are being processed as part of the restructuring of the local internal control system (ICS). The aim is to ensure that such an incident can never reoccur.

The catalogue of measures identified will be implemented in the second half of 2013.

The definition of internal reputational risk is being dealt with together with operational risks. The relevant policy was adapted, implemented and rolled out in the subsidiaries in the first half of 2013. The methodology for evaluating the internal control system (ICS) has been further refined. Test scenarios have been used and specific measures taken.

The invoicing processes were mapped in all core countries and documented in the standard process tool ARIS. These processes were then evaluated from the point of view of risk and appropriate control measures were defined.

(43) Basel III – credit risk

Due to the final guidelines 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 classes of receivables 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 results in a rise 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 in the general data centre. The technical aspects of the preliminary Basel III standard have already been implemented. The group is currently working on the technical implementation of all changes and additional requirements resulting from the current legislation as well as the corresponding reporting requirements (ITS).

(44) 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 asset liability management (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 already started. Data on an individual transaction level which, once completed, will be supplied on a weekly to daily basis will require the implementation of this system as well as

- adaptation of the existing interface in the form of a new Unified Group Interface (UGIF)
- the 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. This work is expected to be completed by the end of the first quarter 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.

(45) Liquidity risk

In order to ensure liquidity on an ongoing basis, Hypo Alpe Adria holds cash reserves in the form of cash deposits that are available on demand at the Oesterreichische Nationalbank (Austrian national bank). Hypo Alpe Adria also holds liquidity portfolios of highly liquid, eligible securities which can be sold or used as eligible collateral for financial transactions with the central bank at short notice.

The deposits in the SEE countries are very stable, mainly due to our high service quality, good local markets, and despite a yield-oriented pricing policy. However, deposits at the Italian subsidiary bank have slumped approximately 21% since the beginning of the year – due to negative local media reporting. Media reports also negatively impacted deposits at the Austrian subsidiary bank. Since beginning of the year they reduced by 16% as at 30 June 2013.

The funding concentration risk posed by BayernLB liabilities in the amount of EUR 2.3 billion also impacts the liquidity situation. Of this amount, EUR 1.9 billion is affected by the Austrian law on equity substitution (Eigenkapitalersatzgesetz,). The remaining EUR 0.4 billion is not affected by refinancing. This refinancing was initially due by 31 December 2013.

According to the information available to us at this time, the new Basel III liquidity requirements were implemented in a separate project. The first reports covering the Basel III liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) key performance figures have already been sent to the regulatory authorities as part of the quantitative impact study (QIS). The implications for planning and the liquidity reserves were also assessed as part of this project. Furthermore, the group is evaluating and working on the recently published requirements specified for monitoring tools as part of a follow-up project. The resulting implications for the bank's liquidity transfer pricing will be adjusted in line with the new facts in a follow-up project.

(46) Collateral management for derivatives

Implementing the collateral management project for derivatives will bring about a higher level of process automation and better provisioning of cash collaterals for the limitation process for banking lines. The structured database improves comparisons of external market values with the internal model values from the portfolio management systems, thereby making more effective collateral management possible. The future requirements for a central counterparty clearing system also form part of the project, as do possible enhancements to a repos collateral management system.

(47) Integration of credit spreads in the group-wide portfolio and risk management system

Together with interest rate risk, credit spread risk is the greatest risk factor in market risk for Hypo Alpe Adria. The procedures previously in place were replaced and a new, and necessary, integrated functionality in the risk system was created as part of a project, allowing appropriate risk measurement and accounting treatment in the group-wide portfolio and risk management system PMS.

In concrete terms, this called for complete integration of the credit spread risk factor in the following thematic areas:

- Data on markets and partners
- Instrument measurement (pricing)
- Performance calculation and IFRS
- Value-at-risk and back-testing
- Stress testing

The last phase of the project was concluded at the end of April 2013. The majority of the implemented functions were put into operation at the same time.

(48) Market risk limitation in 2013

Significant improvements in terms of limiting Hypo Alpe Adria's market risk 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, process 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.

(49) IFRS 13

"IFRS 13 Fair Value Measurement", which was endorsed by the European Commission at the end of 2012, now makes up part of the International Financial Reporting Standards as adopted by the EU. The standard must be applied as of 1 January 2013.

This new standard – as prepared by the International Accounting Standards Board (IASB) – consolidates all fair value measurement provisions in a single standard. In order to meet the requirements of IFRS 13, some of which were new, Hypo Alpe Adria set up a project together with an external consulting company to support the introduction of IFRS 13. The project focused in particular on the following aspects:

- An analysis of current fair value measurement systems and processes;
- The derived technical support adjustments required;
- A review of the correct implementation.

The project covers all relevant units, such as CVA (Credit Valuation Adjustment)/DVA (Debit Value Adjustment), OIS (Overnight Index Swap) discounting, hedge accounting, definitions of external courses (active/inactive and favourable/main market, bid and offer spread) and notes.

(50) European Market Infrastructure Regulation (EMIR)

In order to meet the requirements of EMIR, Hypo Alpe Adria set up a project to support the introduction of EMIR. The project focused in particular on the following aspects – EMIR components:

- Central counterparty clearing (CCP) of standardised OTC derivative contracts via two clearing brokers on London Clearing House (LCH);
- Implementation of the electronic trading platform Markit Wire (contract platform – electronic confirmation);
- Timely reporting of all OTC and ETD derivative contracts [clearable/not clearable (bilateral)] to a transaction register and the relevant regulatory authorities.

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

A group-wide survey on interest rate directives was conducted in the first half of 2013. The results can be summarised under three main headings:

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

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 following judicial decisions or changes to statutory provisions
A great many private clients took out foreign currency loans (especially CHF loans) – particularly in the past ten years. Customers are increasingly complaining about the credit agreements in question; some of these complaints have even been taken to court (especially in Croatia), a course of action largely initiated by consumer organisations. The main allegation is that customers were not provided with sufficient information on the consequences of such agreements when they were concluded, and that the interest rate adjustment clauses applied ran contrary to the terms of the agreement. Some first-instance and as yet not legally-binding court rulings have been issued thus far; however, these do not provide a reliable assessment of the outcome of these cases and any possible financial consequences.

(52) Legal risks

Please refer to note (61.3.2) Proceedings relating to loans and participations for comments from Hypo Alpe Adria on the ongoing proceedings related to foreign exchange transactions, higher margins and interest rate clauses at the subsidiary banks.

(53) Tax risks relating to tax audits

Tax audits are currently being conducted by tax authorities both in Austrian and other group countries. Provisions have already been booked in the interim consolidated financial statements as at 30 June 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.

(54) GIIPS exposure

The risk management function continually monitors exposure to the GIIPS states very closely and checks for opportunities to reduce risk further. Hypo Alpe Adria is reducing exposure to the GIIPS states on a continual basis, in such a way as to preserve value, and has again had success in this area in the first half of 2013.

Breakdown by country and risk segment EUR m		Total Fair Value 30.6.2013	Total Fair Value 31.12.2012	Total Fair Value 31.12.2011
Greece	State and central bank	0.0	0.0	6.1
	Regions and municipalities	0.0	0.0	0.0
	Banks	0.0	0.0	0.0
	Total	**0.0**	**0.0**	**6.1**
Ireland	State and central bank	0.0	0.0	0.0
	Regions and municipalities	0.0	0.0	0.0
	Banks	48.3	58.3	50.8
	Total	**48.3**	**58.3**	**50.8**
Italy	State and central bank	97.6	100.4	93.6
	Regions and municipalities	26.9	30.5	37.4
	Banks	72.0	88.9	129.6
	Total	**196.6**	**219.8**	**260.6**
Portugal	State and central bank	0.0	0.0	0.0
	Regions and municipalities	20.0	20.0	20.0
	Banks	15.2	14.9	25.1
	Total	**35.2**	**34.9**	**45.1**
Spain	State and central bank	0.0	0.0	0.0
	Regions and municipalities	50.1	50.2	102.5
	Banks	133.0	125.0	139.8
	Total	**183.1**	**175.3**	**242.3**
Total		**463.2**	**488.3**	**604.8**

Supplementary information

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

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

EUR m

	30.6.2013	31.12.2012
Contingent liabilities	**672.6**	**724.8**
from bills of exchange transferred for settlement	0.5	0.4
from credit guarantees	409.7	431.2
from letters of credit	30.9	20.1
from other guarantees	212.6	249.2
from other contingent liabilities	18.9	23.8
Other liabilities	**746.3**	**877.4**
from irrevocable credit commitments	744.9	861.3
from other liabilities	1.3	16.1
Total	**1,418.9**	**1,602.2**

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

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

EUR m

	30.6.2013	31.12.2012
Loans and advances to customers and credit institutions	318.7	579.1
Bonds and other fixed-interest securities	191.6	185.2
Shares and other non-fixed-interest securities	18.8	19.1
Total	**529.1**	**783.4**
Liabilities to customers	329.9	434.3
Liabilities evidenced by certificates	408.9	413.4
Subordinated capital	25.6	27.3
Hybrid capital	2.0	6.0
Total	**766.3**	**881.0**

(57) Fair value of financial instruments carried at fair value

IFRS 13 defines fair value as 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. If no quoted prices exist, the future cash flows of a financial instrument are discounted to present value using the relevant interest rate curve. When measuring financial instruments with characteristics of options, option price models that take into account actual market parameters are used.

Fair values are determined using the market parameters available and standard 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. If one cannot be determined, then the parameters must be estimated by experts on the basis of past experience with an appropriate risk premium applied.

The following fair value hierarchy is based on the observability of the input factors used to determine the fair value:

Level I: Quoted prices in active markets
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.

Level II: Value determined using observable parameters
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.

Level III: Value determined using non-observable parameters
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.

Certain Hypo Alpe Adria financial instruments are still measured as follows:

- Equity instruments are reported in Level I if these are quoted in an active market. If not, these are then reported in Level III. If the fair value of an equity instrument cannot be reliably measured, the equity instrument is measured at amortised cost. Equity instruments measured at cost are impaired if the carrying amount is higher than the recoverable amount, either by a significant amount or over a longer period of time.
- The fair values of derivates 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 derivates 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.
- 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 determined on the basis of risk premium curves in the event that there is no active market. The proximity to the risk premium curve used determines whether these instruments are reported in Level II or Level III. They are reported in Level III in the event that a significant, non-observable risk premium is used.

Assets and liabilities measured at fair value are reported in the fair value hierarchy as follows:

EUR m

30.6.2013	Level I – from active market	Level II – based on market assumptions	Level III – based on non-market assumptions	Total
Assets				
Trading assets	3.2	6.4	0.0	9.5
Derivative financial instruments	0.3	962.2	134.4	1,096.9
Financial investments – designated at fair value through profit or loss	0.0	6.3	522.7	529.1
Financial investments – available for sale	1,765.7	389.6	133.5	2,288.8
Total	**1,769.1**	**1,364.5**	**790.6**	**3,924.3**
Liabilities				
Liabilities to customers	0.0	0.0	329.9	329.9
Liabilities evidenced by certificates	0.0	119.0	289.8	408.9
Derivative financial instruments	0.0	643.6	32.6	676.3
Subordinated capital	0.0	0.0	25.6	25.6
Hybrid capital	2.0	0.0	0.0	2.0
Total	**2.0**	**762.7**	**677.9**	**1,442.6**

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	1,264.4	161.7	1,426.1
Financial investments – designated at fair value through profit or loss	0.0	16.2	767.2	783.4
Financial investments – available for sale	2,278.8	318.7	90.8	2,688.3
Total	**2,280.3**	**1,599.3**	**1,019.6**	**4,899.3**
Liabilities				
Liabilities to customers	48.2	0.0	386.1	434.3
Liabilities evidenced by certificates	47.8	6.0	359.6	413.4
Derivative financial instruments	0.0	741.2	40.7	781.9
Subordinated capital	0.0	1.0	26.3	27.3
Hybrid capital	6.0	0.0	0.0	6.0
Total	**102.0**	**748.2**	**812.7**	**1,662.9**

* Previous year's figures 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 in the levels allocated to assets and liabilities held as at 31 December 2012 and primarily relates to an increase in allocations to Level-III-category.

There were no significant reclassifications between the levels in the first half of 2013.

The development of Level III assets and liabilities is as follows:

EUR m

30.6.2013	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	161.7	-24.5	0.0	0.0	0.0	0.0	0.0	-2.7	134.4
Financial investments – designated at fair value through profit or loss	767.2	4.4	0.0	0.0	-1.8	0.0	0.0	-247.1	522.7
Financial investments – available for sale	90.8	0.5	0.7	50.0	-2.5	0.0	0.0	-6.1	133.5
Total	**1,019.7**	**-19.5**	**0.7**	**50.0**	**-4.3**	**0.0**	**0.0**	**-255.9**	**790.6**
Liabilities									
Liabilities to customers	386.1	0.0	0.0	0.0	0.0	0.0	0.0	-56.3	329.8
Liabilities evidenced by certificates	359.6	-3.1	0.0	0.0	0.0	0.0	0.0	-66.7	289.8
Derivative financial instruments	40.7	-8.1	0.0	0.0	0.0	0.0	0.0	0.0	32.6
Subordinated capital	26.3	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	25.6
Total	**812.7**	**-11.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-123.0**	**677.8**

The opening values in the Level-III-table were adjusted due to the change in the levels allocated to assets and liabilities held as at 31 December 2012.

As at 30 June 2013, the column "Total gains/losses" only contained income and expenses from financial instruments which were held as at 30 June 2013. Profits and losses from derivative financial instruments are reported in the result from financial investments – designated at fair value through profit or loss; depending on their categories, the remaining assets are reported either in the income statement or in own capital funds. Profits and losses from financial liabilities are recognised in the income statement under the result from financial investments – designated at fair value through profit or loss.

The reclassification of the assets and liabilities held by the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG due to its disclosure as a discontinued operation is reported in the "Other" column.

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 30 June 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. So as to estimate possible changes, interest rate components were identified as having the greatest impact on derivatives; credit spreads were also classified as having significant influence on securities.

The following effects on the result arose from the rise and fall of input parameters:

30.6.2013	Positive	Negative
Assets		
Derivative financial instruments	3.6	-3.9
Financial investments – designated at fair value through profit or loss	6.3	-6.1
Total	**9.9**	**-10.0**
Liabilities		
Liabilities to customers	-3.1	3.0
Liabilities evidenced by certificates	-3.9	4.1
Derivative financial instruments	-0.7	0.7
Subordinated capital	-0.5	0.5
Total	**-8.2**	**8.3**

(58) Fair value of financial instruments not measured at fair value in the statement of financial position

The carrying amount represents a reasonable fair value comparable for financial instruments with remaining terms of less than one year. The discounted cash flow method is used to determine the fair values of loans and advances to customers and credit institutions.

The fair values of investment properties were determined on the basis of external and internal valuation opinions, and in most cases revised by an internal committee of experts.

The fair values of liabilities recognised in the statement of financial position at cost are determined using the discount cash flow method.

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

EUR m

	30.6.2013			31.12.2012		
	Fair value	Carrying amount	Difference	Fair value	Carrying amount	Difference
Assets						
Loans and advances to credit institutions	1,467.4	1,467.4	0.0	1,990.1	1,990.1	0.0
Loans and advances to customers	17,090.7	17,075.0	15.8	21,361.8	21,331.3	30.5
Financial investments – held to maturity	84.1	84.1	0.0	90.5	90.5	0.0
Other financial investments - investment properties	1,244.1	1,279.8	-35.7	1,195.4	1,365.5	-170.1
Total	**19,886.3**	**19,906.2**	**-20.0**	**24,637.8**	**24,777.4**	**-139.6**
Liabilities						
Liabilities to credit institutions	4,625.7	4,628.9	-3.3	5,239.2	5,252.5	-13.3
Liabilities to customers	6,326.2	6,240.3	85.8	8,058.8	7,971.6	87.2
Liabilities evidenced by certificates	12,086.5	11,939.0	147.5	14,523.7	14,422.5	101.2
Subordinated capital	1,593.4	1,917.8	-324.4	1,622.9	1,929.9	-307.0
Total	**24,631.8**	**24,726.0**	**-94.3**	**29,444.6**	**29,576.5**	**-131.9**

(59) Related party disclosures

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

EUR m

as at 30.6.2013	Parent	Affiliated companies	Joint Ventures	Key management personnel
Assets	68.1	124.5	50.9	0.8
Liabilities	26.2	4.3	0.0	1.7
Liabilities arising from guarantees	0.0	1.8	0.0	0.0

EUR m

as at 30.6.2012	Parent	Affiliated companies	Joint Ventures	Key management personnel
Assets	97.6	150.4	122.4	1.6
Liabilities	7.6	15.8	0.6	4.0
Liabilities arising from guarantees	0.0	14.6	0.0	0.0

(60) Statutory guarantee

The sums for which the State of Carinthia is liable as at 30 June 2013 are as follows:

EUR m

	30.6.2013	31.12.2012
Hypo Alpe-Adria-Bank International AG	13,226.9	13,931.4
Hypo Alpe-Adria-Bank AG (Austria)	757.8	998.4
Total	**13,984.7**	**14,929.8**

(61) Important proceedings

61.1. EU proceedings

Following the capital measures implemented by the Republic at Hypo Alpe-Adria-Bank International AG at the end of the 2012 financial year (EUR 500.0 million capital increase and the issuing of a state-guaranteed bond in the amount of EUR 1.0 billion), the European Commission imposed conditions (Behavioural Measures) with preliminary approval dated 5 December 2012; these came into force on 1 January 2013. These mainly relate to the management of new business. The requirements stipulate, among other things, specific credit rating levels, collateralisation ratios and maturities, 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 an urgent appeal by the European Commission in the spring of 2013, the previous restructuring plan was fundamentally revised and the talks between Vienna and Brussels restructured under the leadership of the sole shareholder, the Republic of Austria. The submission of the new plan at the end of June 2013 and the wide-ranging obligations outlined in the document made it possible to avoid a complete winding-down in the immediate future, which had been put forward for discussion in the run-up to the agreement. The talks currently underway 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. The acquisition of new credit and lending customers at the Italian subsidiary bank was discontinued effective July 2013 until the final decision has been made. Operating units in the Balkan states which, as things stand at the time of writing, will continue to belong to Hypo Alpe Adria next year, were further developed as part of more intensive voting and governance guidelines as required by the European Commission's "behavioural measures".

The European Commission expects to conclude its investigation in the autumn of 2013.

61.2. Proceedings relating to BayernLB

BayernLB filed an application at the Regional Court in Munich for a declaratory judgement with regard to BayernLB's equity-substituting loan. Hypo Alpe-Adria-Bank International AG was served with the suit on 1 February 2013. Hypo Alpe-Adria-Bank International AG prepared a comprehensive response to this declaratory judgement and contested its claims. The first hearing is scheduled for November 2013, although both sides have until this date to respond once more. To prevent a pending time-bar, Hypo Alpe-Adria-Bank International AG enforced the repayments made in 2008 and filed a counterclaim against BayernLB in Munich on 22 August 2013.

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 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 own capital funds, 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 the end of 2013 at the least.

61.3. Other proceedings

61.3.1. PROCEEDINGS RELATING TO THE STATE OF CARINTHIA

In the legal dispute with the State of Carinthia regarding the capital reduction in 2011 (capital reduction at Hypo Alpe-Adria-Bank International AG to offset net losses), the judgement of the Higher Regional Court in Vienna dated 29 January 2013 granted Hypo Alpe-Adria-Bank International AG's appeal in full, repealing the judgement of the Commercial Court in Vienna. An appeal may be made to the Supreme Court. 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.

61.3.2. PROCEEDINGS RELATING TO LOANS AND PARTICIPATIONS

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 Financial Market Authority (FMA) and the liquidator, an interface between Hypo Alpe-Adria-Bank International AG and Alpe Adria Privatbank in liquidation was set up in the first half of 2013. All of the transactions reviewed internally by Hypo Alpe Adria were checked in the systems of Alpe Adria Privatbank in liquidation and possible cash flow analyses conducted. The resulting insights, which appear to be helpful for the proceedings that have already been instituted in Austria and abroad, are submitted to the responsible law enforcement authorities in the form of FIU reports sent via official prosecutorial channels. Investigations relating to the processing of past cases in Liechtenstein and the submission of insights are likely to last until mid-2014.

In Serbia, Croatia and Bosnia, bank and leasing customers as well as 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 in credit and/or leasing agreements did not comply with contractual provisions. Some cases also allege that clauses contained in the agreements regarding coupling with the CHF benchmark index rate ought to be changed, and that these should instead be coupled with 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 subsidiary bank currently assumes that the court of last resort will rule in favour of the banks. It is currently impossible to say how long the proceedings will last. It is likely that the Croatian subsidiary bank will be confronted with thousands of individual lawsuits in the event that the judgment of the first-instance court is upheld.

Customers of the Serbian subsidiary bank have also launched proceedings. The first-instance courts in three cases ruled for the customers. The bank appealed these rulings. The National Bank of Serbia also issued binding recommendations to all banks, stating that all customers that took out CHF loans must be given granted certain easements (such as the option to repay certain CHF loans in smaller instalments over the next three years). Proceedings have also been instituted against the leasing subsidiary in Serbia in relation to incorrect 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. It must be noted, that two first-instance verdicts have thus far been issued (January and June 2013), the first in favour of the bank, and the second against the bank. Both verdicts have been appealed; two stages of appeal have yet to be used.

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. The claims are primarily based on the fact that the bank did not pass on drops in the EUR/CHR benchmark interest rate to customers in a timely manner and/or to the correct extent, while the bank offset an increase that in fact was higher than the actual rise. 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. A process was also launched immediately to provide financial compensation for affected customers and personnel put in place to process these individual cases. The cases processed thus far by the task force have resulted in almost EUR 10 million being paid out to affected customers.

61.3.3. PROCEEDINGS RELATING TO INVESTORS AND EXPERTS
Hypo Alpe-Adria-Bank International AG was successful at the first instance in the legal dispute with a former advisor in relation to unpaid fees of EUR 65.0 thousand. An appeal has been launched. The second of the fees proceedings relating to EUR 576.0 thousand has been interrupted until a legally binding decision has been reached in the first case.

61.3.4. 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, Karntner Landes- und Hypothekenbank-Holding 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. The preliminary hearings are expected to be held in the autumn of 2013.

(62) Guarantee agreement – Republic of Austria

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 million ("maximum guaranteed sum"). Hypo Alpe-Adria-Bank International AG agreed to pay commission of 10% p.a. to the Republic of Austria to assume liability; this amount is 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 remain 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. 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 bank expects that the European Commission will approve both the initial guarantee and its extension until 2017 in its decision expected in the autumn of 2013.

(63) Own capital funds as defined by the BWG

The own capital funds of the group as defined by the BWG and by the Solvency Regulations (SolvaV) are shown in the table below. It compares the actual values (30 June 2013 and 31 December 2012) with those of a pro forma presentation as at 30 June 2013, including the EUR 700.0 million capital increased by the Republic resolved by the general shareholders' meeting on 23 July 2013, but that has yet not been passed on to Hypo Alpe Adria.

EUR m

	30.6.2013 PRO FORMA	30.6.2013 ACTUAL	31.12.2012 ACTUAL
Core capital (Tier 1)	**1,853.9**	**1,153.9**	**2,022.1**
Paid-in capital	2,008.6	1,308.6	1,308.6
Reserves (incl. non-controlling interests in equity)	585.6	585.6	774.4
Funds for general banking risks	153.7	153.7	153.7
Intangible assets	-33.9	-33.9	-33.0
Deduction net loss, material negative results	-860.2	-860.2	-181.6
Supplementary elements (Tier 2)	**926.9**	**576.9**	**1,011.0**
Supplementary capital	0.0	0.0	0.0
Subordinated capital	926.9	576.9	1,011.0
Deductions pursuant to Section 23 -13 BWG	**-9.0**	**-9.0**	**-9.0**
Tier 3 (reclassified Tier 2 capital)	**39.5**	**39.5**	**33.0**
Own capital funds according to BWG	**2,811.3**	**1,761.3**	**3,057.1**
Own capital funds requirement according to BWG	**1,807.3**	**1,807.3**	**1,883.2**
Surplus capital/shortage	**1,004.0**	**-46.0**	**1,173.9**
Coverage	155.6%	97.5%	162.3%

EUR m

	30.6.2013 PRO FORMA	30.6.2013 ACTUAL	31.12.2012 ACTUAL
Risk-weighted basis for assessment in acc. with section 22 of the BWG (banking book)	**20,294.3**	**20,294.3**	**21,323.5**
thereof 8% minimum own funds requirements	1,623.5	1,623.5	1,705.9
Own funds requirement – securities trading book	9.0	9.0	8.1
Own funds requirement – open foreign exchange position	30.5	30.5	24.9
Own funds requirement – operational risk	144.3	144.3	144.3
Total own capital funds requirement	**1,807.3**	**1,807.3**	**1,883.2**

EUR m

	30.6.2013 PRO FORMA	30.6.2013 ACTUAL	31.12.2012 ACTUAL
Assessment basis banking book (risk-weighted)	**20,294.3**	**20,294.3**	**21,323.5**
Tier 1 ratio	9.1%	5.7%	9.5%
Own capital funds ratio	13.9%	8.7%	14.3%
Assessment basis incl. market and operational risk	**22,591.5**	**22,591.5**	**23,540.1**
Tier 1 ratio	8.2%	5.1%	8.6%
Own capital funds ratio	12.4%	7.8%	13.0%

In its local (UGB/BWG) annual financial statements as at 31 December 2012, Hypo Alpe-Adria-Bank International AG, the ultimate parent company of Hypo Alpe Adria group, reported own capital funds (including the fund for general banking risks) of EUR 1.3 billion. Due to the conditions that will probably need to be met when implementing the European Commission's final decision and are anticipated as a result of the EU restructuring plan for the group, significant impairment write-downs on holdings and loans became necessary towards the middle of the year, which lead to a remaining core capital of the bank in an amount of EUR 0.16 billion for 30 June 2013. The own capital funds ratio of the parent company, as determined pursuant to regulatory requirements, amounted to 1.6% as at 30 June 2013 and down 6.4 percentage points on the statutory minimum of 8.0%.

At the general shareholders' meeting held on 23 July 2013, the Republic of Austria as the bank's shareholder resolved a capital measure in the amount of EUR 700.0 million, which will be implemented immediately after the European Commission hands down the positive state aid decision expected in the autumn of 2013. Taking into account this capital injection, which has not yet been granted to the bank, the individual institution would have had an own capital funds ratio of 8.8% as at 30 June 2013 (instead of 1.6%) on a pro forma basis; the group's own capital funds ratio would have totalled 12.4% (instead of 7.8%) (see "pro forma" table above).

The bank set aside provisions of EUR 13.5 million as at 30 June 2013 for penalty payments in accordance with section 97 BWG in response to violations of regulatory requirements regarding minimum capital resources and the limitation of large exposures.

(64) Portfolio transfers in the SEE network and in the banks in Italy and Austria

Portfolio transfers were conducted in Slovenia, Bosnia and Herzegovina, Montenegro, Croatia, Austria and Italy in 2011 and 2012 to make it easier to reprivatise the marketable units.

An additional portfolio transfer took place in the first half of 2013. The transfer concerned a Slovenian leasing portfolio. This represented a further step towards focusing the Slovenian leasing company on the core business "movables". An additional demerger of the leasing company is planned for 2013 in order to implement this envisioned structure.

Legal amendments to allow portfolio adjustments were implemented in Serbia at the end of 2012. The transfer will be conducted in a number of tranches; a number of transactions were already conducted in the first half of 2013. The final implementation in planned for the coming months. The feasibility of additional portfolio transfers is currently being reviewed as part of the process of reprivatising the SEE network in the form of synthetic transfers or a true sale.

(65) Employee data

	30.6.2013	31.12.2012
Employees at closing date (Full Time Equivalent – FTE)	6,700	6,576
Employees average (FTE)	6,612	7,371

As at 30 June 2013, the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG had 376 employees (on average: 378 employees); as at 31 December 2013, Hypo Alpe Adria had 380 employees (on average: 382 employees).

(66) Events after the reporting date

On 1 July 2013, Hypo Alpe-Adria-Bank International AG announced ad hoc that the conditions that will probably need to be met when implementing the European Commission's final decision on the EU restructuring plan will result in a capital requirement at the end of the first half of 2013, which exact amount is still being assessed. In light of the extent of expected losses, the Executive Board convened an extraordinary general shareholders' meeting on 23 July 2013 pursuant to its duties in accordance with section 83 of the Austrian Stock Corporation Act (AktG) and fulfilled its duty of disclosure to the regulatory authorities pursuant to section 73 (1) sentences 5 and 9 BWG.

On 2 July 2013, Gottwald Kranebitter, the Chairman of the Executive Board, informed the Chairman of the company's Supervisory Board that he will be stepping down as Chairman of the Executive Board at the end of August 2013.

On 4 July 2013, the first-instance commercial court in Zagreb ruled in favour of the consumer protection association, which filed suit against eight banks, including Hypo Alpe-Adria-Bank d.d. in Croatia. All eight banks have launched appeals. Please refer to note 61.3.2. for more information.

The Republic of Austria as the bank's shareholder resolved a capital increase of EUR 700.0 million at the general shareholders' meeting held on 23 July 2013; this capital increase is expected to be implemented in the autumn of 2013. The general shareholders' meeting held on 23 July 2013 also resolved to implement business restrictions at HYPO ALPE-ADRIA-BANK S.P.A., Udine, which will apply until the European Commission has reached a decision in the aid investigation. The Italian subsidiary bank will therefore not grant any new loans on the asset side; transactions on the liabilities side with existing customers will continue on a restricted basis.

Ratings agency Moody's announced on 1 August 2013 that the rating for unguaranteed Hypo Alpe-Adria-Bank International AG Pfandbriefe will be placed on "review", reflecting the reassessment of the planned restructuring measures as well as potential implications from the conclusion of EU proceedings. Moody's emphasised in its release that it has no expectation of the review at the beginning of the process, adding that the release is "uncertain".

From August 2008 until it became aware of the prerequisites for the suspension of repayment in accordance with the Austrian law on equity substitution (Eigenkapitalersatzgesetz, EKEG), Hypo Alpe-Adria-Bank International AG made repayment on lines of credit, which were subsequently recognised as substitute equity. Hypo Alpe-Adria-Bank International AG is therefore entitled to claims for recourse against BayernLB with regard to these payments. To prevent a possible pending time-bar, Hypo Alpe-Adria-Bank International AG was required to enforce the repayments – of approximately EUR 500.0 million plus approximately EUR 210.0 million in ancillary claims – made in 2008 and filed a counterclaim against BayernLB in Munich on 22 August 2013.

Klagenfurt am Wörthersee, 28 August 2013
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Gottwald Kranebitter
(Chairman)

Wolfgang Edelmüller
(Deputy Chairman)

Johannes Proksch

Rainer Sichert

Statement of all legal representatives

We confirm to the best of our knowledge that the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the interim group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the interim consolidated financial statements, of the principal risks and uncertainties for the remaining six months of the financial year and of the major related party transactions to be disclosed.

.

Klagenfurt am Wörthersee, 28 August 2013
Hypo Alpe-Adria-Bank International AG

EXECUTIVE BOARD

Gottwald Kranebitter
(Chairman)

Wolfgang Edelmüller
(Deputy Chairman)

Johannes Proksch

Rainer Sichert

Imprint

Publisher of the Interim Financial Report
and responsible for the content:
Hypo Alpe-Adria-Bank International AG
Alpen-Adria-Platz 1
9020 Klagenfurt am Wörthersee
Tel. +43 (0) 50 202-0
Fax +43 (0) 50 202-3000
international@hypo-alpe-adria.com
www.hypo-alpe-adria.com

If you have any questions on the 2013 Interim Financial Report
or wish to be added to the Investor Relations
newsletter service mailing list, please contact:

Hypo Alpe-Adria-Bank International AG
Dr. Valentin Unterkircher
Tel. +43 (0) 502 02-2841
valentin.unterkircher@hypo-alpe-adria.com

Forward-looking statements and forecasts are based on information and data available at the time of going to press (28 August 2013). Changes after this date could influence the facts and forecasts given in the Interim Financial Report. We have drawn up this report with the greatest of care and the data upon which it is based has been checked. Rounding errors or mistakes in transmission, typesetting or printing cannot, however, be ruled out. The English version of the Interim Financial Report is a translation. Only the German is the authentic language version. All uses of the third person pronoun in the masculine form in this Interim Financial Report that were used in the interests of better legibility also cover the feminine form.
The Interim Financial Report was produced in-house using Fire.sys.