Half-yearly financial report per 30.06.2013

Hypo Alpe-Adria-Bank AG

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Half-yearly management report

Hypo Alpe-Adria-Bank AG is a 100% subsidiary of Hypo Alpe-Adria-Bank International AG, which is entirely owned by the Republic of Austria (Federal Government).

The Bank positions itself as a full-services bank with a strong regional basis with 14 branches in its home market of Carinthia, and at its premises in Vienna and Salzburg pursues a clear niche strategy [in particular real estate finance and corporate finance]. The Bank offers all conventional banking services for private and corporate customers and also for institutional customers.

In the course of its restructuring, the Bank in Carinthia took a further important step in the direction of reprivatisation with the signing of the sale agreement between the parent company Hypo Alpe-Adria-Bank International AG and Anadi Financial Holdings Pte. Ltd. on 31.05.2013. Anadi is wholly owned by the British-Indian businessman Dr Sanjeev Kanoria. The stages up to final closing, including in particular the official approval procedures, are currently envisaged as being completed by the end of the year.

1. Balance sheet

In the first half of 2013 Hypo Alpe-Adria-Bank AG was able to post total assets of EUR 3,467 million, a reduction of EUR 394 million as compared with the figure per 31.12. last year (EUR 3,861 million). The decrease will be described in the following detailed information concerning the main individual balance sheet items. The positive annual result per 31.12.2012 was again confirmed in the first half of 2013.

Total assets
in millions of EUR

On the assets side, loans and advances to credit institutions decreased by EUR 327 million to EUR 173 million (31.12.2012 EUR 500 million), due to repayments of short-term liquid funds. The amount of fixed interest securities and shares increased by EUR 77 to EUR 489 million (31.12.2012 EUR 412 million). An amount of EUR 110 million was invested in conservative securities with excellent credit ratings, in order to strengthen the liquidity reserve, and repayments of EUR 33 million were made. The volume of loans reached EUR 2,737 million (31.12.2012 EUR 2,867 million).

Non Performing Loans
Rating class 5A to 5E, in millions of EUR

On the equity and liabilities side, liabilities towards customers fell by 13.6% or EUR 214 million to EUR 1,361 million, this being primarily attributable to savings deposits and short-term customer time deposits. Liabilities towards credit institutions, at EUR 442 million, essentially corresponds to the figure per 31.12.2012. There was a net decrease in liabilities evidenced by certificates to EUR 1,432 (31.12.2012 EUR 1,600 million) as a result of repayments in the amount of EUR 228 million and new issues in the amount of EUR 60 million. In the remaining items on the equity and liabilities side, there were no significant changes (in relation to the size of the item) as compared with the figures per 31.12.2012.

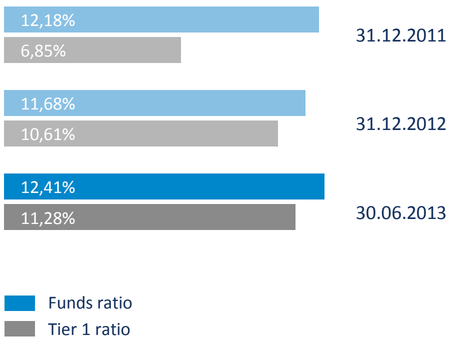
2. Own funds

The entire eligible capital pursuant to the Austrian Banking Act (BWG) per 30.06.2013 was EUR 165 million (per 31.12.2012 EUR 164 million). The statutory minimum requirement was EUR 106 million, corresponding to a surplus of EUR 59 million or a coverage ratio of 155.7%.

Related to the entire capital assessment base (credit risk including market and operational risk), the funds ratio per 30.06.2013 is 12.41% (31.12.2012 11.68%), well above the statutory minimum of 8.0% as prescribed by law in Austria. The core capital ratio (TIER 1 ratio) per 30.06.2013 was 11.28% (31.12.2012 10.61%).

The equity ratio related exclusively to the banking book (credit risk) reached 14.15 % per 30.06.2013 (31.12.2012: 13.15 %). At 12.85 % the core capital ratio was clearly higher than the level per 31.12.2012 (11.95 %).

Development of the funds / Tier 1 ratio
as a percentage



3. Earnings performance

Comparability of the income statement with the previous year (30.06.2012) does not apply, since with the Demerger for Takeover Agreement of 10.08.2012 a significant portfolio was transferred to the parent company Hypo Alpe-Adria-Bank International.

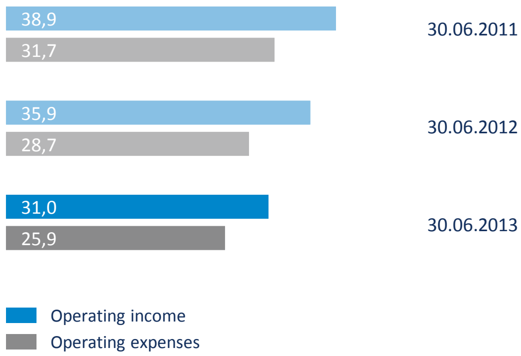
The operating earnings (net interest income, net fee and commission income, income from securities and equity interests, other income) reached EUR 31.0 million in the first half of 2013 (30.06.2012 EUR 35.9 million).

The net bank operating income closed positively in the first half of 2013 at EUR 5.1 million, indicating that in spite of the tense market situation a positive result is likely over 2013 as a whole.

The net interest income achieved EUR 18.0 million (30.06.2102 EUR 21.7 million). The net interest result continues to be marked by the flat interest curve. The net fee and commission income stands at EUR 8.7 million (30.06.2012 EUR 8.5 million). This result confirms the rightness of the strategy of expanding commission-dependent business in order to reduce the high level of dependency on interest business.

Operating expenses in the first half of 2013 were EUR 25.9 million (31.06.2012 EUR 28.7 million), a reduction of 9.5% on the previous year. Only through the restructuring programme adopted and the strategic reorientation has it been possible to achieve this further reduction, and these will continue to be implemented on a consistent basis.

Operating income / expenses
in millions of EUR



The operating result for the first six months, as a balance of the operating income (EUR 31.0 million) and the operating expenses (EUR 25.9 million), stood at EUR 5.1 million (30.10.2012 EUR 7.1 million).

The balance arising from the loan provision items and the net income from securities classed as fixed assets and short-term investments in securities is negative at EUR -2.9 million (30.06.2012 EUR +0.8 million).

In detail, the items are essentially as follows: the balance from the measurement of receivables and contingent liabilities from the current assets is EUR -7.8 million (30.06.2012 EUR -2.2 million), the balance from the measurement and disposal of securities used to maintain liquidity is positive at EUR 5.0 million (30.06.2012 EUR 2.7 million). The income from short-term investments in securities was essentially the result of strategic measures within the portfolio. EUR 0.3 million of the provision for negative market values of banking book derivatives was released.

In the fixed assets, the balance arising from the measurement and disposal of financial assets (securities and equity interests) stands at EUR -0.4 million (30.06.2012 EUR 2.6 million).

In the extraordinary result, a provision of EUR 1.0 million has been made in order to provide the necessary cover for the new market image associated with the privatisation.

With these provision items and the extraordinary result taken into account, a positive profit on ordinary activity (POA) emerges in the amount of EUR 2.2 million (30.06.2012 EUR 7.9 million). After deduction of tax expenses this led to a positive result for the period in the amount of EUR 0.8 million (30.06.2012 EUR 5.9 million).

4. Key earnings figures

Per 30 June 2013 the return on equity (ROE) was 1.0% (31.12.2012 7%), and the return on assets (ROA) 0.03% (31.12.2012 0.21%). The cost/income ratio, which states the relationship between the operating expenses and the operating income, was 83.6% per 30.06.2013. The figure for the whole of the financial year 2012 was 72.9%.

5. Employees

The number of employees changed from 453 per 31.12.2012 to 441 per 30.06.2013.

Taking these changes into account results in an employment level of 375 "full time equivalent" jobs per 30.06.2013 in operational banking business (per 31.12.2012 380 "full time equivalent" jobs).

In the second half of 2013 it is envisaged that areas of activity will be transferred to the parent company and that units which up to now have been provided as services by the parent company will be reintegrated, as a preparatory measure for the forthcoming change of ownership.

Employees
Changes 2011-2013

6. Market divisions and customers

The foundation of any company, and the basis for the effective co-existence of the workforce, both in everyday life and in the banking business, are the values that are put into practice on a day-to-day basis. Putting our values into practice is a powerful promise which we as a bank make to our 56,000 or so customers, supporting them in creating a tailor-made financial basis for all phases of their lives.

In the Retail Banking division, the product range for private customers was expanded in the first half of 2013 as a result of the acquisition of new cooperation partners. The product range was expanded through the cooperation with Autobank to include equipment leasing, and C&P is an interesting new partner in the field of investment property. To enhance our consultancy and other services for customers, the "success programme" has been introduced as a new marketing strategy, whereby customer managers as "finance coaches" use their well-founded expertise to advise our customers.

In Corporate Banking, the selective acquisition of medium-sized corporate customers has been successfully continued in spite of a very challenging environment.

The Public Finance division was able over the first half year to maintain the market position it has built up, and to achieve slight growth on the equity and liabilities side with demand and savings deposits. In spite of the strong competition the margin situation in new business was improved.

7. Events after the reporting period

No events of special significance for the company have occurred since the balance sheet date of 30.06.2013 which would have led to the assets, finances and income being presented any differently.

8. Outlook

Following the successful restructuring and the conclusion of the sale contract, in Carinthia the Bank is on the "home stretch" as far as reprivatisation is concerned. The second half of 2013 will see intensive work on preparations for the closing, and the concluding organisational measures for the dissolution of the existing interconnections with the parent company will be finalised.

With the forthcoming closing, the Bank in Carinthia will have a new owner who is keen to support our orientation as a regional bank and to maintain its character as an "Austrian bank". The aims are to provide security for cash deposits and support for initiatives and enterprises in all sectors within a framework of healthy growth. The strategic and financial expertise of the new owner and his affiliated companies will provide new opportunities for the Bank in Carinthia, together with the possibility of offering new products in wider markets and expanding and securing our market position.

The Executive Board of the Bank is confident, on the basis of the existing solid capitalisation and the prospects in regard to the new ownership, that it can create a sustainable basis for the future of the Bank with increased confidence on the part of our customers.

Klagenfurt am Wörthersee, 8 August 2013

THE EXECUTIVE BOARD

Gerhard Salzer (Chairman)	Friedrich Racher (Vice Chairman)	Peter Lazar

Interim financial statements

Balance sheet as at 30.06.2013, prepared in accordance with the Austrian Banking Act/Austrian Commercial Code (BWG/UGB)

	30.06.2013 EUR thousands	31.12.2012 EUR thousands	Change in EUR thousands	Change in %
Assets				
1. Cash in hand, balances with central banks and post office giro institutions	26,329	29,366	-3,037	-10.3%
2. Treasury bills and other bills eligible for refinancing with central banks	222,532	193,384	29,148	15.1%
3. Loans and advances to credit institutions	172,866	499,905	-327,039	-65.4%
4. Loans and advances to customers	2,737,074	2,867,415	-130,341	-4.5%
5. Bonds and other fixed income securities	261,948	216,550	45,398	21.0%
6. Shares and other variable yield securities	3,866	1,754	2,112	120.4%
7. Investments in associated companies	4,133	4,143	-10	-0.2%
8. Shares in affiliated companies	0	393	-393	-100.0%
9. Intangible fixed assets	146	210	-64	-30.5%
10. Tangible fixed assets	4,669	5,732	-1,063	-18.5%
11. Other assets	33,178	42,030	-8,852	-21.1%
12. Deferred assets	618	503	115	22.9%
Total assets	**3,467,359**	**3,861,385**	**-394,026**	**-10.2%**
Equity and liabilities				
1. Liabilities to credit institutions	442,579	412,406	30,173	7.3%
2. Liabilities to customers	1,360,965	1,575,093	-214,128	-13.6%
3. Debt securities in issue	1,431,929	1,599,630	-167,701	-10.5%
4. Other liabilities	26,771	24,290	2,481	10.2%
5. Deferred liabilities	262	239	23	9.6%
6. Provisions	35,812	33,657	2,155	6.4%
7. Subordinated liabilities	18,304	18,121	183	1.0%
8. Supplementary capital	0	0	0	0.0%
9. Issued capital	30,000	30,000	0	0.0%
10. Capital reserves	82,332	82,332	0	0.0%
11. Revenue reserves	429	282	147	-100.0%
12. Liability reserves under section 23(6) BWG	36,996	36,996	0	0.0%
13. Retained profit	807	48,146	-47,339	0.0%
14. Untaxed reserves	173	193	-20	-10.4%
Total equity and liabilities	**3,467,359**	**3,861,385**	**-394,026**	**-10.2%**

Income statement for the period 01.01.2013 to 30.06.2013, prepared in accordance with the Austrian Banking Act/Austrian Commercial Code (BWG/UGB)

		01.01.2013 - 30.06.2013 EUR thousands	01.01.2012 - 30.06.2012 EUR thousands	Change in EUR thousands	Change in %
1.	Interest and similar income	70,591	121,468	-50,877	-41.9%
2.	Interest and similar expenses	-52,555	-99,809	47,254	-47.3%
	Net interest income	**18,036**	**21,659**	**-3,623**	**-16.7%**
3.	Income from securities and equity interests	1,824	347	1,477	425.6%
4.	Fee and commission income	9,460	9,513	-53	-0.6%
5.	Fee and commission expenses	-797	-983	186	-18.9%
6.	Net income from trading activities	317	1,061	-744	-70.1%
7.	Other operating income	2,181	4,269	-2,088	-48.9%
	Operating income	**31,021**	**35,866**	**-4,845**	**-13.5%**
8.	General administrative expenses	-25,084	-27,103	2,019	-7.4%
9.	Value adjustments for fixed assets (balance sheet items 9 and 10)	-503	-598	95	-15.9%
10.	Other operating expenses	-361	-981	620	-63.2%
	Operating expenses	**-25,948**	**-28,682**	**2,734**	**-9.5%**
	Operating profit	**5,073**	**7,184**	**-2,111**	**-29.4%**
11./12.	+/- net gain/loss on disposal or measurement of receivables and securities held as other current assets	-2,549	-1,841	-708	38.5%
13./14.	+/- net gain/loss on disposal or measurement of receivables and securities treated as financial investments	-341	2,619	-2,960	0.0%
	Result from ordinary activities	**2,183**	**7,962**	**-5,779**	**-72.6%**
15.	Extraordinary expenses	-1,000	0	-1,000	100.0%
16.	Taxes on income	444	-430	874	-203.3%
17.	Other taxes not included in item 15	-840	-1,663	823	-49.5%
	Profit/loss for the period	**787**	**5,869**	**-5,082**	**-86.6%**
18.	Changes in reserves	20	40	-20	-50.0%
	Retained profit	807	5,909	-5,102	-86.34%

Explanatory notes (annex)

Hypo Alpe-Adria-Bank AG has prepared its interim financial report to 30.06.2013 in accordance with § 87 of the Austrian Stock Exchange Act [BörseG] and subject to application of the requirements of the Austrian Banking Act [BWG] as amended, and also – where applicable – in accordance with the requirements of the Austrian Commercial Code [UGB] as amended.

The abridged balance sheet and income statement are essentially structured on the basis of the form sheets contained in annex 2 to § 43 BWG, although only the main items have been included. The figures in the interim financial statements are in principle stated in thousands of EUR (EUR '000).

In principle the same accounting and valuation principles are used in these interim financial statements as in the most recently published annual financial statements for Hypo Alpe-Adria-Bank AG per 31.12.2012.

The interim financial statements were drawn up per 30.06.2013, which is also the date on which the consolidated financial statements of the Austrian parent company, Hypo Alpe-Adria-Bank International AG, were drawn up.

The abridged interim financial statements per 30.06.2013 have been subjected to a voluntary examination in regard to the observance of the legal requirements applied in the drafting of the interim financial statements, and have been given an unqualified auditor's opinion. The interim financial report and management report have not been subjected to full examination or review by an auditor.

Klagenfurt am Wörthersee, 8 August 2013

THE EXECUTIVE BOARD

Gerhard Salzer (Chairman)	Friedrich Racher (Vice Chairman)	Peter Lazar

Statement by the legal representatives

“We confirm to the best of our knowledge and belief that the abridged half-yearly financial statements, which have been drawn up in accordance with the relevant accounting standards, convey as true a picture as possible of the assets, finances and earnings of the company, and that the half-yearly management report conveys as true a picture as possible of the assets, finances and earnings of the company as regards the important events during the first six months of the financial year and the consequences of these events for the abridged interim financial statements as regards the principal risks and uncertainties in the remaining six months of the financial year.”

Klagenfurt am Wörthersee, 8 August 2013

THE EXECUTIVE BOARD

Gerhard Salzer (Chairman)	Friedrich Racher (Vice Chairman)	Peter Lazar

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HYPO ALPE-ADRIA-BANK AG
Domgasse 5
9020 Klagenfurt am Wörthersee

Tel. +43 (0) 50202-0
Fax +43 (0) 50202-3000
austria@hypo-alpe-adria.com
www.hypo-alpe-adria.at

Information and forecasts oriented towards the future are based on the information presented or data available on the date on which the half-yearly result was published (8 August 2013). Changes occurring after this date could influence the information and forecasts contained in the financial report. We have prepared this report with the greatest of care and have checked the data contained therein. However, errors due to rounding of figures, as well as transmission, typesetting or printing errors, cannot be excluded.