BANK

HYPO ALPE ADRIA
GEMEINSAM. FREUNDLICH. FAIR.

Annual Report 2013

Hypo Alpe-Adria-Bank AG
Austria

Key Data

Hypo Alpe-Adria-Bank AG

in EUR m

	2013	2012
Total assets	3,242	3,861
Primary funds (customer deposits, own issues)	2,587	3,175
Credit volume	2,619	2,867
Own capital funds	173	216
of which Tier 1	155	198
Net interest income	36	39
Operating income	60	68
Operating expenses	52	49
Operating result	8	19
Result from ordinary activities	8	17
CIR	86.70 %	72.90 %
ROE *	3.4 %	7 %
ROA *	0.15 %	0.21 %
Number of employees	430	453

* corrected for extraordinary income

Table of contents

Management report 2013

1. General economic environment

Against the backdrop of a declining economic development throughout Europe since the end of 2011, the stagnation in the Austrian economy also continued in the first half of 2013. In the euro area, following six negative quarters in succession there was for the first time a positive development in GDP in the second quarter; after a weaker third quarter, slight growth returned towards the end of the year.

The recovery in the international economy is also a significant factor in the forecast upturn in the Austrian economy. While stagnation on some important export markets also had a dampening effect on the domestic investment climate at the beginning of the year, growth in exports will accelerate in 2014 following the cautious development seen in 2013. According to the Oesterreichische Nationalbank, 2013 (with +0.3 % growth) represents the lowest point in the current economic cycle, and performance is expected to be significantly stronger in 2014. In this positive environment Austrian businesses should resume capital investment activity, creating new impetus in particular in replacement and new equipment, and also – on the assumption of an increased demand for living space – investment in residential construction.

2. Overview of Hypo Alpe-Adria-Bank AG

2.1. Positioning of the bank

The focus of Hypo Alpe-Adria-Bank AG's activities is very much determined by its formation as Kärntner Landes-Hypothekenanstalt back in 1896. The original concentration on financing public institutions and housing construction and issuing mortgage bonds has always been an important branch of business for the bank, gradually supplemented over the years with universal banking services for private and corporate customers.

In line with this tradition, the focus in 2013 was very much on positioning Hypo Alpe-Adria-Bank AG as a family bank with strong regional roots. In spite of the difficult concomitant circumstances due to the debate surrounding the former parent company "Hypo Alpe-Adria-Bank International AG", the bank has succeeded in holding its ground in all business areas and in special areas of strength such as "doctors and the liberal professions" and "public finance". This stability is based on the high importance attached to personal, partnership-based communication with our customer. The expansion of marketing partnerships with other financial services providers, through which we are able to offer attractive products within a slimmed-down marketing structure, was successfully continued in 2013.

The closing in December 2013 marked the completion of the sale of Hypo Alpe-Adria-Bank AG to Anadi Financial Holdings Pte. Ltd. The new owner is a member of the Indian Kanoria family, which through its many years of involvement in the finance sector has become associated with the values of success, tradition and reliability. With the new owner, a start has also been made on the expansion of our business areas, which is expected to lead to future opportunities for growth, particularly in the provision of financing and consultancy services for trade and business relations between companies in Europe and India.

To underline the separate and independent identity of the bank, the new owner has decided to change the name to "Austrian Anadi Bank". The ongoing rebranding process is expected to be completed by mid-2014.

2.2. Retail Banking segment

The implementation measures which were started in 2012 for the sustainable optimisation of the branch network and customer services were successfully continued. Our customers have the benefit of special services, such as the conversion of the "e-Card" into the "citizen card", and from 2014 it will also be possible to purchase or top up Kärnten Cards at any Hypo branch. We aim to combine classical banking business with individual services for our customers and thereby to enhance customer satisfaction.

As far as lending is concerned, the focus has been on residential construction financing, with a total of 2,100 inquiries, representing a volume of EUR 262 m, being considered. New business achieved around EUR 83 m, up 14 % compared with 2012. Our staff have had special training in matters of funding relating to all aspects of housing construction, our aim being to continue as an important partner for the people of Carinthia in regard to housing construction.

As far as accounts were concerned, the cooperation with locally based Carinthian companies was further intensified by offering individually tailored account packages and additional supplementary services for their employees.

In regard to deposit taking, we introduced new innovative savings products such as the "Wertesparbuch", which offers our customers guaranteed increases in interest rates with flexible exit options. Traditional mortgage bond issues likewise played a prominent part. In 2013, the long-standing tradition of the "Hypo Kunstpfandbrief" (art mortgage bond) was also continued. The bank was able to form a successful partnership with the renowned Carinthian artist Richi Klammer. With this mortgage bond, in addition to a gilt-edged investment, the investor receives an original limited edition dry-point etching which is hand-signed and numbered – a valuable combination of financial investment and art.

In the field of commission business (securities, funds, insurance), the product range was expanded to provide a full service. In this area, we continue to rely on the expertise and knowledge of well-known cooperation partners such as Franklin Templeton, BNP Paribas, Vienna Insurance Group and Wüstenrot.

As of 2013, our customers again have the possibility of concluding leasing agreements through us, as a result of a cooperation with Autobank AG.

2.3. Corporate Banking segment

The corporate banking portfolio has experienced a stable development. However, the high volume of extraordinary repayments due to the low demand for credit has not been replaced with new business. The refinancing basis arising from loans eligible for premium reserve stock and loans eligible for refinancing in corporate banking was increased to EUR 293.9 m in the year under review.

In addition, the requirements-based consulting approach was further developed in 2013 by introducing the "Hypo Business Dialog": As part of the structured discussion along the value-added chain of a company, customer account managers in corporate banking conduct a comprehensive review of the current situation and the future objectives of a company. Based on this analysis, customers are offered tailor-made solutions that will help them to succeed to an even greater extent in a rapidly changing and challenging economic environment. Over and above this – supported by the "Compass for Medium-Sized Businesses" – a consultation on opportunities is carried out based on customers' past annual financial statements. During the 2013 financial year, corporate banking was able to acquire new customers through this quality-oriented consultancy approach and a systematic acquisition campaign, thus generating EUR 72.6 m in new business.

The bank will continue to systematically pursue its strategy of providing requirements-based solutions for corporate customers and adding new customers to its client base throughout the 2014 financial year. In 2014, the target customers are again companies that have an operating income of up to EUR 100 m and which focus on export or import business. In addition, the corporate banking division also provides commercial real estate financing services. With all our customers, we aim for classic "house bank" status.

2.4. Public Finance segment

As one of only a few banks in Austria, Hypo Alpe-Adria-Bank AG has established a separate division for the support of public sector clients.

The employees in the public finance division see themselves as “the experts” at the side of public sector clients.

At a time when other banks have withdrawn from the public area, the provision of services to public authorities represents a stable and permanent pillar of Hypo Alpe-Adria-Bank AG’s strategy.

Despite the prolonged phase of low interest rates, public finance again produced a highly satisfying annual result in 2013 and thus successfully maintained its position as a stable factor for the bank. In particular through the financing of prestigious infrastructure projects, the division has been able to demonstrate its expertise. The previous year’s strategy was continued, with particular emphasis being placed on advisory services, investments, debt management and cash management.

In 2014, the public finance division will continue to support its customers as a strong and competent partner both in the field of financing and in the investment area. Through the implementation of new and innovative products, the division aims to keep abreast of developing customer requirements at all times.

Thanks to Hypo Alpe-Adria-Bank AG’s long-standing expertise in the financing sector and a maximum degree of security in investments, public sector customers have access to all of the traditional banking products, as well as modern, yet consistently low-risk, transparent solutions.

2.5. Treasury and Securities Services

In preparation for the sale of the bank, which was finalised in December 2013, the financial year in the treasury division was focused on establishing the bank on the market as an independent financial institution. Accordingly, new business relationships were entered into and existing business relationships were expanded, framework agreements were concluded with collateral clauses for derivatives business, a separate Investor Relations department was implemented, and generally a comprehensive separation from the former parent company was effected in terms of business and personnel.

Furthermore, in the year under review, measures were put in place to strengthen the bank’s independent access to the capital market. In particular, as an important future funding source, the development of the mortgage premium reserve stock was accelerated, with approximately EUR 200 m in assets being added to the cover pool.

In addition to mortgage bonds, housing construction bonds and senior bonds were issued for our institutional investors and for our private customers.

As a consequence of the changes in the regulatory provisions at EU level (Basel III, EMIR/CRD IV, etc.), another area of focus for the Treasury was to adapt/realign its activities in order to prepare for these future requirements. Accordingly, participation in Central Counterparty Clearing for derivatives with regard to the EMIR IV regulations was implemented and arrangements were made for the planned regulatory provisions arising from Basel III with regard to liquidity management (LCR) and maintaining liquidity reserves in the securities inventory.

As a matter of policy, risks were generally not entered into, in the interests of controlling the interest rate and currency risk levels. Trading activities were also only undertaken to a limited extent.

In cooperation with the other market segments, the Treasury Sales unit professionally and successfully supported our customers in the field of interest rate and currency management through the offer of tailored products.

3. Business development in Hypo Alpe-Adria-Bank AG

With the closing on 19.12.2013, Hypo Alpe-Adria-Bank AG has acquired a new owner in Anadi Financial Holdings Pte. Ltd. based in Singapore, which now holds 100 per cent of the shares in Hypo Alpe-Adria-Bank AG. Anadi Financial Holdings Pte. Ltd. is owned by the UK based Indian businessman Dr. Sanjeev Kanoria. The sale was registered in the Commercial Register on 07.02.2014, following the signing of the purchase agreement with Hypo Alpe-Adria-Bank International AG on 31.05.2013.

Hypo Alpe-Adria-Bank AG positions itself as a full-services bank with a strong regional basis, having 14 branches in its home market of Carinthia and pursuing a clear niche strategy (in particular real estate finance and corporate finance) at its premises in Vienna and Salzburg. The bank offers all conventional banking services for private and corporate customers as well as institutional clients.

3.1. Balance sheet development

Hypo Alpe-Adria-Bank AG reported total assets of EUR 3,242 m as at 31.12.2013 (31.12.2012: EUR 3,861 m).

Total assets
in EUR m

Balance sheet structure

in EUR m

Assets	31.12.2013	31.12.2012	31.12.2011
Loans and advances to credit institutions	91	500	456
Loans and advances to customers	2,619	2,867	4,685
Fixed-income securities, shares and investment certificates	465	412	454
Investments in associated companies	4	4	5
Other assets	63	78	139
Balance sheet total	**3,242**	**3,861**	**5,740**

Liabilities	31.12.2013	31.12.2012	31.12.2011
Liabilities to credit institutions	426	412	1,919
Liabilities to customers	1,188	1,575	1,678
Debt securities in issue and subordinated capital	1,418	1,618	1,898
Own capital funds/Tier 1 capital	150	150	150
Other liabilities including net profit	60	106	95
Balance sheet total	**3,242**	**3,861**	**5,740**

Despite the continuing difficult general economic conditions, the bank was able to post a positive result for the 2013 financial year, thereby confirming that the path initiated in 2011 is delivering successful results.

The lending volume came to EUR 2,619 m (31.12.2012: EUR 2,867 m), which corresponds to a reduction of EUR 248 m in comparison with the previous year. The allocation by segment is as follows: EUR 1,159 m to public finance, EUR 702 m to corporate banking, EUR 649 m to retail banking and EUR 109 m to securitised receivables (private placements of securities). Non-performing loans, following the demerger and a sizeable transfer to the former parent company, amounted to EUR 80 m. This represents around 2 % of total exposure and is also a symbol of the strict risk policy being pursued by the bank following the demerger. On a peer comparison, the quality of the credit portfolio is good.

Development of non-Performing loans
Rating class 5A to 5E, in EUR m

Loans and advances to credit institutions stood at EUR 91 m (31.12.2012: EUR 500 m). The decrease by EUR 409 m is due to the repayment of short-term liquid funds. The balance sheet items treasury bills and bonds and other fixed-income securities are used exclusively for liquidity reserves and amount to EUR 464 m (31.12.2012: EUR 410 m), which corresponds to a net increase of EUR 54 m in comparison with the previous year. The securities are mostly of top quality and satisfy the future liquidity requirements under Basel III. The EUR 12 m decline in other assets to EUR 30 m (31.12.2012: EUR 42 m) largely stems from interest accruals and market values from derivative contracts.

With regard to liabilities, primary funds (customer deposits and own issues) came to EUR 2,586 m (31.12.2012: EUR 3,175 m), which equates to 80 % of funding. Of this, EUR 581 m was accounted for by savings deposits and EUR 606 m by demand and time deposits. Savings deposits fell by EUR 211 m, which is attributable to the unattractively low interest rate level and the negative reporting in connection with the former parent company. Debt securities in issue stood at EUR 1,399 m (31.12.2012: EUR 1,599 m), which corresponds to a decrease by EUR 200 m. In the year under review, a nominal amount of EUR 85 m of new issues were placed and EUR 272 m repaid. The loan to deposit ratio, which shows the proportion of lending to primary funds (including own issues), stood at 98.7 % as at 31.12.2013 (31.12.2012: 90.3 %) and is thus remarkable for a regional bank. Liabilities to banks stood at EUR 426 m (31.12.2012: EUR 412 m), which is about the same level as in the previous year.

The subordinated liabilities, which also constitute Tier 2 capital, amounted to EUR 18 m at year-end 2013 (31.12.2012: EUR 18 m).

3.2. Own capital funds

Total own capital funds as defined by the Austrian Banking Act (BWG) came to EUR 160 m as at 31.12.2013 (31.12.2012: EUR 164 m). The legal minimum requirement stood at EUR 100 m. This represents a surplus of EUR 60 m, or a coverage of 160 % (31.12.2012: 146 %).

The own capital funds ratio in relation to the banking book (credit risk) amounted to 14.42 % as at 31.12.2013 (31.12.2012: 13.15 %). The Tier 1 ratio stood at 13.41 %, which is above the level as at 31.12.2012 (11.95 %). In comparison to 31.12.2012, the assessment basis shows a reduction of around 11 %.

In relation to the total capital base (including market and operational risk), the Tier 1 ratio was 12.81 % as at 31.12.2013 (31.12.2012: 11.68 %), significantly over the legally required minimum level of 8.0 % in Austria.

3.3. Development of the result

In the year under review, Hypo Alpe-Adria-Bank AG was again able to register a positive result. This is due partly to the restructuring measures which have now been completed, and partly to the continuing satisfactory development of the bank's core business. The credit risk provisions could also be kept at a low level in the year under review, which can be ascribed in particular to the successful intensive work on the non-performing loan items and the strict adherence to the risk-appropriate allocation of new business.

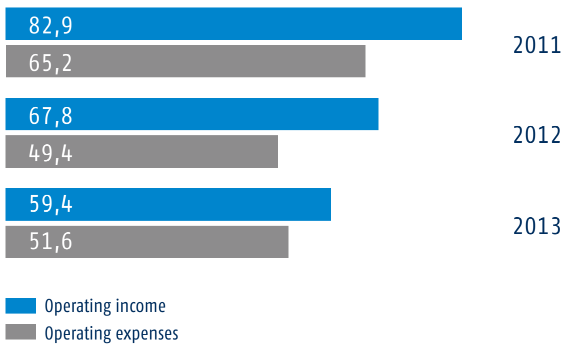
Against this backdrop, income from operations (net interest income, fee and commission income, income from securities and equity interests, other income) in the year under review stood at EUR 59.4 m (2012: EUR 67.8 m). Net interest income came to EUR 35.8 m (2012: EUR 39.0 m) and continues to be impacted by the persistently flat interest rate curve. As a result of various management elements in the on-/off-balance sheet area, the net interest income was kept more or less stable by comparison with the previous year. Dividends from shares and shareholding rights totalled EUR 2.9 m (2012: EUR 2.5 m).

The net fees and commissions, as the balance between fee and commission income and expenses, came to EUR 16.0 m in the year under review and remained largely at the level of the previous year (EUR 16.4 m), which is highly satisfactory. The bank's strategy of basing the proportion of commission income to overall income on commission-dependent banking and insurance products is also showing its positive effect in the year under review.

In the year under review, Hypo Alpe-Adria-Bank AG reported operating expenses of EUR 51.6 m in the year under review (2012 EUR 49.4 m). The increase is a result of the excessive staff costs, which still include the final measures and one-off effects of the restructuring plan which was completed during the reporting year and will therefore no longer represent a burden on future results. Operating expenditures are also very much defined by the savings policy we have embarked upon.

As a consequence of the above, the operating result – as the balance of operating income and operating expenses – came to EUR 7.8 m.

Operating income/expenses
in EUR m



The result on the measurement and disposal of receivables, contingent liabilities and securities held as current assets was positive for 2013, at EUR 1.0 m.

The individual items break down as follows: the balance from the measurement of receivables and contingent liabilities held as current assets is EUR –4.7 m (2012 EUR –3.1 m), the balance from the measurement and disposal of securities held for liquidity is EUR 5.7 m (2012 EUR –0.2 m). The income from securities held as current assets is essentially the result of strategic measures within the portfolio. The provision for negative market values of derivatives in the banking book was reversed in the amount of EUR 1.3 m.

The balance of measurement and disposal of financial assets (securities and equity investments) held as fixed assets comes to EUR –0.4 m (2012 EUR 1.9 m).

Taking into account the effects described above, Hypo Alpe-Adria-Bank AG recorded a positive result from ordinary activities of EUR 8.4 m (2012 EUR 17.0 m).

A provision of EUR 0.3 m was set up in the extraordinary result in order to cover the necessary costs for our new market image in the course of the privatisation.

After allowing for taxes of EUR 3.4 m, the net profit for the 2013 financial year came to EUR 4.8 m (2012 EUR 48.1 m).

3.4. Key profit indicator

The cost/income ratio, which shows the ratio of operating expenses to operating income, came to 86.7 % as at the reporting date (72.9 % as at 31.12.2012). The return on equity (ROE) after tax stands at 3.4 % for the 2013 financial year (31.12.2012: 7 %), the return on assets (ROA) at 0.15 % (31.12.2012: 0.21 %). In the year under review, the return on equity and return on assets are shown adjusted for the extraordinary profit.

Please refer to the information provided in the notes with regard to the use of derivative financial instruments.

4. Analysis of non-financial key performance indicators

4.1. Employees

As at the reporting date of 31.12.2013, Hypo Alpe-Adria-Bank AG employed 430 staff at 16 locations throughout Austria. The number of employees thus decreased by 23 persons in comparison with the figure at year-end 2012. Considerably more than half of the employees are women (225 employees as at 31.12.2013). Taking into account different part-time working models, there is an employment level of 371 active full time equivalents (31.12.2012: 380 active full time equivalents). With 405 members of staff, the majority were employed at sites in Carinthia. Vienna accounted for 18 employees, and Salzburg for 7.

Employee numbers
Comparison 2011–2013

The apprentice training strategy was also continued in 2013. While in 2012 just 8 apprentices started their career in the bank, in 2013 there were a further 12.

In the major market areas of retail and corporate banking, the training focused mainly on “updates”. These updates are based on the very good training record of longstanding employees on the one hand, and on the other on the view that employees who have already completed their initial basic and specialist training some years ago should be offered “state of the art”.

In the retail division, these updates related to TAX and a wide variety of product training courses, modified in accordance with the strategy of standardising the product range and necessitated by a change of cooperation partners in some cases.

As a starting point for more sophisticated retail training for customer service managers based on the products/customers to which they have been allocated, a concept was devised on the basis of the main business areas: specialisation in the areas of financing (housing construction), investment (top securities consultants), financial planning (insurance, savings with building and loan associations) and liquidity (with counter staff functioning as the “hub” for dealing with current accounts).

In the field of corporate banking, greater emphasis was placed on the “SME compass” – as part of the business dialogue – for all employee training, as this represents the focal point and the chief tool in customer services and opportunity management. All managers in Klagenfurt, Vienna and Salzburg underwent appropriate management coaching in order to guarantee ongoing monitoring.

As a measure to increase employee loyalty and reduce risk, our “high potentials” (recruited from a development centre) took part in a training scheme for new generation managers consisting of a three-part management training programme focusing on the following three questions: What management tools are available? How do I manage myself? How do I manage a team?

In the 2013 financial year, a total of 200 events took place, amounting to 566 training days. A budget of EUR 257,000 was invested.

4.2. Customers

The basis for the partnership principle we practise with our customers is a needs-oriented consultancy and customer services approach. The staff of Hypo Alpe-Adria-Bank AG see themselves as “money coaches” who, in a dialogue with our 56,000 customers, place customer needs at centre stage, offering not only solutions based on our standardised product range but also – in particular – creating individual ways forward. For us, “know your customer” is not an empty phrase, but a promise of performance that we give our customers as part of the process of determining their needs on a personal basis.

Offering added value over and above conventional banking services is a further premise upon which our company is based. For example, in 2013 Hypo Alpe-Adria-Bank AG again acted as a partner in various events organised for Carinthian businesses. At the now traditional “Wirtschaftsstammtisch” economic forums, which are organised jointly with TPA Horwath and the Carinthian regional media, topics such as “Beyond the limit” and “Do regulations put a brake on success?” have been explored. During a joint Carinthia-wide roadshow with the Carinthian industrial association “Kärntner Wirtschaftsbund” the main issues discussed were “Are the banks leaving us out in the cold?” and “How do I go about getting financing?”

4.3. The environment and social responsibility

The bank’s own “Grüne Bank” working group, which was set up in 2012, is continuing its work aimed at ensuring sustainable use of resources and consideration for the environment within the company as far as possible. For example, in many areas of Hypo Alpe-Adria-Bank AG, printers are automatically set to duplex printing, car pools have been formed and the fleet of company cars has been significantly reduced. We also aim for environmentally-friendly products to be used for the day-to-day cleaning of our buildings.

Providing help quickly on a regional basis without unnecessary bureaucracy is another important part of the social commitment of Hypo Alpe-Adria-Bank AG. At our “Engagement Days”, Hypo employees have been giving up their free time to support social initiatives, such as helping to paint a building in the SOS children’s village at Moosburg and designing a garden together with a residential community of young people in Strassburg. Funds have also been provided in support of regional sponsorship and fundraising campaigns in the social sphere.

For the purpose of promoting a sustainable and regional sponsoring strategy in the realm of culture, support was provided to the renowned Trigonale and Kultur.Raum. Kirche music festivals, while in the sporting arena, the bank sponsored the multiple European and world paratriathlon champion Christian Troger.

4.4. Research and development

By dint of its sector, Hypo Alpe-Adria-Bank AG does not conduct any research and development activities.

5. Risk management

Central risk management tasks are carried out within Hypo Alpe-Adria-Bank AG by the Credit Risk Management division (operational risk management) and the Risk Control department (strategic risk management) under the responsibility of the CRO.

5.1. Risk strategy, risk controlling and risk monitoring

The bank controls and monitors its risks across all business segments, with the aim of optimising its risk/performance profile and of ensuring the ability to bear risks at any time, thus protecting the bank's creditors and owner.

The following central principles apply to the overall bank management process:

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

5.2. Risk management organisation

Ensuring adequate risk management and controlling structures and processes is the responsibility of the Chief Risk Officer, who is a member of the bank's Executive Board. In view of the minimum standards imposed on the lending business and appropriate levels of internal control, the Chief Risk Officer acts independently of the market and trading units.

The core tasks of risk management are the management of counterparty risks; the restructuring of problem loans; monitoring the credit-granting process; as well as risk controlling and monitoring of counterparty, market, liquidity and operational risks at portfolio level. The Chief Risk Officer is also responsible for monitoring risk-bearing capacity and directing the risk capital which is required from an economic point of view. Within the Executive Board, the Chief Financial Officer is responsible for monitoring adherence to regulatory own capital funds requirements.

5.3. Measures to improve risk management

The 2013 financial year was dominated by the HBA carve-out. A project for the reintegration of risk control was initiated in 2013 and successfully implemented by year-end.

a) Organisational reintegration of risk control (RC)

The central element in 2013 was the implementation of the Risk Control department in the context of the carve-out project. As a result of the decision to outsource all risk control activities to the former parent company (HBInt.) via an SLA, both the functional and the organisational target image of the RC for Hypo Alpe-Adria-Bank AG had to be newly developed in connection with the carve-out. In addition, tools and processes had to be created and staffing provided through transfers and recruitment.

This central project was embedded in the following general carve-out concept, which was then filled out with specific detail in a separate concept for the Risk Control department:

- Functional concept
- Structural organisation
- Process organisation
- Systems/applications & IT landscape
- Agreements
- Implementation planning

The functional RC concept envisages the systematic identification, measurement, analysis and monitoring/reporting of

- Credit risks (including counterparty risk, country risk, participation risk and risk concentrations),
- Market price risks (including interest change risk, foreign currency risk, equity price risk, credit spread and alternative investment risk)
- Liquidity risks (including structural liquidity risk, refinancing risk, maturity risk and withdrawal risk)
- Operational risks
- Other risks (including strategic risk, reputation risk, earnings risk, business risk and equity risk)

as well as the management and limitation of these risks in the context of overall bank management through the ICAAP process based on economic risk cover amounts together with consideration of stress scenarios.

The organisational orientation of the Risk Control department is therefore divided into two principal sections:

- Credit and operational risk
- Market and liquidity risk

The divisional management covers both sections as well as overall bank management by means of ICAAP, capital management and the coordination and implementation of strategic risk regulations such as the risk strategy and the specific risk policies and risk manuals.

b) System-related reintegration of risk control

In regard to the system-related technical requirements, the reintegration of the Risk Control department made it necessary for the existing systems, tools and application processes in HBInt. to be either

- transferred and modified or
- replaced by new systems and applications for Hypo Alpe-Adria-Bank AG.

For the credit risk in particular, the system used at Hypo Alpe-Adria-Bank International AG had to be completely replaced by an application developed in-house which was modified to meet Hypo Alpe-Adria-Bank AG's requirements.

Counterparty risk – implementation of derivatives netting and bilateral cash collateral

In the course of the carve-out project by which Hypo Alpe-Adria- Bank AG was separated from Hypo Alpe-Adria-Bank International AG, a netting arrangement for derivatives in bilateral derivatives transactions was implemented both contractually and technically within the system, and the methods used were documented in the risk manuals so as to be transparent and comprehensible to third parties. In addition, a cash collateralisation agreed between the counterparties was set up to ensure the cash security of resulting positive market values. As a result, the potential counterparty risks arising from such bilateral derivatives transactions are reduced to a minimum. In 2014, further efforts will be made to process standardised derivatives transactions through a "central counterparty", which should result in a further risk reduction effect.

Basel III – liquidity risk and liquidity risk management

To ensure liquidity on an ongoing basis, Hypo Alpe-Adria-Bank AG holds cash reserves consisting of freely disposable short term cash investments with Oesterreichische Nationalbank (OeNB). In addition, Hypo Alpe-Adria-Bank AG holds "liquidity portfolios" of highly liquid central bank eligible securities which can be sold at short notice or used as refinancing collateral for monetary policy transactions with the central bank.

The new liquidity-relevant requirements contained in Basel III have been implemented in a separate project in accordance with the currently available information status. Initial reports of the key figures for the "Liquidity Coverage Ratio (LCR)" and the "Net Stable Funding Ratio (NSFR)" have already been submitted to the supervisory authority in the course of the Quantitative Impact Study (QIS) as part of HAA. In addition, the recently received specific requirements for the LCR and NSFR reporting templates, and for the Unencumbered Assets Reporting and the Monitoring Tools, are currently being evaluated and developed in the context of follow-on projects.

Collateral Management project

With the implementation of the Collateral Management project for derivatives, increased process automation and improved provision of cash collateral for limitation of bank lines of credit have been achieved. With the structured data base, improved reconciliation between the external values and the internal model values arising from the portfolio management systems (and therefore more effective collateral management) is possible. Future requirements for a "Central Counterparty Clearing" and the daily transaction register reporting in the context of EMIR are also being incorporated into the project, as is the possible extension to include collateral management for repos.

Credit Spread project

The credit spread risk, together with the interest rate risk, is the largest risk factor in Hypo Alpe-Adria-Bank AG's market risk. As part of a project, the previously used methods have been replaced and a new functionality which is essential for adequate measurement of risk and accounting treatment has been created in the PMS portfolio and risk management system.

Specifically, this has necessitated a comprehensive integration of the credit spread risk factor in the following subject areas:

- Market and partner data
- Instrument valuation (pricing)
- Performance accounting and IFRS
- Value-at-risk and backtesting
- Stress testing

The final project phase was completed at the end of April 2013, and at the same time the majority of the implemented functionalities were taken into operational use.

Market risk limitation

In 2013, in connection with the limitation of the market risk, significant improvements were implemented within Hypo Alpe-Adria-Bank AG, in order both to comply better with regulatory requirements and also to achieve improvements in connection with the management of market risks and the supervision of the fixed economic market risk capital. Efforts were made to avoid any inappropriate allowance for economic effects arising from the market risk in the context of the risk-bearing capacity calculation, subject to consideration of the fact that the defined limit systems, processes and methods must guarantee an adequate and timely determination of the current fixed economic market risk capital.

IFRS 13, valuation adjustments for derivatives pursuant to FMA circular

At the end of 2012, the new "IFRS 13 Fair Value Measurement" standard was endorsed by the EU, and thus became one of the international accounting standards that have to be applied throughout the EU. Application of the standard became mandatory as of 1 January 2013.

With this new standard, the IASB has drawn together all regulations on fair value measurement into one central standard. In order to comply with the (in some cases new) requirements of IFRS 13 and the associated valuation adjustments envisaged in the FMA circular, the following aspects have been taken into consideration within Hypo Alpe-Adria-Bank AG:

- An analysis of the current fair value determination in regard to the systems and processes used;
- The system-related support of necessary adjustments derived from this analysis;
- Review of the correct implementation of all relevant areas such as CVA (Credit Valuation Adjustment) & DVA (Debt Valuation Adjustment), OIS discounting, definitions of external prices (active/inactive or most advantageous/principal market, bid/ask spread) and information provided in the notes.

OIS discounting

For the 2013 annual financial statements, the valuation method for derivatives based on accounting and regulatory requirements was switched from Euribor/Libor discounting to EONIA/OIS discounting.

All derivative instruments for which collateral has to be provided are affected by the change.

All other derivative instruments and all underlying transactions are valued using a corresponding standard curve for each currency. This guarantees a standardised interest curve structure within the portfolio and risk management system.

Credit Valuation Adjustment (CVA) / Debt Valuation Adjustment (DVA)

In 2013, on the basis of the regulatory requirement to extend the valuation of derivatives to include the modelling of the counterparty or own credit default risk, further developments in the portfolio and risk management system were implemented within Hypo Alpe-Adria-Bank AG, to ensure that the corresponding calculations can be supported by the system.

The key figure that corresponds to consideration of the counterparty credit default risk in the context of valuation is referred to as the Credit Valuation Adjustment (CVA) – the Debt Valuation Adjustment (DVA) key figure stands for a surcharge on the price which corresponds to the own credit default risk.

At Hypo Alpe-Adria-Bank AG, a pricing CVA/DVA is calculated on the basis of a Monte Carlo simulation and a hybrid Hull-White model. To determine the default risk, single-name CDS curves are used, or iTraxx indices if no single-name curve is available.

The calculation of CVA and DVA is carried out on a portfolio basis for each counterparty, with netting and collateral agreements being taken into consideration. The exchange of collateral payments is taken into account in the calculation by the inclusion of minimum transfer amounts and threshold amounts. For all other derivatives, the CVA or DVA is calculated on the basis of the individual position. In the year under review, only the CVA was recorded, in accordance with commercial law provisions.

European Market Infrastructure Regulation (EMIR)

In order to comply with the requirements of EMIR, a project has been set up within Hypo Alpe-Adria-Bank AG to support the introduction of EMIR, dealing with the following aspects in particular which are components of EMIR:

- (CCP) Central Counterparty Clearing of standardised OTC derivative contracts through two clearing brokers at the London Clearing House (LCH)
- Implementation of the Markit Wire electronic trading platform (contract platform – electronic confirmation)
- Timely reporting of all OTC and ETD derivative contracts traded (clearable/non-clearable (bilateral) to a transaction register or to the competent supervisory authority

5.4. Reporting

Timely, independent and risk-adequate reporting for decision makers is guaranteed for all risk types; requests for ad hoc reports are honoured at all times.

In 2013, the risk report was adapted to the bank's new circumstances and requirements. Regular credit risk reporting is carried out on a monthly basis. There is standardised reporting of liquidity risk on a weekly and monthly basis.

In stress cases the reporting frequency can be increased if required. Market risk reports are compiled on a daily basis.

5.5. Capital management

As part of the overall management of risk, the bank's capital management is based on a multi-dimensional planning process, which consolidates strategic, risk-oriented and regulatory aspects as part of a long-term operational plan.

Regulatory capital adequacy (solvency)

Capital resource planning is the starting point for the allocation of regulatory capital. Capital resources are composed of the liable equity capital, which is made up of Tier 1 and Tier 2 capital, plus third-ranking funds.

Capital resource planning is mainly based on an internal target for the Tier 1 ratio (ratio of Tier 1 capital to risk positions) and an internally set target ratio for the overall own capital funds ratio (ratio of capital resources to risk positions) for the bank.

Economic capital (risk-bearing capacity)

In addition to ensuring regulatory capital requirements are met, securing the bank's ability to bear economic risks forms a central part of controlling activities. To this end, Hypo Alpe-Adria-Bank AG has an institutionalised internal process as regards risk-bearing capacity (ICAAP, or "Internal Capital Adequacy Assessment Process").

In the course of managing risks associated with economic capital, the risk profile of the bank is monitored by means of risk-bearing capacity reporting; any necessary control measures are implemented where required.

The types of risk relevant to determining the risk capital requirements include credit, country, concentration, market price, liquidity, operational and other risks (reputation, strategic, capital and business risk). The primary method used to determine the amount of the risk capital requirement depending on the type of risk is value at risk methodology (VaR methodology).

In the course of managing risks associated with economic capital, the bank monitors its risk profile and ensures adequate risk-bearing capacity by comparing its risk coverage potential and the capital available for risk coverage with the risk capital requirement. The upper limit for loss – and thus the available risk capital – is determined from the sum of the capital elements.

5.6. Credit risk

In terms of scale, credit risks constitute the most significant risks for the bank. They mainly arise from the lending business. If these parties do not meet their obligations, losses result in the amount of non-received benefits less utilised securities, reduced by the recovery rate of unsecured portions.

General requirements

The credit policy, as part of the risk strategy, provides concrete specifications for the organisational structure of the bank in the lending business as well as for risk control methods, and is supplemented by further policies, specific directives and risk manuals.

In line with a directive on authority levels defined by the Executive and Supervisory Boards, credit decisions are made by the Supervisory Board and Executive Board, as well as by key staff in the front office and the Risk Management analysis units for standard, mass-market credit applications. The internal credit committee is a permanent institution of the bank and the highest body for making credit decisions, at the same level as the Executive Board.

Risk measurement

Hypo Alpe-Adria-Bank AG utilises various rating methods for the individual analysis and assessment of its borrowers' creditworthiness. The allocation of debtors to rating classes is based on the default probability on a 25-level master rating scale, subdivided into 20 "living" classes and 5 default classes

The responsibility for checking the completeness and the quality of the ratings lies with the back office and with the front office for standard, mass-market applications (4-eyes principle). At portfolio level, Risk Control regularly checks the quality of the ratings at portfolio level and reports on them to the Executive Board.

Risk limitation

The control of total commitments with an individual client or a group of affiliated clients is carried out by the respective customer segment or business area. Limits are set for banking divisions and countries and monitored independently by Risk Control.

Another important instrument in limiting risk is the collection and crediting of generally accepted collateral. The valuation is processed in line with the collateral policy, which defines in particular the valuation procedures as well as valuation discounts and frequencies of individual collateral types. Framework contracts for netting out mutual risks (close-out netting) are generally concluded for trading transactions involving derivatives.

The stipulations for the evaluation and processing of collateral are also governed by the collateral policy. This also contains a description of the collateral normally accepted by the bank. The main types of collateral include mortgages (approx. 60 % of the collateral portfolio), pledges, assignments and guarantees.

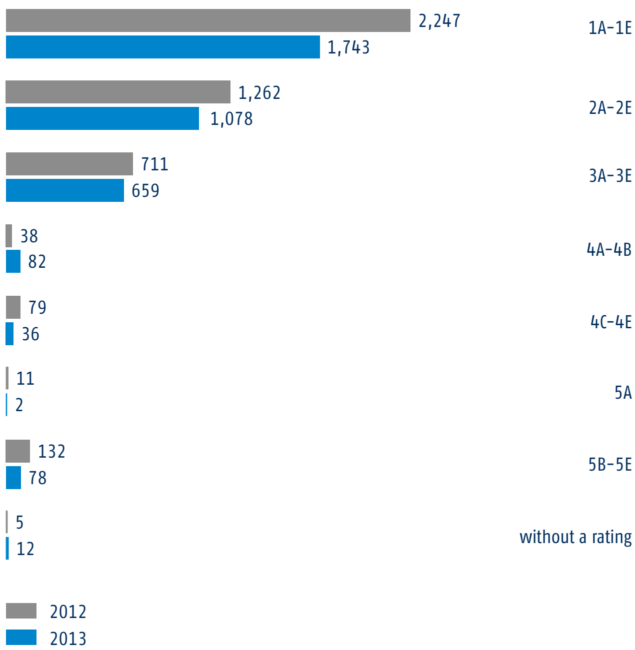
In addition, an efficient recovery and realisation management and restructuring management in the bank are leading to further risk reductions.

Distribution of exposure

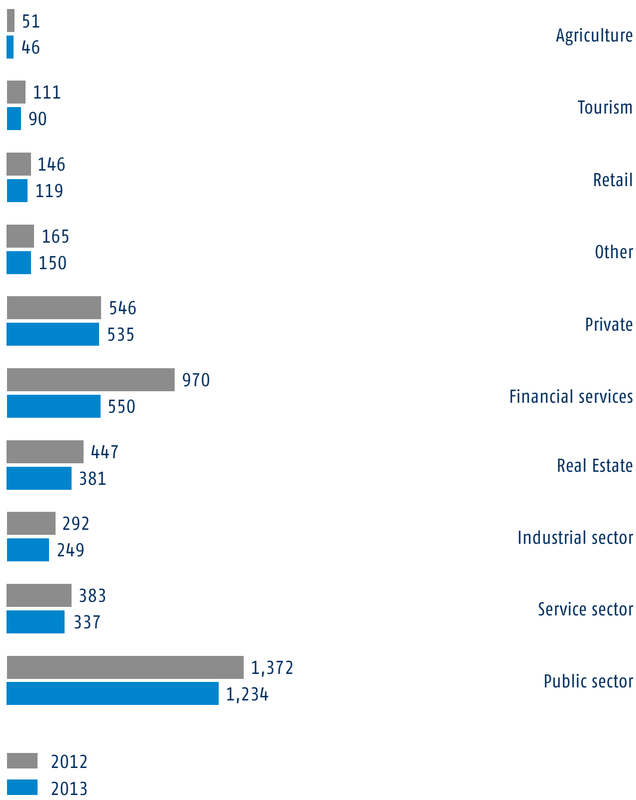
In the year under review, the bank's exposure was reduced by EUR 0.795 m or 17.7 %, due to preparatory actions for the change of owner. In total, there are free lines of credit and loans available totalling some EUR 158 m.

The financial management and strategic orientation are based on sector exposures, among other considerations. The lower-risk industry groups – credit institutions and the public sector – account for a share of 48.3 %. The well-diversified retail/private client sector has a share of 14.5 %.

Exposure by rating class
in EUR m



Exposure by industry sector
in EUR m



Around 76 % of the exposure is categorised as rating classes 1A to 2E. This relates in the main to loans and advances to credit institutions and public institutions.

The non-performing portfolio (rating classes 5A to 5E) comprises 2 % of the total EAD. After taking into account recoverable collateral in the amount of EUR 23 m, a blank exposure of EUR 57 m remains. This is covered with risk provisioning in the amount of EUR 41.13 m.

Some 66.1 % of exposure lies in the area < EUR 10 m. The bank continues to pursue a strict strategy of systematic reduction of concentration risk. A majority share of the EUR 1,251 billion exposure in the area > EUR 10 m is attributable to banks and the public sector (33.9 %).

Size classes	31.12.2013	31.12.2012
< 10,000	66	35
10,000 – 20,000	31	25
20,000 – 50,000	72	46
50,000 – 100,000	125	71
100,000 – 250,000	352	274
250,000 – 500,000	236	208
500,000 – 1,000,000	263	154
1,000,000 – 3,500,000	620	355
3,500,000 – 10,000,000	674	497
> 10,000,000	1,251	2,820
Total	**3,690**	**4,485**

5.7. Country risk

Country risk is the risk that a business partner in a given country, or the country itself, fails to meet its obligations on time, because of governmental directives or economic/political problems, or does not meet them at all.

For example, country risks may arise from possible deterioration of national economic conditions, political or social collapse, the nationalisation or expropriation of assets, non-recognition of cross-border liabilities on the part of the government, exchange controls, payment or delivery prohibitions, moratoria, embargos, wars, revolutions or coups in the respective countries.

Country risk is limited by setting limits, which are calculated on the basis of ratings and a risk-oriented grouping of countries. Risk Control monitors adherence to the country limits on a monthly basis and reports any breaches as part of its regular reporting on country limit utilisation directly to the Executive Board. Ad hoc reports are also prepared as required.

5.8. Concentration risk

Concentration risks within a portfolio are the result of an unequal distribution of loan receivables against individual borrowers and/or groups of borrowers. This also includes concentrations of loan receivables in individual industry sectors, geographic areas and concentrations resulting from an unequal distribution of guarantors.

Accordingly, the following concentration risks are analysed, measured and managed by the bank: concentrations in counterparty default, concentration risks in industrial sectors, geographic concentrations plus concentrations of guarantors.

5.9. Market price risk

Market risks consist of potential losses arising from a change in market prices. Hypo Alpe-Adria-Bank AG classifies market price risks according to the risk factors in changes to interest rates, credit spread, currency, volatility and share price risks, as well as risks associated with Alternative Investments. At Hypo Alpe-Adria-Bank AG, particular attention is paid to identifying, measuring, analysing and managing market risk. The organisational department Risk Control is responsible for all market risks.

General requirements

The bank develops its market risk strategy on the basis of strategy discussions with the relevant treasury units.

Risk controlling and monitoring

All market risks are monitored centrally by the Risk Control function, which is unconnected to trading functions. The control of interest rate risk is carried out on an institutionalised basis in compliance with the regulatory requirements related to interest rate risk statistics. The Asset Liability Committee, which consists of the group's Executive Board as well as key staff in Treasury, Risk Management, Financial Controlling and Accounting, meets on a regular basis to analyse and decide on measures related to balance sheet structure and liquidity controlling.

Overview – market risk Interest rate risk:
The interest rate risk (excluding non-interest-bearing items; including interest rate risk in the trading book) of the bank stood at EUR 73,000 per day at year-end 2013, at a confidence interval of 99 %. It consists of the value at risk for the banking book in the amount of EUR 68,000 and the value at risk for the trading book in the amount of EUR 5,000.

The methodology of the interest risk calculation is oriented to the specifications of the Oesterreichische Nationalbank (OeNB) regarding the calculation of interest risk statistics.

The regulatory limit of 20 % was not even close to being reached or exceeded at any point in the year. Utilisation as at 31.12.2013 stood at 2.9 %.

The main instruments used to control the interest rate gap profile are derivatives, which establish a hedging relationship for both assets and liabilities, thereby mitigating interest rate risk.

Foreign currency risk:
The database for determining the value at risk for the foreign currency risk of Hypo Alpe-Adria-Bank AG is based on the figures in the OeNB report and contains operational business activities. The foreign currency risk position thus covers the entire FX risk to which Hypo Alpe-Adria-Bank AG is exposed. The management of the FX risk is the responsibility of the treasury division. The foreign currency risk at Hypo Alpe-Adria-Bank AG can be classified as not significant, since open positions are managed on a daily basis and positions arising from non-trading business are closed immediately. The value at risk for the foreign currency risk was approximately EUR 1,000 per day as at 31.12.2013, at a confidence interval of 99 %.

Credit spread risk:
the credit spread risk within the bank stood at approx. EUR 167,000 at year-end 2013 with a 1-day value at risk and 99 % confidence level. The key influencing factor in this regard is the liquidity reserve in the form of securities. Consequently, there is very limited scope for reducing risk from these positions.

The significant reduction in the credit spread risk over the course of the year is mostly the result of methodical adjustments in respect of the representation of the risk-bearing capacity.

Equity price risk:
Within Hypo Alpe-Adria-Bank AG, the equity price risk arising from investment perspectives in 2013 was greatly reduced, and from July 2013 onwards has consisted only of investment fund positions which are held for resale to customers. The value at risk for the equity price risk was approximately EUR 1,700 per day as at 31.12.2013, at a confidence interval of 99 %.

5.10. Liquidity risk

Liquidity risk is defined as the risk of not being able to meet due payment obligations in full or on time, or – in the event of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at a discount to market prices.

General requirements
The strategic principles of handling liquidity risks are defined in the risk strategy. The overriding objective of liquidity risk management and controlling is to ensure that the bank maintains its capacity to make payments and undertake refinancing activities at any time. The content-related and organisational conditions for the management and controlling of liquidity risks are governed by a liquidity manual.

Liquidity risk controlling is the responsibility of the Risk Control department. It is here that risk measurement and mitigation as well as timely and consistent reporting are carried out.

The bank has in place emergency liquidity planning which has been set out in writing. It sets out the processes and control or hedging instruments which are required to avert imminent crises or tackle acute crises. In the event of a liquidity crisis, the top priorities of the bank are to rigorously maintain the ability to pay and to prevent damage to the bank’s reputation.

Risk measurement

The main methodological tool for measuring, analysing, monitoring and reporting on liquidity risk is the liquidity overview. It is used to compare liquidity gaps resulting from deterministic and modelled future payment flows and the realisable liquidity coverage potential in strictly defined maturity bands.

The liquidity potential quantifies the capacity of the bank – in amounts and dates – to procure liquid funds at the earliest possible opportunity and at favourable terms and conditions. It highlights options regarding the coverage of liquidity gaps, and hence all liquidity risks related to payment flows. The most important components of liquidity potential are as follows:

- Free access to central bank and interbank funds
- Access to further central bank-eligible securities
- Issue potential in the cover register

In addition to the normal scenario, other scenario analyses conducted under stress conditions, such as name crises (rating deterioration, reputation risks) as well as market crises (restrictive funding options on capital markets, increased cash flow outflow), supplement the risk measurement spectrum.

On the basis of the liquidity overviews, key indicators are determined for the different scenarios, which allow a compact assessment of the liquidity situation. For the purpose of evaluating the liquidity situation, the “liquidity ratio” (minimum liquidity position) and “survival period” (maximum liquid time horizon) indicators are calculated for up to one year, although utilisation over the first 4 weeks is taken to be particularly important.

Besides structural controlling, care is also taken to ensure that general regulatory requirements are adhered to; this means meeting the minimum reserve as well as 1st and 2nd grade liquidity reserves. The new liquidity ratios under Basel III (liquidity coverage ratio and net stable funding ratio) have already been calculated and taken into account in the management systems.

Limits for short-term liquidity as well as for the limitation of long-term structural liquidity have been defined and are monitored constantly.

5.11. Operational risk

Hypo Alpe-Adria-Bank AG defines the operational risk (“OpRisk”) as the risk of incurring losses due to the inappropriateness or failure of internal processes, systems, people or external factors. This definition also includes legal risks as well as risks to reputation, but excludes strategic risks.

General requirements

The management of operational risks within Hypo Alpe-Adria-Bank AG uses a decentralised organisational structure. This means that in every organisational unit at least one person has been defined who functions as a direct contact person for the respective employee. The corresponding roles and responsibilities have been defined in detail by means of staff regulations and have been brought into operation.

Risk measurement

The primary instrument for the measurement of operational risks is the history of the record of losses. Individual losses are systematically recorded in the specially developed loss database. This is supplemented by findings from the annual scenario analyses, which describe possible future risks involving serious repercussions.

Risk limitation

The results from the analyses of the individual losses and the findings from the scenario analyses form the basis for the definition of adequate avoidance measures and strategies, in order to minimise the future risk of losses as far as possible.

6. Internal control system (ICS)

Hypo Alpe-Adria-Bank AG has an internal control system (ICS) for accounting procedures, in which suitable structures and procedures are defined and implemented.

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

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

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

The Executive Board of Hypo Alpe-Adria-Bank AG is responsible for the implementation and monitoring of the ICS in relation to accounting procedures for the financial statements, and is responsible for the correct and timely execution of the accounting processes and systems. The internal control system itself is not a static system and is constantly adjusted to reflect the changing operating environment. In this respect, the ongoing evaluation of risk estimates and monitoring the effectiveness of control instruments is a key component. The Executive Board uses the Internal Audit units and the Compliance department to assist it in monitoring compliance. Internal Audit checks the effectiveness of the internal control system and the reliability of the accounting function as part of its regular auditing activity.

The effectiveness of the internal control system is monitored by the Audit Committee or the Supervisory Board of Hypo Alpe-Adria-Bank AG in accordance with the stipulations of the Austrian Stock Corporation Act.

The basis for applying the internal control system does, however, rely on the integrity and ethical behaviour of the employees first and foremost. The need for the Executive Board and management staff to act as role models in this respect is well known and is taken seriously.

It is important to note that, regardless of its form, an internal control system does not deliver absolute certainty that material misstatements in the financial reporting will be avoided or uncovered.

6.1. ICS-related activities in 2013

In the context of the OP&K project, the processes relevant to the ICS were identified and prioritised using significant accounts, and worked through gradually using the list of priorities. In the context of the carve-out process, the ICS-relevant processes as required by the parent company were initially taken over and integrated into the existing HBA structure.

6.2. Outlook

In 2014, the key processes for Hypo Alpe-Adria-Bank AG are to be newly documented and the risk control matrices recreated on the basis of the changes in the ownership situation for Hypo Alpe-Adria-Bank AG. In addition, the ICS responsibilities are to be defined and re-implemented for the new organisation.

7. Events after the balance sheet date

No further events of particular significance for the bank, which could have led to a change in the presentation of the financial position and results of operations, were recorded after the reporting date of 31.12.2013. Related to the situation of our former parent company, Hypo Alpe-Adria-Bank International AG, we refer to the illustration in the notes (page 15 and 16).

8. Forecast

With the closing on 19 December, the process of the sale of Hypo Alpe-Adria-Bank AG to Anadi Financial Holdings Pte. Ltd. was successfully completed. The course that has been set with the new owner for the future development of the bank leads us to expect a further increase in profitability. With our new owner not only will our previous business areas as a regional bank be continued, but also the cooperation with the companies associated with the owner's family will be extended. As a result of a cooperation agreement with India's leading infrastructure financing company, SREI Infrastructure Finance Ltd., the bank's position will be significantly strengthened. Improved use of new technologies will ensure that the bank's mobile and direct banking presence is intensified.

In particular, opportunities for growth are seen in the provision of financing and consultancy services for commercial and business relationships between companies in Europe, especially the EU, and companies in India. The family to which the new owner, Dr. Sanjeev Kanoria, belongs will support the development of this field of business with their know-how and network contacts, which will also be valuable to Carinthian businesses.

To meet the demands of the new "international business" area of activity, appropriate staff are being recruited on the international market who will provide the necessary support for this new direction for the bank.

In the domestic business field, which comprises our activities for private and corporate customers, we are aiming to achieve new lending business to the tune of EUR 250 m in 2014. In addition to credit, which is the "anchor" product, the main banking relationship with existing and new customers will be further expanded in 2014 by consistent development of needs-oriented consultancy aimed at selling products from the four principal areas of financing, assets, financial planning and liquidity.

The potential in the securities and insurance product areas will be a particular focus of our activities. New business and the acquisition of new customers will be achieved both through our partners and through our own marketing channels.

In retail banking we will be increasingly concentrating on housing construction financing together with salary accounts and insurance.

In the corporate banking consultancy centres in Vienna and Salzburg, the focus will be on real estate financing and the provision of services to export-oriented manufacturing companies.

Central and profit-oriented management will lead to increased profitability for the domestic banking segment.

The name change from Hypo Alpe-Adria-Bank AG to Austrian Anadi Bank will be entered in the Commercial Register in mid-2014. This will represent a further step in the process of establishing our independence from our former parent company. Since the political decision has also been taken to wind down the former parent company, no further burdens are envisaged for the bank as a result of its former ownership.

The planned "rebranding" campaign will increase awareness of the new brand and imbue it with positive values. The focus is on the bank's positioning as Carinthia's regional bank with long-term jobs for local people, and as a reliable partner with consultancy and financing skills which will benefit the domestic economy. We also regard the successful continuation of our extraordinarily good and constructive cooperation with public agencies and the government of the state of Carinthia as a further success factor.

While our strengths as a bank will be maintained, our new image will also enable us to expand our position on the market and improve our earnings situation. Overall, therefore, the signs are positive for 2014.

Klagenfurt am Wörthersee, dated 11. April 2014
Hypo Alpe-Adria-Bank AG
the executive board:

Dr. Martin Czurda (Chairman)	Gerhard Salzer (Deputy Chairman)	Mag. Friedrich Racher (Deputy Chairman)	Mag. Peter Lazar

Financial statement 2013

Balance Sheet dated 31st December 2013

		31.12.2013 EUR	31.12.2012 EUR thousand
ASSETS			
1. Cash in hand, balances with central banks and post office banks		**27,697,342.39**	**29,366**
2. Treasury bills and other bills eligible for refinancing with central banks:			
treasury bills and similar securities			
		207,154,246.38	**193,384**
3. Loans and advances to credit institutions			
a) repayable on demand	89,944,524.85		499,893
b) other loans and advances	829,255.32		13
		90,773,780.17	**499,906**
4. Loans and advances to customers		**2,618,537,772.61**	**2.867,415**
5. Debt securities including fixed-income securities			
a) issued by public bodies	0.00		0
b) issued by other borrowers	257,202,479.47		216,550
showing separately:		**257,202,479.47**	**216,550**
own debt securities EUR 99,205,377.20			
(previous year TEUR 38,329)			
6. Shares and other variable-yield securities		**379,398.11**	**1,754**
7. Participating interests		**4,135,961.57**	**4,143**
showing separately: participating interests			
in credit institutions EUR 2,905,887.30 (previous year: TEUR 2,906)			
8. Shares in affiliated untertakings		**0.00**	**393**
9. Intangible fixed assets		**734,394.68**	**210**
10. Tangible assets		**4,843,164.65**	**5,732**
showing separately:			
land and buildings occupied by a credit institution for its own activities			
EUR 2,371,335.58 (previous year TEUR 3,090)			
11. Other assets		**30,151,961.91**	**42,030**
12. Prepayments and accrued income		**559,552.39**	**502**
Total Assets		**3,242,170,054.33**	**3,861,385**
1. Foreign assets		**415,607,278.62**	**449,127**

		31.12.2013 EUR	31.12.2012 EUR thousand
EQUITY AND LIABILITIES			
1. Liabilities to credit institutions			
a) repayable on demand	78,622,499.81		50,278
b) with agreed maturity dates or period of notice	348,122,757.99		362,128
		426,745,257.80	**412,406**
2. Liabilities to customers			
a) saving deposits	581,368,863.96		791,684
showing separately:			
aa) repayable on demand EUR 62,576,571.35 (Previous year: TEUR 81,745)			
bb) with agreed maturity dates or period of notice EUR 518,792,292.61 (previous year TEUR 709,939)			
b) Other Liabilities	606,536,925.34		783,409
showing separately:		**1,187,905,789.30**	**1,575,093**
aa) repayable on demand EUR 463,802,509.12 (previous year: TEUR 479,860)			
bb) with agreed maturity dates or periods of notice EUR 142,734,416.22 (previous year TEUR 303,549)			
3. Securitised liabilities debt securities issued		**1,399,442,567.04**	**1,599,630**
4. Other liabilities		**24,158,720.91**	**24,290**
5. Accruals and deferred income		**244,463.96**	**239**
6. Provisions			
a) provision for severance payments	8,438,821.00		8,412
b) provisions for pensions	6,081,263.00		4,925
c) provisions for taxation	2,552,000.00		972
d) other provisions	13,758,056.52		19,347
		30,830,140.52	**33,656**
7. Subordinated liabilities		**18,121,600.00**	**18,122**
8. Supplementary capital		**0.00**	**0**
9. Subscribed capital		**30,000,000.00**	**30,000**
10. Capital reserves			
a) committed	82,008,562.42		
b) uncommitted	323,552.95	**82,332,115.37**	**82,332**
11. Retained earnings			
a) legal reserve	0.00		**0**
b) other reserves	428,515.90		**282**
		428,515.90	**282**
12. Liability reserve pursuant to Article 23 para. 6 BWG		**36,995,640.00**	**36,996**
13. Net profit or loss for the year		**4,812,198.53**	**48,146**
14. Untaxed reserves			
valuation reserve due to special depreciation		**153,045.00**	**193**
Total Liabilities		**3,242,170,054.33**	**3,861,385**
1. Contingent liabilities			
Acceptances and endorsements, guarantees and asset pledged as collateral security		**144,402,799.69**	**141,817**
2. Commitments		**158,483,000.00**	**240,021**
3. Commitments arising from agency services		**60,288,590.58**	**33,506**
4. Eligible capital pursuant to Article 23 para. 14		**159,954,050.33**	**164,202**
showing separately:			
Own funds pursuant to Article 23 para. 14 no. 7 (previous year TEUR 895)	655,751.88		
5. Capital requirement pursuant to Article 22 para. 1		**99,918,029.48**	**112,499**
showing separately:			
Capital requirement pursuant to Article 22 pra. 1 no. 1 and 4 (previous year TEUR 111.604)	99,262,277.60		
6. Foreign liabilities		**299,728,918.66**	**407,402**

Profit - and Loss from 1st January to 31st December 2013

				2013 EUR	2012 EUR thousand
1.	Interest receivable and similar income showing separately: from fixed-income securities EUR 15,666,374.80 (previous year TEUR 16,696)			139,009,286.74	163,189
2.	Interest payable and similar expenses			(103,232,104.76)	(124,149)
I.	**NET INTEREST INCOME**			**35,777,181.98**	**39,040**
3.	Income from securities and participating interests				
	a) income from shares and other variable-yield securities		2,848,267.80		2,168
	b) income from participating interests		36,176.91		36
	c) Income from shares in affiliated undertakings		76,000.00		347
				2,960,444.71	2,551
4.	Commissions receivable			17,895,528.06	18,125
5.	Commissions payable			(1,892,275.13)	(1,729)
6.	Net profit or net loss on financial operations			439,699.58	2,383
7.	Other operating income			4,252,025.22	7,390
II.	**OPERATING INCOME**			**59,432,604.42**	**67,760**
8.	General administrative expenses				
	a) staff costs				
	aa) wages and salaries	(24,967,121.13)			(19,514)
	bb) expenses for statutory social contributions and compulsory contributions related to wages and salaries	(6,557,604.19)			(6,205)
	cc) other social expenses	(498,843.09)			(478)
	dd) expenses for pensions and assistance	(1,332,069.84)			(1,115)
	ee) allocation to provision for pensions	(1,223,605.00)			(1,431)
	ff) expenses for severance payments and contributions to severance and retirement funds	(1,201,518.57)			(2,191)
			(35,780,761.82)		(30,934)
	b) Other administrative expenses		(13,746,630.20)		(16,146)
				(49,527,392.02)	(47,080)
9.	Value adjustments in respect of asset items 9 and 10			(1,108,389.06)	(1,257)
10.	Other operating expenses			(953,414.76)	(1,066)
III.	**OPERATING EXPENSES**			**(51,589,195.84)**	**(49,403)**
IV.	**OPERATING RESULT**			**7,843,408.58**	**18,357**

		2013 EUR	2012 EUR thousand
add carry		**7,843,408.58**	**18,357**
11./12.	Value adjustments and re-adjustments in respect of loan and advances and provisions for contingent liabilities and for commitments	958,400.99	(3,322)
13./14.	Value adjustments and re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings	(364,470.95)	1,917
V.	**PROFIT OR LOSS ON ORDINARY ACTIVITIES**	**8,437,338.62**	**16,952**
15.	Extraordinary income	0.00	45,998
16.	Extraordinary expenses	(300,000.00)	(7,878)
17.	**Extraordinary result (subtotal of items 15 and 16)**	**(300,000.00)**	**38,120**
18.	Tax on profit or loss	(1,694,882.66)	(3,347)
19.	Other taxes not reported under item 18	(1,670,809.43)	(3,619)
VI.	**PROFIT OR LOSS FOR THE YEAR AFTER TAX**	**4,771,646.53**	**48,106**
20.	Changes in reserves showing separatly: Allocation to liability reserves EUR 0.00 (previous year TEUR 0)	40,552.00	40
VII.	**NET INCOME FOR THE YEAR**	**4,812,198.53**	**48,146**

Schedule 3 to the notes

Cash Flow Statement

	31.12.2013 EUR thousand	2012 EUR thousand
Pre-tax profit	**8,137**	**55,072**
Appreciation in value	**0**	**0**
Depreciation	**1,535**	**2,068**
of tangible fixed assets	923	1,147
of intangible fixed assets	185	110
of financial assets	427	811
Gains (losses) from disposals	**0**	**0**
of tangible and intangible fixed assets	0	0
of financial assets	0	0
Change in loans and advances and other assets	**664,843**	**1,572,674**
Loans and advances to credit institutions	409,131	-43,467
Loans and advances to customers	243,892	1,572,313
Other assets	11,877	43,724
Deferred assets	-58	105
Change in provisions	**-4,406**	**-11,479**
for severance payments	26	1,799
for pensions	1,156	1,431
Other provisions	-5,588	-14,709
Change in payables and other liabilities	**-573,159**	**-1,772,780**
Liabilities to credit institutions	14,339	-1,506,833
Liabilities to customers	-387,187	-103,202
Debt securities in issue	-200,186	-145,221
Other liabilities	-130	-17,617
Deferred liabilities	5	94
Change in securities classified as current assets	**-48,092**	**108,098**
Bonds and other fixed-income securities	-49,467	100,310
Shares and other variable-yield securities	1,375	7,788
Taxes	**-1,786**	**-6,961**
Taxes on income	-1,695	-3,347
Other taxes	-1,671	-3,619
Tax provisions	1,580	5
Change to the fund for general banking risks	**0**	**0**
Fund for general banking risk	0	0
Cash flow from operating activities	**47,073**	**-53,308**
Changes in tangible and intangible fixed assets	**-744**	**4,063**
Investments	-1,723	3,873
Proceeds from sales	979	190
Changes in financial assets	**13,772**	**220,105**
Securities in classified as fixed assets	13,799	220,773
Associates and affiliated companies	-27	-668
Cash flow from investments activities	**13,028**	**224,168**

	31.12.2013 EUR thousand	2012 EUR thousand
Dividends paid	**–48,000**	**–7,200**
to shareholders of the parent company	–48,000	–7,200
to non-controlling interests	0	0
Changes in subordinated and equity capital	**1**	**–135,026**
Capital contributions	0	0
Subordinated liabilities	1	–94,729
Hybrid capital		
Supplementary capital	0	–40,297
Changes in minorities	0	0
Changes du to exchange rates, scope of consolidation	**0**	**0**
Cash flow from financing activities	**–47,999**	**–142,226**
Cash flow	**12,102**	**28,634**
Cash and cash equivalents at the beginning of the period	**222,750**	**194,116**
Cash in hand, balances with central bank	29,366	41,424
Treasury bills and bills of exchange eligible for refinancing	193,384	152,692
Cash and cash equivalents at the end of the period	**234,852**	**222,750**
Cash in hand, balances with central bank	27,697	29,366
Treasury bills and bills of exchange eligible for refinancing	207,154	193,384
Effective change in cash and cash equivalents	**12,102**	**28,634**
	0	**0**

Notes to the financial statements for the 2013 financial year

Basic Accounting Principles

The separate financial statements of Hypo Alpe-Adria-Bank AG have been prepared in accordance with the provisions of the Austrian Banking Act (BWG), as amended, and – where applicable – in accordance with the provisions of the Austrian Business Enterprise Code (UGB) and the Austrian Stock Corporation Act (AktG), both as amended.

The financial statements consist of the balance sheet, the income statement and the notes. In addition, a management report has been prepared which is consistent with the financial statements.

The balance sheet and income statement are presented in the form prescribed in Annex 2 to § 43 BWG. The option accorded under § 53 (3) and § 54 (2) of the BWG to combine certain items in the income statement has been exercised. All amounts stated for previous years are shown in thousands of euros (TEUR). The tables may contain rounding differences.

With the closing on 19.12.2013, Hypo Alpe-Adria-Bank AG has acquired a new owner in Anadi Financial Holdings Pte. Ltd. based in Singapore, which now holds 100 per cent of the shares in Hypo Alpe-Adria-Bank AG. Anadi Financial Holdings Pte. Ltd. is owned by the UK based businessman Dr. Sanjeev Kanoria. The sale was registered in the Commercial Register on 07.02.2014, following the signing of the purchase agreement with Hypo Alpe-Adria-Bank International AG on 31.05.2013.

The successful privatisation of Hypo Alpe-Adria-Bank AG also means that the condition stipulated by the EU Commission in the state aid proceedings has been met. The bank therefore is no longer subject to any restrictions and is also no longer part of these proceedings.

Accounting and measurement policies

The separate financial statements were prepared in accordance with generally accepted accounting principles and the general requirement to present a true and fair view of the bank's net assets, financial position and results of operations.

The principle of individual measurement was applied and a going concern assumption made for the measurement of assets and liabilities.

The principle of prudence was applied, paying particular attention to the special features of the banking business: only profits and gains realised at the balance sheet date were reported, and all recognisable risks and impending losses were taken into account.

Assets and liabilities in foreign currencies are translated using mean rates of exchange on the balance sheet date. Forward transactions are translated at the applicable forward rate.

Loans and advances to credit institutions and customers are generally included at their nominal value. Premiums and discounts are recognised under accrued assets and liabilities and amortised over the life of the security.

Credit risks have been accounted for by specific and portfolio-based risk provisions for loans and advances and for off-balance-sheet commitments. Risk provisions for individual transactions are created where there is an objective indication of credit risk, taking into account the amount of the expected loss. The size of the specific risk provision is calculated on the basis of the difference between the carrying amount of the loan and the net present value of the estimated future cash flows, taking into account the collateral provided. The calculation of portfolio-based risk provisions is derived essentially from the Basel II model, although internal parameters are also applied. The option of providing provisions according to § 57 (1) BWG is not used by the bank.

Securities earmarked for permanent use in the context of the bank's business operations are shown on the balance sheet as financial assets in accordance with § 56 (1) BWG and valued according to the modified lower of cost or market principle. The option accorded under § 56 (2) and (3) BWG (distribution of the difference between acquisition and repayment costs over the remaining term) was not exercised. Impairment write-downs of financial assets are made where the loss in value is expected to be permanent. The bank checks as appropriate – and at least once a year – whether a permanent impairment has arisen in the financial assets. Where a permanent deterioration of the creditworthiness of an issuer has been identified, an extraordinary impairment write-down is made.

All other securities (liquidity reserves) form part of current assets and, to the extent that they are stock exchange listed securities, they are shown at market value in accordance with § 56 (5) BWG. Unlisted securities are valued strictly at the lower of cost or market principle. Repurchased liabilities are allocated to current assets. Own issues such as these are measured at cost of acquisition, with any difference between a higher repurchase value and the repayment amount being immediately recognised in the income statement. If there is a difference as a result of the repurchase value being lower than the repayment amount, this is only recognised in the income statement upon redemption.

Securities forming part of the trading book are included at market value as at the balance sheet date. As a general rule, market values of financial instruments to be included in the financial statements are based on stock market prices. Where no stock market price is available, the future cash flows of the financial instrument are discounted to the present value using the applicable interest rate. The calculation applies standard investment mathematics procedures.

Investments in associated companies and **shares in affiliated companies** are recognised at the cost of acquisition, provided that there is no permanent impairment that would require a write-down.

Intangible assets, together with **tangible assets** (land and buildings; fixtures, fittings and equipment) are recognised at acquisition or construction cost, less scheduled depreciation and amortisation and, where necessary, less write-downs for impairment. Scheduled depreciation and amortisation is applied on a straight-line basis. Rates of depreciation and amortisation for immovable assets are between 2 and 10 per cent, for movable assets they range from 4 to 33 per cent, and for software they are 25 per cent. Low-value items for which the cost of acquisition is less than EUR 400 are written off immediately in the year of acquisition.

Liabilities are shown either at original nominal values or at the amounts repayable. Any issue costs such as premiums and discounts are written off over the life of the underlying debt and shown in net interest income. Other issue costs are shown immediately as an expense.

Provisions for pensions were calculated actuarially using the projected unit credit method in accordance with the provisions of IAS 19. The calculation used an interest rate of 3.25 per cent (31.12.2012: 3.25 per cent) and an unchanged annual pension increase of 2 per cent.

Provisions for severance payments and provisions for anniversary bonuses disclosed under other provisions were likewise calculated actuarially using the projected unit credit method in accordance with the provisions of IAS 19. The calculation used an interest rate of 3.25 per cent (31.12.2012: 3.25 per cent) and assumed an unchanged salary increase rate of 3 per cent p.a., taking into account a deduction of 0 per cent (31.12.2012: 0 per cent) to reflect employee turnover. The provision was calculated assuming retirement at the earliest statutory pensionable age according to the General Social Insurance Act (ASVG, 2004 Pension Reform).

The allocation to the provision for unused holidays was based on the actual unused leave days per employee as at 31.12.2013.

Other provisions are based on the amounts expected to be required, taking into account all liabilities for which exact amounts have not yet been determined.

Derivative financial transactions (forward transactions, swaps, options) are allocated either to the hedging book or to the trading book, depending on their purpose. Derivatives with a negative market value which are not being used to hedge an underlying transaction and anticipated losses for not entirely effective hedges are treated as provisions. Paid for and received option premiums are disclosed under other assets and other liabilities respectively. Option pricing models based on generalised Black-Scholes models or Hull-White models, drawing on current market parameters, are used to measure options and financial instruments with similar characteristics.

In the year under review, the bank also switched from Euribor/Libor discounting to OIS discounting. The following changes were implemented:

- For collateralised derivatives, the OIS curve of the relevant currency is used to discount cash flows.
- For non-collateralised derivatives and for all underlying transactions, the standard interest rate curve of the relevant currency is used to discount cash flows.
- Forward interest rates are always calculated from the relevant tenor curve.

With the exception of transition to OIS discounting for derivatives transactions, there were no changes to accounting and measurement methods in the year under review.

Notes to the Balance sheet

1. Relations with affiliated and associated companies

The following balance sheet items include loans and advances and liabilities in respect of affiliated or associated companies:

	31.12.2013 EUR	31.12.2012 EUR thousand
A3. Loans and advances to credit institutions	**0.00**	**42,244**
of which to affiliated companies	0.00	42,244
of which to associated companies	0.00	0
A4. Loans and advances to customers	**0.00**	**15,544**
of which to affiliated companies	0.00	2,078
of which to associated companies	0.00	13,466
A5. Bonds and other fixed-income securities	**0.00**	**973**
of which to affiliated companies	0.00	0
of which to associated companies	0.00	973
P1. Liabilities to credit institutions	**0.00**	**26,409**
of which to affiliated companies	0.00	26,409
of which to associated companies	0.00	0
P2. Liabilities to customers	**6,645,000.00**	**37,568**
of which to affiliated companies	0.00	21,833
of which to associated companies	6,645,000.00	15,735
P3. Debt securities in issue	**0.00**	**0**
of which to affiliated companies	0.00	0
of which to associated companies	0.00	0
P7. Subordinated liabilities	**0.00**	**0**
of which to affiliated companies	0.00	0
of which to associated companies	0.00	0

2. Maturities of balance sheet items

Maturities in accordance with § 64 (1) (4) BWG were as follows:

	31.12.2013 EUR	31.12.2012 EUR thousand
A3: Loans and advances to credit institutions	**90,773,780.17**	**499,905**
– payable on demand	89,944,524.85	499,893
– up to three months	3,191.50	2
– three months to one year	826,063.82	7
– one year to five years	0.00	3
– over five years	0.00	0
A4: Loans and advances to customers	**2,618,537,772.61**	**2,867,415**
– payable on demand	72,630,183.79	85,375
– up to three months	112,689,406.66	116,508
– three months to one year	259,166,616.69	280,071
– one year to five years	823,829,180.69	861,563
– over five years	1,350,222,384.78	1,523,898
P1: Liabilities to credit institutions	**426,745,257.80**	**412,406**
– payable on demand	78,622,499.81	50,278
– up to three months	50,000,000.00	4
– three months to one year	8,725,196.88	17,600
– one year to five years	289,397,561.11	342,666
– over five years	0.00	1,858
P2: Liabilities to customers	**1,187,905,789.30**	**1,575,093**
– payable on demand	526,379,080.47	561,605
– up to three months	72,625,770.24	229,295
– three months to one year	210,611,321.76	396,016
– one year to five years	264,657,803.51	265,724
– over five years	113,631,813.32	122,453

3. Securities including accrued interest:

	31.12.2013 EUR	31.12.2012 EUR thousand
2a. Treasury bills and other bills eligible for refinancing with central banks	**207,154,246.38**	**193,384**
of which listed	207,154,246.38	193,384
of which fixed assets	193,753,312.10	169,779
of which accrued interest in fixed assets	3,139,402.29	2,926
of which current assets	10,006,942.95	20,349
of which accrued interest in current assets	254,589.04	330
3. Loans and advances to credit institutions	**0.00**	**0**
of which not listed	0.00	0
4. Loans and advances to customers	**110,025,297.41**	**115,068**
of which not listed	110,025,297.41	115,068
of which fixed assets	109,191,935.57	114,177
of which accrued interest in fixed assets	833,361.84	891
of which current assets	0.00	0
of which accrued interest in current assets	0.00	0
5. Bonds and other fixed-income securities	**257,202,479.47**	**216,550**
of which listed	161,233,968.92	180,343
of which not listed	95,968,510.55	36,207
of which fixed assets	150,603,860.00	159,418
of which accrued interest in fixed assets	2,040,579.89	2,299
of which current assets	104,193,677.20	54,634
of which accrued interest in current assets	364,362.38	198
6. Shares and other variable-yield securities	**379,398.11**	**1,754**
of which listed	97,755.69	1,682
of which not listed	281,642.42	72
of which current assets	379,398.11	1,754
7. Investments in associated companies	**4,135,961.57**	**4,143**
of which not listed	4,135,961.57	4,143
8. Shares in affiliated companies	**0.00**	**393**
of which not listed	0.00	393

Breakdown of bonds and other fixed-income securities:

	31.12.2013 EUR	31.12.2012 EUR thousand
Issued by public authorities	**0.00**	**0**
Issued by others	**257,202,479.47**	**216,550**
of which:		
Own issues	99,445,319.04	38,389
Domestic bonds (credit institutions)	8,988,501.04	15,225
Foreign bonds (credit institutions)	81,045,515.63	147,856
Mortgage bonds and municipal bonds	67,723,143.76	15,080
Convertible bonds	0.00	0
Other bonds	0.00	0
Total	**257,202,479.47**	**216,550**

The bonds issued by public authorities (excluding accrued interest) break down by country as follows:

Country	Nominal value EUR	Carrying amount 31.12.2013 EUR	Write-downs until 31.12.2013 EUR	Write-ups 31.12.2013 EUR
Germany	14,000,000	13,999,592.00	148,869.00	122,920.00
Netherlands	0	0.00	185,850.00	111,730.00
Austria	101,000,000	100,890,662.10	283,000.00	0.00
Sweden	5,000,000	5,007,350.95	108,230.00	74,795.00
European Union	84,000,000	83,862,650.00	0.00	0.00

Other disclosures relating to securities:

The difference between the value of securities recognised at their higher market value (§ 56 (5) BWG) classified as current assets and their acquisition cost comes to EUR 69,760.95 (31.12.2012: TEUR 464).

In 2014, fixed-income securities from the bank's own holdings shall fall due as follows: an amount of EUR 47,248,779.20 (2013: TEUR 65,579) from euro-denominated securities and EUR 0.00 (2013: TEUR 0) from foreign currency-denominated securities.

Fixed-income securities from private issuers, which were eligible for refinancing by the Oesterreichische Nationalbank on the balance sheet date, amounted to EUR 157,377,964.46 (31.12.2012: TEUR 175,723), of which EUR 143,354,905.50 (31.12.2012: TEUR 154,612) were pledged as at the balance sheet date.

Subordinated securities within the meaning of § 45 (3) BWG with a value of EUR 0.00 (31.12.2012: TEUR 0) were held as at 31.12.2013.

The trading book (§ 64 (1) (15), § 22n BWG) showed the following volume split as at 31 December 2013:

	31.12.2013 EUR	31.12.2012 EUR thousand
Securities (at the market values shown in the balance sheet)	357,769.03	81
Currency options (nominal value)	0.00	0
Currency forward transactions (nominal value)	181,557,579.18	27,153
Interest swaps (nominal value) and interest rate contracts	239,187,359.28	238,359

The option afforded by §22 (B) BWG was not exercised and there were no money market instruments allocated to the securities trading book as at 31 December 2013.

Financial instruments held as fixed assets and recognised above at fair value (§ 237a (1) (2) UGB) are broken down as follows:

	Carrying amount 31.12.2013 EUR	Losses not yet recognised 31.12.2013 EUR	Carrying amount 31.12.2012 EUR thousand	Losses not yet recognised 31.12.2012 EUR thousand
Treasury bills	193,753,312.10	−87,800.00	169,779	0
Loans and advances to customers (fixed-income securities)	109,191,935.57	0.00	114,177	0
Bonds and other fixed-income securities	150,603,860.00	−78,920.00	159,418	−33
Investments in associated companies	4,135,961.57	0.00	4,143	0
Shares in affiliated companies	0.00	0.00	393	0
	457,685,069.24	**−166,720.00**	**447,910**	**−33**

No write-ups of securities classified as fixed assets were undertaken in the financial year. The bank checks as appropriate – and at least once a year – whether a permanent impairment has arisen in the financial assets. A permanent deterioration in the creditworthiness of the issuers was not identified.

In 2014, issued bonds as defined in § 64 (1) (7) BWG with a value of EUR 47,248,779.20 (2013: TEUR 272,474) will become due in Hypo Alpe-Adria-Bank AG.

4. Shares in associated companies as defined in § 238 (2) UGB:

Name of company	Reg. office	Capital share	Date of sale
Alpe Adria Beteiligungs-GmbH	Klagenfurt am Wörthersee	100 % direct	16.05.2013
Biogaspark Alpe Adria GmbH in Liqu.	Sankt Veit an der Glan	98 % direct	16.05.2013

5. Tangible and intangible assets

An analysis of individual items and of changes during the financial year is shown in the fixed assets movement schedule (**schedule 2** to the notes).

The value of land included in land and buildings as at 31.12.2013 comes to EUR 706,094.21 (31.12.2012: TEUR 1,112). The decrease in comparison to the previous year is due to the sale of real estate properties.

6. Other assets

The breakdown of other assets is as follows:

	31.12.2013 EUR	31.12.2012 EUR thousand
Other assets	**30,151,961.91**	**42,030**
of which affiliated companies	0.00	16,661
Interest income	6,981,674.19	10,545
– of which falling due after the closing date	6,981,674.19	10,545
Offset claims	843,679.09	1,779
Receivables arising from the foreign exchange measurement of banking book derivatives	0.00	3,324
Receivables from trading book derivatives	6,586,621.41	9,057
Trade receivables	15,739,987.22	17,325

7. Other liabilities

The breakdown of other liabilities is as follows:

	31.12.2013 EUR	31.12.2012 EUR thousand
Other liabilities	**24,158,720.91**	**24,290**
of which affiliated companies	0.00	11,378
Interest expenses	111,702.25	195
– of which falling due after the closing date	111,702.25	195
Clearing account balances	6,257,298.80	4,674
Fees and levies	7,144,360.24	7,295
Liabilities arising from the foreign exchange measurement of banking book derivatives	809,423.35	0
Liabilities from trading book derivatives	6,075,953.33	8,433
Trade payables	1,473,320.57	1,482
Statutory guarantee liabilities	1,484,426.34	1,350
Other liabilities	802,236.03	861

8. Provisions

The main items included under other provisions are as follows:

	31.12.2013 EUR	31.12.2012 EUR thousand
Guarantees	3,563,141.91	5,089
Holidays not taken	1,124,441.14	1,292
Long-service bonuses	1,154,253.00	1,193
Employee performance bonuses	0.00	0
Association of mortgage banks – § 1406 ABGB	479,794.75	494
Legal and consultancy fees	110,750.00	130
Costs for legal risks	1,490,925.17	2,278
General data processing centre	0.00	0
Restructuring provisions	865,000.00	3,430
Negative market values of derivatives in the banking book including trading book CVA	1,497,183.42	2,520
Miscellaneous provisions	3,472,567.13	2,921
Total	**13,758.056.52**	**19,347**

The provisions for risks arising from the lending business (guarantees) include both provisions for specific cases amounting to EUR 6,391.91 (31.12.2012: TEUR 1,468) as well as provisions at portfolio level amounting to EUR 3,556,749.00 (31.12.2012: TEUR 3,620).

In the 2013 financial year, the restructuring programme, which took place within the context of a socially acceptable reduction of the workforce, was completed. In this connection, an amount of EUR 2,270,042.41 (2012: TEUR 2,835) of the restructuring provision has been utilised for the purpose intended as at 31.12.2013. For payments that are still outstanding, an amount of EUR 865,000.00 was allocated to provisions in the year under review. Furthermore, the provision of EUR 1,160,000.00 (31.12.2012: TEUR 0) which had been created for the already closed down University branch, was utilised and the property liquidated.

A provision totalling EUR 1,490,925.17 for costs arising from legal risks is available as at 31.12.2013 (31.12.2012: TEUR 2,278). This sum is intended for use in the event of liability on the grounds of faulty or incorrect advice given to customers, to pay for the resulting legal costs and any compensation payments where these are necessary. In 2013, an amount of EUR 786,842.58 (31.12.2012: TEUR 4,169) was used as planned.

Through the creation of provisions for pending losses, a loss sustained in pending transactions which are not shown in the balance sheet, as defined in § 198 (8) UGB, is recorded in the period in which such loss becomes probable and recognisable as a result of the developments of prevailing market conditions. The amount of the provision is dependent on the size of the expected loss. Hypo Alpe-Adria-Bank AG uses the market values of derivatives in the regulatory banking book in its analysis.

The provision for pending losses from banking book derivatives was calculated in compliance with the position of the Austrian Financial Reporting and Auditing Committee (AFRAC) as outlined in its publication "Accounting for derivatives and hedging instruments under commercial law" of September 2010. This means that provisions for pending losses are only made for derivative transactions for which, in hedging terms, there was no underlying transaction.

According to the AFRAC position paper, a provision for pending losses should be formed for the ineffective parts of a derivative with a negative market value, from 1 January 2011 onwards. In the case of a micro hedge, if all the parameters of the underlying transaction and the hedging transaction, which determine the extent of the secured impairment, are identical but offset each other, this is an indicator of a fully effective hedging relationship.

All micro hedges are subjected to a check at Hypo Alpe-Adria-Bank AG and the effectiveness of the hedging relationship is documented. On the assets side, own securities and loans treated form the underlying transactions for hedging. On the liabilities side, underlying transactions from own issues and promissory notes form the underlying transaction of a hedging relationship. The hedging period is largely identical with the term of the underlying transaction. Hedge efficiency for fair value hedges is calculated on the basis of the cumulated theoretical change in price of the underlying transaction as well as the hedge transaction from the start of the hedge using a regression model (advanced dollar offset method) for the hedged risk factors on a monthly basis.

Hypo Alpe-Adria-Bank AG differentiates between the following types of hedge accounting:

- **Hedge accounting of derivatives at fair value:**
  For transactions designated as fair value hedges in accordance with the international financial reporting standards (IFRS), the same assumption of a micro hedge is made under UGB/BWG. The base parameters of all fair value hedges are identical, although they run in opposite directions, and their effectiveness is measured on a monthly basis. At Hypo Alpe-Adria-Bank AG, only fair value hedges which serve to secure the market value of assets and obligations (underlying transactions) are used within the framework of hedge accounting. The risks to be hedged are interest rate risks and currency risks. In the period under review, a provision in the amount of EUR 504,315.00 (31.12.2012: TEUR 1,024) was necessary to cover the ineffective part of one hedge.

- **Hedge accounting of fair value option (FVO) derivatives:**
  Under IFRS it is assumed that FVO transactions will have a compensatory effect between the underlying transaction and the hedge transaction. The connection is documented accordingly. In the period under review, a provision totalling EUR 31,978.00 (31.12.2012: TEUR 495) was created to cover the negative ineffective part of two FVO hedges.

- **Hedge accounting of stand-alone derivatives:**
  The remaining swap portfolio consists of derivatives used to hedge savings accounts with guaranteed interest rates and “macro caps” which are passed on to retail customers in individual tranches. To date, a single provision has been created for all negative market values. As at 31 December 2013, a provision in the amount of EUR 690,919.00 (31.12.2012: TEUR 1,001) was necessary for Hypo Alpe-Adria-Bank AG.

For derivatives in the trading book, a provision for the Credit Valuation Adjustment (CVA) in the amount of EUR 269,971.00 (31.12.2012: TEUR 0) was created.

9. Information on risk provisions

The development of risk provisions was as follows (loans and advances to customers:

Loans and advances to customers	31.12.2013 EUR	31.12.2012 EUR thousand
Balance at start of year	**44,774,120.40**	**288,038**
Additions	11,621,492.45	10,219
Releases	−3,113,012.13	−9,567
Derecognition due to demerger	0.00	−221,859
Appropriation	−12,384,756.51	−22,260
Foreign currency valuation	−30,250.91	202
Balance at year-end	**40,867,593.30**	**44,774**

For credit default risks existing on the balance sheet date but not yet identified as such, the portfolio risk provision was adjusted from the 2012 level (TEUR 9,467) to EUR 7,859,783.05 as at 31.12.2013.

10. Subordinated capital

The face value of subordinated capital as defined in § 23 (8) BWG comes to EUR 18,000,000.00 (31.12.2012: TEUR 18,000). The subordinated capital has a maturity of around 4 years.

ISIN	Designation	Volume	Curr.	Interest rate 31.12.13	Issue date	Maturity date
S51953	Loan against a promissory note	1,500,000.00	EUR	4,560 %	31.08.2006	31.08.2017
S51954	Loan against a promissory note	1,500,000.00	EUR	4,560 %	31.08.2006	31.08.2017
S51955	Loan against a promissory note	5,000,000.00	EUR	4,560 %	31.08.2006	31.08.2017
S53185	Loan against a promissory note	5,000,000.00	EUR	4,575 %	15.02.2007	29.09.2017
S53186	Loan against a promissory note	5,000,000.00	EUR	4,575 %	15.02.2007	29.09.2017

The loans constitute an unsecured subordinated liability on the part of the borrower, as defined in § 23 (8) in conjunction with § 45 (4) BWG, which are equal in status to each other and to all other subordinated liabilities of the borrower. In the event of the winding up, liquidation or insolvency of the borrower, entitlements resulting from the loan may only be honoured after the entitlements of the other, non-subordinated creditors of the borrower have been honoured, i.e. payments on the loan may not be made until the claims of other, non-subordinated creditors have been settled in full. Subordinated capital may not be repaid ahead of term; nor may it be pledged or assigned to a third party. In the event of liquidation or bankruptcy, claims are subordinate to all other creditors' claims and may not be offset against receivables of Hypo Alpe-Adria-Bank AG.

There were no new subordinated loans raised in 2013.

The interest expenses for the subordinated capital amount to EUR 820,115.06.

11. Equity

The issued share capital of Hypo Alpe-Adria-Bank AG as at the balance sheet date amounts to EUR 30,000,000.00 (31.12.2012: TEUR 30,000) and is divided into 30,000 (31.12.2012: 30,000) non-par bearer shares.

12. Reserves

The changes in untaxed reserves were as follows:

Designation	Opening balance 01.01.2013 EUR	Disposals	Releases	Closing balance 31.12.2013 EUR
Valuation reserves resulting from special depreciation allowances				
Valuation reserves as def. in § 8 EStG on land and buildings	193,597.00	0.00	40,552,00	153,045.00
Plant and equipment	0.00	0.00	0.00	0.00
Valuation reserves as def. in § 12 EStG on land and buildings	0.00	0.00	0.00	0.00
Total untaxed reserves	**193,597.00**	**0.00**	**40,552.00**	**153,045.00**

The development of capital and revenue reserves, and of the liability reserves, was as follows:

Designation	Opening balance 01.01.2013 EUR	Additions	Disposals	Allocations	Releases	Closing balance 31.12.2013 EUR
Capital reserves	82,332,115.37	0.00	0.00	0.00	0.00	82,332,115.37
Revenue reserves	282,247.06	146,268.84	0.00	0.00	0.00	428,515.90
Liability reserves	36,995,640.00	0.00	0.00	0.00	0.00	36,995,640.00

The allocation to the revenue reserves was made out of the previous year’s net profit, based on a resolution adopted during the general meeting of shareholders held on 8 April 2013.

Off-balance-sheet ite

13. Derivative financial instruments

The following transactions were unsettled as at the balance sheet date:

Futures transactions	Nominal value purchase contracts		Nominal value sales contracts		Fair value positive		Fair value negative	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
	EUR	EUR thousand	EUR	EUR thousand	EUR	EUR thousand	EUR	EUR thousand
a) Interest rate-related business								
OTC products								
Interest swaps/ Interest rate contracts	2,209,026,881.00	2,663,695	2,209,026,881.00	2,663,695	150,343,070.00	210,130	97,858,876.00	147,326
b) Currency-related business								
OTC products								
Currency swaps (CCY swap)	6,909,894.97	8,802	7,153,000.00	7,153	166,448.00	2,314	0.00	0
Cross-currency swaps	103,847,325.71	120,169	104,413,644.03	118,494	755,227.00	2,665	1,328,373.00	1,004
Forward exchange contracts	90,798,786.79	13,583	90,758,792.39	13,570	521,717.00	279	482,710.00	266
Currency swaptions	0.00	0	0.00	0	0.00	0	0.00	0

The majority of transactions are used to hedge against fluctuations in interest rates, exchange rates or market prices, as well as customer-oriented derivative items. Micro hedges are used selectively to directly hedge individual transactions on both the assets and liabilities sides of the balance sheet. In the year under review, some hedging relationships were terminated early; the net positive result, including the underlying transactions, came to EUR 2,313,132.90 (31.12.2012: TEUR 594).

In the year under review, Hypo Alpe-Adria-Bank AG and Hypo Alpe-Adria-Bank International AG entered into a netting agreement on 09.09.2013 which governs contracts for financial futures trading, including the collateral annex (100 % cash collateralisation). In addition, an individual agreement supplementing the master agreement was signed to comply with the provisions of the Austrian Solvency Regulation (SolvaV), in order to use netting for the purpose of reducing counterparty default risk and credit risk.

14. Other off-balance-sheet information

	31.12.2013	31.12.2012
	EUR	EUR thousand
Contingent liabilities	**144.402.799,69**	**141.817**
Guarantees and other collateral securities	143.442.515,68	141.232
Letters of credit	960.284,01	585

Loan exposures comprise unused credit lines totalling EUR 158,483,000.00 (31.12.2012: TEUR 240,021).

Liabilities from fiduciary activities amounted to EUR 60,288,590.58 (31.12.2012: TEUR 33,506) in the year under review. Fiduciary activities mainly comprise transmitted loans refinanced by Oesterreichische Kontrollbank and Hypo Alpe-Adria-Bank International AG.

In addition to the contingent liabilities reported off the balance sheet, there is also an obligation with respect to the obligatory membership of "Hypo-Haftungs-Gesellschaft m.b.H" in relation to the safety of deposits under § 93 BWG.

Obligations arising in connection with the use of fixed assets (leasing obligations) not included in the balance sheet of Hypo Alpe-Adria-Bank AG amount to EUR 968,169.02 for the year under review (31.12.2012: TEUR 1,151), EUR 908,130.36 in 2014 and EUR 4,432,815.95 in total for the years 2014 to 2018.

In the 2011 financial year, Hypo Alpe-Adria-Bank AG was restructured by means of a demerger of those segments that did not belong to its core business (assets and liabilities) and their acquisition by Hypo Alpe-Adria-Bank International AG pursuant to the provisions of the Austrian Demerger Act (SpaltG) utilising the exemptions from taxes and duties accorded under the Austrian Reorganisation Tax Act (UmgrStG) retroactively with effect from the reference date of 31.12.2011, midnight. Due to the joint and several liability prescribed by SpaltG, HYPO ALPE-ADRIA BANK AG is liable for all liabilities it incurred prior to entry of the demerger in the Commercial Register on 05.09.2012 and which were transferred to HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, up to the amount of the net assets assigned to HYPO ALPE-ADRIA-BANK AG in the context of the demerger.

As a member of the Mortgage Bond Division of the Austrian State Mortgage Banks (Pfandbriefstelle), Hypo Alpe-Adria-Bank AG is, in accordance with § 2 (1) of the Austrian Pfandbriefstelle Act (PfBrStG), jointly liable with the other member institutions for all the Pfandbriefstelle's liabilities. This liability applies equally for all other member institutions and their legal successors as listed in § 1 (2) of the articles of association for the Pfandbriefstelle. For liabilities of the Pfandbriefstelle which arose before 2 April 2003 or after 2 April 2003 with a term not beyond 30 September 2017, the guarantors of the member institutions (in each case the federal state of the member in question) are, according to § 2 (2) of the PfBrStG, equally jointly liable. In the audit report for the Pfandbriefstelle setting out the legal obligations on liabilities, the value of the liabilities to be covered by the guarantors was put at around EUR 6.2 billion as of the reporting date 31.12.2013 (31.12.2012: EUR 7.6 billion). This equates to almost the entire sum of the Pfandbriefstelle's liabilities as at 31.12.2013. After taking account of the funds taken up by the Pfandbriefstelle and forwarded to Hypo Alpe-Adria-Bank AG, in the amount of EUR 0.49 billion (31.12.2012: EUR 0.72 billion), the resulting amount which must be reported in accordance with § 237 (8a) UGB comes to EUR 5.7 billion (31.12.2012: EUR 6.9 billion).

In February 2014, discussions about a possible insolvency of Hypo Alpe Adria International AG and a "haircut" for bondholders were held. This subsequently prompted the rating agency Moody's to downgrade the rating of the federal state of Carinthia from A1 to A2 on 14 February 2014.

Thus, the federal state of Carinthia still remains at investment grade. The rating for guaranteed (senior) bonds or guaranteed (subordinated) bonds of Hypo Alpe Adria International AG was reduced by 3 levels (from A1 to A2 and from Baa2 to Baa3, respectively).

In our opinion, and also from the Pfandbriefstelle's point of view, there are no reasons to doubt the continued existence and value of the state guarantee. At present, we perceive the insolvency of Hypo Alpe-Adria-Bank International AG as unlikely – a view that is further substantiated by the resolution adopted by the Council of Ministers on 14 March 2014 to wind up the bank by means of a privately organised company (institutional solution) by the owner, the Republic of Austria.

Notes to the income statement

Interest and similar income:

	31.12.2013 EUR	31.12.2012 EUR thousand
From loans and advances to credit institutions and customers	**68,969,084.77**	**85,731**
of which Austria	61,597,468.38	75,115
of which international	7,371,616.39	10,616
From fixed-income securities	**15,666,374.80**	**16,696**
of which Austria	10,488,978.69	11,225
of which international	5,177,396.11	5,471
From other assets	**54,373,827.17**	**60,763**
of which Austria	54,373,827.17	60,763
of which international	0.00	0

Interest and similar expenses:

	31.12.2013 EUR	31.12.2012 EUR thousand
From liabilities to credit institutions and customers	**17,663,139.97**	**29,674**
of which Austria	12,574,014.26	21,085
of which international	5,089,125.71	8,589
From debt securities in issue	**39,115,794.47**	**45,915**
of which Austria	39,115,794.47	45,915
of which international	0.00	0
From other liabilities	**46,453,170.32**	**48,560**
of which Austria	46,453,170.32	48,560
of which international	0.00	0

Fee and commission income and expenses:

	31.12.2013 EUR	31.12.2012 EUR thousand
From the lending business		
Fee and commission income	7,156,756.51	7,385
Fee and commission expenses	−531,757.22	−474
From the securities business		
Fee and commission income	2,952,957.36	2,693
Fee and commission expenses	−383,154.91	−464
From other transactions		
Fee and commission income	7,785,814.19	8,047
Fee and commission expenses	−977,363.00	−791

Other administrative expenses (operating expenditure):

	31.12.2013 EUR	31.12.2012 EUR thousand
Legal and consultancy costs	1,674,094.83	971
Liability commission for statutory guarantee (federal state of Carinthia)	0.00	60
Advertising and hospitality expenses	1,035,409.16	1,103
Rental, leasing and other building costs	3,391,296.83	4,038
IT costs	1,027,724.08	1,077
Data centre costs	2,894,648.58	2,610
Training expenses	283,505.38	498
Issue costs	154,335.58	79
Travel expenses	115,021.15	132
Fleet costs	225,022.10	235
Insurance	127,816.87	138
Telephone/postage costs	715,100.17	1,111
Costs in connection with company legal structure	28,425.00	22
Office/stationery costs	124,417.36	151
Other operating expenditure	1,949,813.11	3,921
Total	**13,746,630.20**	**16,146**

The breakdown of income from associated companies for the purposes of § 238 (4) UGB was as follows:

	31.12.2013 EUR	31.12.2012 EUR thousand
ALPE ADRIA BETEILIGUNGS GMBH	76,000.00	0
HYPO ALPE-ADRIA-Insurance Services GmbH	0.00	347
Total	**76,000.00**	**347**

Other operating income:

	31.12.2013 EUR	31.12.2012 EUR thousand
Rental and leasing agreements	408,490.73	1,180
Internal transfer pricing subsidiaries	2,355,180.17	3,280
Miscellaneous other operating income	1,488,354.32	2,930
Total	**4,252,025.22**	**7,390**

Other operating expenses:

	31.12.2013 EUR	31.12.2012 EUR thousand
Other operating expenses	953,414.76	1,066
Total	**953,414.76**	**1,066**

Extraordinary result
A provision of EUR 300,000.00 was set up in the extraordinary result in order to cover the necessary costs for our new market image in the course of the privatisation. This reduction over the amount of EUR 1,000,000.00 shown as at 30.06.2013 is the result of current cost estimates which include considerable cost-cutting measures.

Taxes on income
Pursuant to § 237 (6) UGB, the taxes on income reduce the extraordinary result by EUR 75,000.00 (2012: TEUR 2,478) and the result from ordinary activities by EUR 1,825,000.00 (2012: TEUR 869).

The balance of untaxed reserves (after movements) has had the effect of increasing profits for the purposes of tax assessment by EUR 40,552.00 in the year under review (31.12.2012: TEUR 41, also positive).

Supplementary information

15. Important long-term agreements
The agency agreement between Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG was terminated by mutual agreement on 19.12.2013.

For some services which could not be fully completed due to technical constraints and/or know-how that still needed to be attained, Hypo Alpe-Adria-Bank International AG and Hypo Alpe-Adria-Bank AG entered into a new service level agreement with effect from 19.12.2013. The services contemplated under that new agreement will only be provided until 30.06.2014.

Hypo Alpe-Adria-Bank AG (group member) has been a group member of a group as defined by § 9 of the Austrian Corporation Tax Act (KStG) since the 2005 assessment year, with Hypo Alpe-Adria-Bank International AG as the taxable company (lead company) of the group. Upon completion of the closing and the sale to the new owner, Anadi Financial Holdings Pte. Ltd. on 19.12.2013, the group taxation agreement drawn up for this purpose was automatically terminated with retroactive effects as of 01.01.2013, and Hypo Alpe-Adria-Bank AG was removed from the tax group.

16. Other information

Own capital funds

	31.12.2013 EUR	31.12.2012 EUR thousand
Core capital (TIER 1)	**149,136,660.34**	**149,545**
Paid-in capital	30,000,000.00	30,000
Reserves (incl. non-controlling interests and hybrid capital)	119,909,316.27	119,804
Fund for general banking risks	0.00	0
Intangible assets	734,394.68	210
Less: net loss and mat. negative results	38,261.25	48
Deferred taxes	0.00	0
Supplementary elements (TIER 2)	**10,800,000.00**	**14,400**
Supplementary capital	0.00	0
Subordinated capital	10,800,000.00	14,400
Deductions pursuant to § 23 (13) BWG	**638,361.89**	**638**
TIER 3 (reclassified TIER 2 capital)	**655,751.88**	**895**
Own capital funds as defined by BWG	**159,954,050.33**	**164,202**
Own capital funds requirement according to BWG	**99,918,029.49**	**112,499**
Surplus capital	**60,036,020.84**	**51,703**
Coverage	160.08 %	145.95 %

	31.12.2013	31.12.2012
Assessment basis for banking book (risk-weighted):	**1,109,516,241.32**	**1,248,987**
TIER 1 ratio	13.41 %	11.95 %
Own capital funds ratio	14.42 %	13.15 %
Assessment basis incl. market and operational risk *	**1,248,975,368.62**	**1,406,238**
TIER 1 ratio	11.92 %	10.61 %
Own capital funds ratio	12.81 %	11.68 %

	31.12.2013	31.12.2012
Risk-weighted basis for assessment in accordance with § 22 BWG (banking book)	**1,109,516,241.32**	**1,248,987**
thereof 8 % minimum own capital funds requirement	88,761,299.31	99,919
Own capital funds requirement in accordance with § 22 BWG (securities trading book)	630,751.88	752
Own capital funds requirement in accordance with § 26 BWG (open foreign exchange position)	25,000.00	143
Own capital funds requirement for operational risk	10,500,978.30	11,685
Total own capital funds requirement	**99,918,029.49**	**112,499**

* Calculation basis: own capital funds as defined by BWG / 8 * 100

The item liabilities to customers includes trustee savings accounts with a value of EUR 1,775,238.95 (31.12.2012: TEUR 2,128).

The balance sheet contains the following foreign currency amounts:

	31.12.2013 EUR	31.12.2012 EUR thousand
Assets	348,927,389.43	448,096
Liabilities	316,183,554.70	527,669

The greater part of the EUR 32,743,834.73 (31.12.2012: TEUR 79,573) difference is hedged with currency swap agreements.

Mortgage bond activities pursuant to the Austrian Mortgage Bond Act (PfandBG) were as follows (in TEUR):

	Debt securities in issue		Covering loans		Surplus/shortfall in cover	
	31.12.2013 EUR	31.12.2012 EUR thousand	31.12.2013 EUR	31.12.2012 EUR thousand	31.12.2013 EUR	31.12.2012 EUR thousand
Mortgage bonds	22,766,989.75	16,655	375,304,725.13	187,994	352,537,735.38	171,339
Public sector mortgage bonds	793,642,955.84	802,342	1,058,232,790.87	1,126,855	264,589,835.04	324,513

In accordance with § 64 (1) (8) BWG, securities classified as current assets with a value of EUR 360,381,369.02 (31.12.2012: TEUR 366,645) and loans in the amount of EUR 233,275,204.65 (31.12.2012: TEUR 219,653) were pledged as collateral for liabilities to credit institutions amounting to EUR 150,000,000.00 (31.12.2012: TEUR 150,000) as well as for liabilities to customers of EUR 1,581,262.00 (31.12.2012: TEUR 1,788).

Securities classified as current assets with a value of EUR 18,613,700.00 (31.12.2012: TEUR 26,229) were deposited with various clearing houses as collateral for trading activities.

In accordance with § 45 (2) BWG, subordinated loans and advances with a value of EUR 0.00 (31.12.2012: TEUR 5,400) are included in the balance sheet item loans and advances to customers; and with a value of EUR 0.00 (31.12.2012: TEUR 0) in the item bonds and other fixed-income securities.

The amount for deferred tax assets not shown in the balance sheet is EUR 2,303,275.00 (31.12.2012: TEUR 2,128).

Guarantee of the federal state of Carinthia

The statutory guarantee of the federal state of Carinthia for all commitments of Hypo Alpe-Adria-Bank AG (and others) is a default guarantee pursuant to § 1356 of the Austrian Civil Code (ABGB) and covers all commitments entered into prior to 3 April 2003, as well as all commitments created between 3 April 2003 and 1 April 2007 whose term does not extend beyond 30 September 2017. The federal state of Carinthia will not guarantee any commitments entered into after 1 April 2007. The terms of the guarantee are regulated in the Carinthian State Holding Law (K-LHG). A guarantee commission agreement between the federal state of Carinthia and Hypo Alpe-Adria-Bank AG (and others) provided for a guarantee commission of 1 per mille p.a. of the amount guaranteed to be paid.

Availing itself of the contractually agreed right to termination, notice was given by Hypo Alpe-Adria-Bank AG to terminate the guarantee commission agreement as at 31 December 2011, whereby the contractual obligation to pay guarantee commission ceased to apply. Irrespective of the termination of this contractual guarantee commission agreement, the statutory guarantee provided under § 5 of the Carinthian State Holding Law (K-LHG) continues in effect. The supervisory commissioner of the Carinthian State Holding company will continue to be given access to all relevant information at Hypo Alpe-Adria-Bank AG.

Alpe-Adria-Bank AG has not yet paid the guarantee commission for the year 2011 amounting to EUR 1.4 m plus interest due to differing legal positions. It is to be assumed that the legal dispute between the federal state of Carinthia and Hypo Alpe-Adria-Bank AG regarding the question of the guarantee commission will continue.

On the basis of the timely termination of the guarantee commission agreement on 31 December 2011 by Hypo Alpe-Adria-Bank AG, no further guarantee commission has been paid by Hypo Alpe-Adria-Bank AG to the federal state of Carinthia for the period from 1 January 2012. The federal state of Carinthia has not yet issued a legally relevant response to the termination of the liability commission agreement.

As at 31 December 2013, the federal state of Carinthia must extend guarantees for fixed-term and non-fixed-term commitments from Hypo Alpe-Adria-Bank AG with a total value of TEUR 687,164 (31.12.2012: TEUR 998,448).

As at the reporting date, Hypo Alpe Adria Bank AG does not show any shares in affiliated companies in its balance sheet and therefore does not prepare consolidated financial statements. Pursuant to § 30 (9a) BWG, a regulatory consolidation takes place, with the scope of consolidation comprising Hypo Alpe-Adria- Bank AG and its parent company, Anadi Financial Holdings Pte. Ltd. in Singapore.

For the purpose of compliance with the company‘s disclosure obligations pursuant to § 26 BWG, it is hereby noted that the information is available on the website of Hypo Alpe-Adria-Bank AG (www.hypo-alpe-adria.at) under the heading “Financial reports”.

17. Cash flow statement

The cash flow statement is presented in **schedule 3** to the notes.

18. Auditing expenses

The expenses in respect of the company's auditor Ernst & Young come to a total of EUR 495,168.39 (31.12.2012: TEUR 303) as at the reporting date and comprise other auditing and consulting services (interim financial statements) in the amount of EUR 168,000.00 and the audit of the annual financial statements in the amount of EUR 327,168.39.

19. Employees

The average number of employees for the purposes of § 239 UGB breaks down as follows:

	31.12.2013	31.12.2012
Salaried employees	383.97	386.36
Hourly-paid	0.00	0

Advances, loans and guarantees in respect of members of the management bodies

As of year-end, the members of the Executive Board had received advances, loans or guarantees totalling EUR 22,350.00 (31.12.2012: TEUR 39) from Hypo Alpe-Adria-Bank AG.

As of year-end, the members of the Supervisory Board had received, either for themselves or on behalf of the companies for which they are personally liable, loans or guarantees totalling EUR 280,503.85 (31.12.2012: TEUR 177) from Hypo Alpe-Adria-Bank AG.

Expenses for severance payments and pensions

The bank used the following amounts for payments and provisions for severance pay and pension payments in 2013:

	Severance payments 31.12.2013 EUR	Pensions 31.12.2013 EUR	Severance payments 31.12.2012 EUR thousand	Pensions 31.12.2012 EUR thousand
Executive Board members	216,615.03	0.00	120	0
Senior employees	11,636.47	0.00	120	0
Other employees	973,267.07	2,555,674.84	1,951	2,546
Total	**1,201,518.57**	**2,555,674.84**	**2,191**	**2,546**

EUR 166,793.10 of the total expenses for severance payments and pensions EUR 1,201,518.57 are contributions to employee severance funds.

Breakdown of compensation for members of the Executive and Supervisory Boards:

	31.12.2013 EUR	31.12.2012 EUR thousand
Executive Board		
– of which fixed	879,524.91	845
– of which variable		0
Supervisory Board	7,050.00	3
Remuneration of former members of the Executive and Supervisory Boards		0
and their surviving dependents of which related to termination		0
Total	**886,574.91**	**848**

Members of the Executive and Supervisory Boards who served during the year under review are detailed in **schedule 1** to these notes.

Events after the balance sheet date
No further events of particular significance for the bank, which could have led to a change in the presentation of the financial position and results of operations, were recorded after the reporting date of 31.12.2013.

Klagenfurt am Wörthersee, dated 11 April 2014

The Executive Board:

VDir. Dr. Martin Czurda VDir. Gerhard Salzer VDir. Mag. Friedrich Racher VDir. Peter Lazar

Schedule 1 to the notes

Management Bodies

Chairman of the Supervisory Board:
Gottwald Kranebitter, Klagenfurt am Wörthersee, until 19.12.2013
Srinivasan Sridhar, Mumbai, from 19.12.2013

Deputy Chairman of the Supervisory Board:
Mag. Wolfgang Edelmüller, Klagenfurt am Wörthersee, until 19.12.2013
Dr. Sanjeev Kanoria, London, from 19.12.2013

Members of the Supervisory Board:
Dipl. Kfm. Rainer Sichert, Klagenfurt am Wörthersee, until 19.12.2013
MMag. Dr. Werner Hochfellner, Klagenfurt am Wörthersee, until 18.03.2013
Franz Kreuzer, Wolfsberg, from 08.04.2013 to 19.12.2013
Dr. Christian Hoenig, Vienna, from 19.12.2013
Dr. Joachim Kappel, Vienna, from 19.12.2013

Delegated to the Supervisory Board by the Works Council:
Mag. Klaus Jernej, Chairman, Klagenfurt am Wörthersee, until 07.10.2013
Peter Quinesser, Klagenfurt am Wörthersee
Mag. Gabriele Oberlercher, Krumpendorf, from 08.10.2013

State Commissioner:
Mag. Angelika Schlögel, MBA, Vienna

Deputy State Commissioner:
Dr. Monika Hutter, Vienna

Trustee:
Dr. Josef Wogrin, Klagenfurt am Wörthersee

Deputy Trustee:
Mag. Maria Hacker-Ostermann, Graz

Executive Board:
Dr. Martin Czurda, Haslau an der Donau, from 19.12.2013
Gerhard Salzer, Maria Saal/Klagenfurt
Mag. Friedrich Racher, Klagenfurt am Wörthersee
Mag. Peter Lazar, Klagenfurt am Wörthersee

Schedule 2 to the notes

Fixed Asset

Assets	Acquisition costs 01.01.2013	Additions 2013	Disposals 2013
Pos. 2			
Treasury bills			
Fixed-interest securities in fixed asset	170,525,208.66	23,974,470.00	0.00
Pos. 3			
Loans and advances to credit institutions			
Fixed-interest securities in fixed asset	0.00	0.00	0.00
Pos. 4			
Loans and advances to customers			
Fixed-interest securities in fixed asset	114,176,791.73	0.00	4,984,856.16
Pos. 5			
Bonds and other fixed-interest securities			
Fixed-interest securities in fixed asset	160,639,495.92	43,734,445.00	52,161,377.90
Pos. 7			
Participations	7,718,275.33	2,840.00	10,337.10
Pos. 8			
Shares in associated companies	12,548,804.21	0.00	12,548,804.21
Pos. 9			
Intangible assets	2,102,495.24	730,672.02	158,841.88
Pos. 10			
Tangible assets	24,600,649.39	992,230.82	7,029,243.92
Total	**492,311,720.48**	**69,434,657.84**	**76,893,461.17**

Transfers 2013	Acquisition costs 31.12.2013	cumulative Depreciation	Book value 31.12.13	Book value 31.12.12	Depreciation 2013
0.00	194,499,678.66	746,366.56	193,753,312.10	169,778,862.10	20.00
0.00	0.00	0.00	0.00	0.00	0.00
0.00	109,191,935.57	0.00	109,191,935.57	114,176,791.73	0.00
0.00	152,212,563.02	1,608,703.02	150,603,860.00	159,418,007.90	387,215.00
0.00	7,710,778.23	3,574,816.66	4,135,961.57	4,143,458.67	5,086.10
0.00	0.00	0.00	0.00	393,272.95	34,719.00
0.00	2,674,325.38	1,939,930.70	734,394.68	209,994.80	184,912.74
0.00	18,563,636.29	13,720,471.64	4,843,164.65	5,732,245.12	923,476.32
0.00	**484,852,91.15**	**21,590,288.58**	**463,262,628.57**	**453,852,633.27**	**1,535,429.16**

Statement of legal representatives

„We confirm to the best of our knowledge that the separate financial statements for Hypo Alpe-Adria-Bank AG, which have been prepared according to the applicable accounting standards, present a true and fair view of the net assets, financial positions and results of operations of the company, that the management report provides a true and fair view of the development and performance of the business together with a description of the principal risks and uncertainties the company faces."

Klagenfurt am Wörthersee, dated 11. April 2014

Executive Board

VDir. Dr. Martin Czurda (signed personally)	VDir. Gerhard Salzer (signed personally)	VDir. Mag. Friedrich Racher (signed personally)	Mag. Peter Lazar (signed personally)

Auditors' report

Report on the Financial Statement
We have audited the accompanying financial statements, including the accounting system, of HYPO-ALPE-ADRIA-BANK AG, Klagenfurt, for the fiscal year from January 1, 2013 to December 31, 2013. These financial statements comprise the balance sheet as of December 31, 2013, the income statement for the fiscal year ended December 31, 2013, and the notes.

Management's Responsibility for the Financial Statements and for the Accounting System
The Company's management is responsible for the accounting system and for the preparation and fair presentation of these financial statements in accordance with Austrian Generally Accepted Accounting Prin-ciples and other legal or regulatory provisions. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate ac-counting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the cir-cumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasona-bleness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of the Company as of December 31, 2013 and of its financial performance for the fiscal year from January 1, 2013 to December 31, 2013 in accordance with Austrian Generally Accepted Accounting Principles.

Comments on the Management Report
Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements and if the information is applicable pursuant § 243a UGB.

In our opinion, the management report is consistent with the financial statements. The information pursuant § 243a UGB is accurate.

Vienna, April 11, 2014

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Helmut Maukner mp
Wirtschaftsprüfer / Certified Auditor

Mag. Wolfgang Tobisch mp
Wirtschaftsprüfer / Certified Auditor

Publishing information

Responsible for the content of this report:

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