HYPO ALPE-ADRIA (JERSEY) II LIMITED

INTERIM REPORT AND UNAUDITED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30TH JUNE 2014

REPORT OF THE DIRECTORS

The Directors present their interim report and the unaudited financial statements of Hypo Alpe-Adria II (Jersey) Limited (the Company) for the period 1st January 2014 to 30th June 2014.

INCORPORATION

The Company was incorporated in Jersey, Channel Islands on 2nd September 2004, as a public company, under the Companies (Jersey) Law 1991.

ACTIVITIES

The principal activity of the Company is the issue of Fixed/Floating Rate Non-cumulative Non-voting Preferred Securities (the "Preferred Securities"), the proceeds from which were used to grant Hypo Alpe-Adria Bank International AG ("HAA" or the "Bank") a loan facility of €150,000,000 (the "Subordinated Loan" or "Loan"). The Company's rights under the Loan Agreement were guaranteed by HAA under the terms of a Support Agreement (the Loan Agreement and the Support Agreement together comprising the "Issuer Assets"). The commercial effect of the Support Agreement is to give holders of the Preferred Securities rights that would be equivalent to their rights if the Preferred Securities had been issued by HAA itself. As referred to below, the Loan was cancelled on 27th April 2012 for €nil consideration, thereby leaving the Support Agreement as the sole remaining Issuer Asset. The Company's immediate and ultimate holding company is HAA.

As set out in the Offering Circular dated 7th October 2004, the Preferred Securities are only intended for highly sophisticated and knowledgeable investors who are capable of understanding and evaluating the risks involved in investing in them. The Preferred Securities are listed on the NYSE Euronext Amsterdam Stock Exchange.

BACKGROUND TO HAA

HAA is wholly owned by the Republic of Austria, which acquired 100% of the equity shares in HAA on 30th December 2009 as a result of the effect of the economic crisis on HAA at that time. The Commission of the European Union (the "Commission") approved the nationalisation of HAA subject to a series of restrictions and conditions to be met under an approved restructuring plan.

On 3rd September 2013, the European Commission (the "Commission") delivered a final ruling on the state aid investigation into HAA, which began in May 2009. The basis for the ruling was the final bank restructuring plan submitted at the end of June 2013. The Bank is required to comply with the rules for new business included in the restructuring plan until reprivatisation. Furthermore, it is intended that the Bank's South-east European ("SEE") network be reprivatised by mid-2015. The closing of the sale of the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG, which was planned for mid-2014, was actually finalised in 2013. Furthermore, the Italian subsidiary bank was forced to close down its lending operations in 2013 and has therefore been allocated for winding down. Compliance with the restructuring plan and the behavioural measures that have been imposed will continue to be monitored by an independent monitoring trustee appointed by the Commission. In accordance with the provisions of the final Commission ruling, the subsidiary bank Hypo Alpe-Adria-Bank AG (Austria) was sold on 19th December 2013.

In order to prepare for the sale of the SEE network that is earmarked for reprivatisation, further portfolio transfers were carried out in wind-down companies in Slovenia, Croatia, Serbia, Bosnia and Herzegovina and Montenegro, leading to a normalisation of the key financial figures of the units concerned, particularly net interest income, NPL ratios (non-performing loans) and refinancing capacity (loan/deposit ratio) and a strengthening of key capital figures. These measures were requested in the Commission ruling on 3rd September 2013 in order to increase the attractiveness of the SEE network for potential investors. Further preparatory activities for this sale included the establishment of a network-wide partnership structure in the SEE network and the licensing of the planned SEE management holding company for the next few months. When it comes to the remaining wind-down portfolios, the Commission ruling provides for a swift, intensive wind-down of these units and portfolios.

REPORT OF THE DIRECTORS - (CONTINUED)

BACKGROUND TO HAA - (continued)

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

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

Within the context of the Joint Risk Assessment & Decision Process ("JRAD") issued by regulatory authorities that was started in 2011, HAA was required to achieve a defined minimum total capital ratio and ensure that the deficit between the expected losses in the area of credit risk and total risk provisions (shortfall) is covered from the date of implementation onwards. To date, there has been no new ruling on the JRAD investigation performed by regulatory authorities in 2013 (JRAD III), meaning that the requirements of JRAD II were required to be complied with as at 31st December 2013. Given the group's current capital funds of €2.7 bn and risk-weighted assets (RWA) of €18.4 bn, the group's own capital funds ratio is 14.87%. As a result, the first requirement under JRAD II of maintaining an own funds ratio of 12.4% was met.

Current regulatory own capital funds (€2.7 bn) as well as ineligible Tier II components (ineligible due to the cap defined by Basel II) of €0.6 bn can be applied in terms of compliance with the second requirement of JRAD II, namely the coverage of the shortfall through own capital funds. This means that the funds necessary to cover the own capital funds requirement and the shortfall of a total of €2.62 bn are offset by risk capital of €3.37 bn. This equates to a surplus of €0.75 bn, meaning that the second requirement has also been met. Should the SEE network be reprivatised in the near future, it should be expected that the value of the book equity of these banks, approximately €1.3 bn, will not be able to be obtained on the market. Should there be a material loss before the implementation of the deregulated wind-down unit planned by the government, non-compliance with JRAD capital requirements cannot be ruled out.

Owing to the continued problematic macroeconomic environment and as a result of the obligations that must be met under the EU's group restructuring plan, Hypo Alpe Adria group's holding company, Hypo Alpe-Adria-Bank International AG, had to take into consideration all material losses on participations, intragroup lending and third-party customer lending in its 2013 separate annual financial statements. Despite the three recapitalisation measures implemented in 2013 totalling €1.75 bn, the remaining core capital of the bank still fell to approximately €0.18 bn. The own capital funds ratio of the parent company, which is determined pursuant to regulatory requirements, amounted to 1.87% as at 31st December 2013, and therefore did not meet the statutory minimum of 8.0% defined under Basel II. The core capital gap for meeting the regulatory requirements amounts to €0.50 bn. The bank fulfilled its statutory obligations and informed the regulatory authorities immediately of these circumstances.

REPORT OF THE DIRECTORS - (CONTINUED)

BACKGROUND TO HAA - (continued)

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

In accordance with the notices issued to the holders of the Preferred Securities in March 2010, March 2011, March 2012, March 2013 and April 2014, HAA had an accumulated balance sheet loss as at the financial year ends 2009, 2010, 2011, 2012 and 2013 respectively. Consequently, due to insufficient distributable funds, the dividend payments on the Preferred Securities scheduled for: 7th October 2010, 2011, 2012, 2013 and 2014 respectively and 7th April 2010, 2011, 2012, 2013, 2014 and 2015 respectively were not made, or will not be made, except that the dividend payment scheduled for 7th April 2015 may be made if HAA has given notice to the Company of a balance sheet profit for the fiscal year 2014 resulting in sufficient Distributable Funds available to pay the dividend on 7th April 2015.

GOING CONCERN

Despite the facts already outlined under "Background to HAA" and the fact that the Company will form a part of the Asset Resolution Wind Down Unit, the Company's financial statements have been prepared under the going concern concept for the following reasons: (i) under the terms of the Support Agreement between the Company and HAA, the Bank has agreed to maintain the Company as a subsidiary for so long as any Preferred Securities shall remain in issue and has undertaken that, so long as any of the Preferred Securities is outstanding, unless HAA is itself in liquidation, HAA will not permit, or take any action to cause, the liquidation, dissolution or winding-up of the Issuer; (ii) it is the understanding of the Directors that the financial support provided by the Republic of Austria's should enable HAA to continue as a going concern for the foreseeable future.

Under the terms and conditions of the Preferred Securities, any amount payable under such Preferred Securities would arise concurrently with an equal and opposite amount receivable under the terms of the Issuer Assets. Therefore, the Directors currently have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

CORPORATE GOVERNANCE

The Company is not legally subject to any corporate governance code. However, the Directors have internal controls and reviews in place. Due to the nature of the principal activity for which the Company has been established and the limited risk within the Company these internal controls are limited, but are deemed to be appropriate for the Company. Due to the nature of the principal activity, there are no management or supervisory bodies other than the Board of Directors, as listed below.

RESULTS AND DIVIDENDS

The result for the period amounted to €nil (2013: €nil).
The Directors do not recommend the payment of a dividend for the period (2013: €nil).

REPORT OF THE DIRECTORS - (CONTINUED)

DIRECTORS

The Directors who held office throughout the period and up to the date of approval of the financial statements were:
G.P. Essex-Cater
L.V. Pinnington
S.J. Hopkins
M.H. Russling

REGISTERED OFFICE

13 Castle Street, St Helier, Jersey, Channel Islands, JE4 5UT

BY ORDER OF THE BOARD

Authorised Signatory
Sanne Secretaries Limited
Secretary
Date: 13. 08. 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Jersey Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board. The financial statements are required by law to be properly prepared in accordance with the Companies (Jersey) Law 1991.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the fair representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, the Directors are also required to:

* properly select and apply accounting policies;
* present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
* make judgements and estimates that are reasonable and prudent;
* provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
* make an assessment of the Company's ability to continue as a going concern.

The Directors are also responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991 and International Financial Reporting Standards. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT OF PERSONS RESPONSIBLE WITHIN THE ISSUER

With regard to Regulation 2004/109/EC of the European Union (the "EU Transparency Directive"), the Directors of the Company whose names appear on page 4 confirm to the best of their knowledge that the unaudited financial statements for the period ended 30th June 2014 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as required by the applicable accounting standards. The Report of the Directors gives a fair review of the development of the Company's business, financial position and the important events that have occurred during the financial period and their impact on the financial statements. The principal risks and uncertainties faced by the Company are disclosed in note 11 of these financial statements.

Signed on behalf of the Board of Directors

Director:

Date: 13.08.2014

STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2014

	Notes		30th Jun 14		31st Dec 13
ASSETS					
Non-current assets					
Issuer Assets	3		1,407,360		1,198,602
Current assets					
Cash and cash equivalents	4		2		2
TOTAL ASSETS		€	1,407,362	€	1,198,604
EQUITY AND LIABILITIES					
Capital and reserves					
Stated capital	6		2		2
TOTAL SHAREHOLDERS' EQUITY			2		2
Non-current liabilities					
Preferred Securities	5		1,407,360		1,198,602
TOTAL EQUITY AND LIABILITIES		€	1,407,362	€	1,198,604

The financial statements on pages 6 to 20 were approved and authorised for issue by the Board of Directors on the 13th day of August 2014 and were signed on its behalf by: HELEN GRANT

Director: Helen Grant

(The notes on pages 10 to 20 form part of these financial statements)

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD 1ST JANUARY 2014 TO 30TH JUNE 2014

	Notes	1st Jan 14 to 30th Jun 14	1st Jan 13 to 30th Jun 13
INCOME:			
Gain on revaluation of Issuer Assets	3	208,758	-
Gain on revaluation of Preferred Securities	5	-	3,459,760
		208,758	3,459,760
EXPENDITURE:			
Loss on revaluation of Issuer Assets	3	-	(3,459,760)
Loss on revaluation of Preferred Securities	5	(208,758)	-
		(208,758)	(3,459,760)
RESULT FOR THE PERIOD		€ -	€ -

Other comprehensive income

There were no items of other comprehensive income in either the current period or prior period.

(The notes on pages 10 to 20 form part of these financial statements)

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD 1ST JANUARY 2014 TO 30TH JUNE 2014

	Stated capital	Retained earnings	Total
Balance at 1st January 2014	2	-	2
Result for the period	-	-	-
Balance at 30th June 2014	€ 2	€ -	€ 2
Balance at 1st January 2013	2	-	2
Result for the period	-	-	-
Balance at 30th June 2013	€ 2	€ -	€ 2

(The notes on pages 10 to 20 form part of these financial statements)

HYPO ALPE-ADRIA (JERSEY) II LIMITED

STATEMENT OF CASH FLOWS

FOR THE PERIOD 1ST JANUARY 2014 TO 30TH JUNE 2014

	1st Jan 14 to 30th Jun 14	1st Jan 13 to 30th Jun 13
Cash flows from operating activities		
Result for the period	-	-
Net cash flow from operating activities	-	-
Net change in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the period	2	2
Cash and cash equivalents at the end of the period	€ 2	€ 2

(The notes on pages 10 to 20 form part of these financial statements)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 1ST JANUARY 2014 TO 30TH JUNE 2014

1. GENERAL INFORMATION

The Company was incorporated in Jersey, Channel Islands on 2nd September 2004, as a public company, under the Companies (Jersey) Law 1991. The principal activity of the Company is the issue of Fixed/Floating Rate Non-cumulative Non-voting Preferred Securities (the "Preferred Securities"). The proceeds from the Preferred Securities were used to grant Hypo Alpe-Adria-Bank International AG ("HAA") a loan facility of €150,000,000 (the "Subordinated Loan" or "Loan").

The Company's rights under the Loan Agreement were guaranteed by HAA under the terms of a Support Agreement. The Loan Agreement and Support Agreement were entered into concurrently and in contemplation of each other. Consequently, these agreements were considered together to comprise the "Issuer Assets". The commercial effect of the Support Agreement is to give holders of the Preferred Securities rights that would be equivalent to their rights if the Preferred Securities had been issued by HAA itself. The Loan was cancelled on 27th April 2012 for €nil consideration, thereby leaving the Support Agreement as the sole remaining Issuer Asset, hereafter referred to as the "Issuer Assets". The Preferred Securities are listed on the NYSE Euronext Amsterdam Stock Exchange.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all the periods presented unless otherwise stated.

Basis of accounting
These financial statements, which give a true and fair view, have been prepared on the historical cost basis, as modified by the revaluation of the Issuer Assets and the Preferred Securities, in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee.

Going concern
The Preferred Securities are perpetual and therefore have no specified maturity date. The Preferred Securities are redeemable only at the option of the Issuer. Dividends on the Preferred Securities are payable on each Dividend Date at the rate specified in the Statement of Rights of the Preferred Securities as set out in the Offering Circular dated 6th October 2004 (the "OC") if the conditions specified therein are met. The Company's obligation to pay a dividend on the Preferred Securities on any given Dividend Date will at all times be matched by the Company's right to receive an equal and opposite amount from HAA under the terms of the Issuer Assets. However, in the event that one or more dividends are not payable, such dividends are non-cumulative (i.e. the right of the holders of the Preferred Securities to receive such dividends lapses) and no interest is payable on such unpaid dividends.

Under Clause 3.3 of the Support Agreement dated 13th July 2001 between HAA and the Company, HAA has undertaken "to maintain the Company as a subsidiary for so long as any Preferred Securities shall remain in issue." Consequently, HAA is responsible for paying the Company's expenses and to maintain the Company as a going concern for as long as any Preferred Securities remain in issue. HAA has currently been assigned a long term credit rating of Caa1 (negative outlook) (31st December 2013: A1) by Moody's, which is described by Moody's as a "poor standing" credit rating that is "subject to high credit risk". This represents a significant decline in HAA's credit rating during the period.

2. ACCOUNTING POLICIES - (CONTINUED)

Going concern - (continued)
It is currently the expectation of the Directors that it is likely that a small number of holders of Preferred Securities might continue to decline to offer their Preferred Securities for sale to HAA and may therefore continue to hold such Preferred Securities for the foreseeable future. In such event, the Directors currently expect HAA to continue to maintain the Company as one of its subsidiaries in accordance with the Support Agreement and therefore to continue to cover the Company's operational expenses. Therefore, the Directors currently have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

New Accounting Standards, amendments to existing Accounting Standards and/or interpretations of existing Accounting Standards (separately or together, "New Accounting Requirements") adopted during the current period
The Directors have assessed the impact, or potential impact, of all New Accounting Requirements. In the opinion of the Directors, there are no mandatory New Accounting Requirements applicable in the current period that had any material effect on the reported performance, financial position, or disclosures of the Company. Consequently, no mandatory New Accounting Requirements are listed. The Company has not early adopted any New Accounting Requirements that are not mandatory.

Non-mandatory New Accounting Requirements not yet adopted
In the Directors' opinion, there are no non-mandatory New Accounting Requirements that are either permitted to be adopted, or would have a material effect on the reported performance, financial position, or disclosures of the Company. Consequently, no such non-mandatory New Accounting Requirements have either been adopted, or listed.

Use of estimates, judgements and assumptions
The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the period. Actual results could differ from those estimates. Details of such estimates are provided in note 11 to the financial statements.

Financial assets at fair value through profit or loss
In accordance with IFRS 9, the Company classifies the Issuer Assets as financial assets measured at fair value through profit or loss ("FVTPL"). Upon initial recognition, the Issuer Assets are measured at fair value plus transaction costs that are directly attributable to the acquisition of such assets. Subsequently, they are measured at fair value with changes thereof being recognised directly in the statement of comprehensive income . Financial assets at FVTPL are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all risks and rewards of ownership. In the Directors' opinion, the commercial substance of HAA's obligations under the Issuer Assets was unaffected by the termination of the Loan Agreement and amendment of the Support Agreement on 27th April 2012. Consequently, the recognition, classification and measurement of the Issuer Assets was unaffected by these transactions.

Impairment
As required by IAS 39, all financial assets, except those carried at fair value through profit or loss, are subject to review for impairment at each reporting date. However, the Company's only material financial assets (the "Issuer Assets") are classified as at FVTPL and are therefore not subject to review for impairment.

2. ACCOUNTING POLICIES - (CONTINUED)

Preferred Securities

Preferred Securities are designated at FVTPL in order to eliminate the accounting mismatch that would otherwise occur in the Company's statement of financial position and statement of comprehensive income if the Issuer Assets were to be measured at FVTPL whilst the Preferred Securities would otherwise be measured at amortised cost. Consequently, the Preferred Securities are initially and subsequently measured at FVTPL. The Directors have considered the characteristics of the Preferred Securities, and the requirements of "Financial Instruments: Presentation" ("IAS 32"), and consider that the most appropriate classification of these securities is debt. Therefore, the Preferred Securities are presented within non-current liabilities in the statement of financial position.

Recognition/Derecognition of financial assets and liabilities

Derecognition is the point at which the Company removes a financial asset or financial liability from the statement of financial position. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to the cash flows on that financial asset are cancelled, expire or are transferred to another party, or if the Company retains the contractual rights but enters into a contract under which the relevant cash flows must be duly paid under a 'pass-through arrangement'. Preferred Securities are derecognised when they are extinguished; i.e. when the obligation is discharged, cancelled or expired.

Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date.

The Preferred Securities issued by the Company are listed on a recognised stock exchange. In the Directors' opinion, although only limited liquidity may exist for these securities at certain times, the market for the Preferred Securities should be considered to be an active market. Accordingly, in the absence of other suitable alternatives, the Directors consider that the best available estimate of the fair value of the Preferred Securities is provided by the last traded market price on or before the financial reporting date, being: 6.00% and 5.11% as at 30th June 2014 and 31st December 2013 respectively.

The Directors note that the Issuer Assets are neither quoted nor actively traded. The Company's liabilities under the Preferred Securities are at all times matched by its Issuer Assets by an equal and opposite amount. Consequently, in the Directors' opinion, the estimated fair value of the Issuer Assets is at all times equal and opposite to the estimated fair value of the Preferred Securities.

IFRS 13 "Fair Value Measurement" ("IFRS 13") defines a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under IFRS 13 are as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the valuation date;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices), including inputs from markets that are not considered to be active;

Level 3 – Inputs that are not based upon observable market data.

2. ACCOUNTING POLICIES - (CONTINUED)

Fair value estimation - (continued)
A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Preferred Securities and the related accrued interest thereon are currently classified within Level 1 of the fair value hierarchy on the basis that the market for the Preferred Securities is an active market as defined by IFRS 13. If the market for the Preferred Securities should become inactive during any future reporting period and remain inactive as at such reporting period end, then the Preferred Securities and the related accrued interest thereon would be reclassified within Level 2 of the fair value hierarchy. Similarly, should quoted prices no longer be available during any future reporting period and remain unavailable as at such reporting period end, then the Preferred Securities and the related accrued interest thereon would be reclassified within Level 3 of the fair value hierarchy.

The estimated fair values of the Issuer Assets and the Preferred Securities are disclosed in note 11.

The level of reliance that can be placed upon estimated fair values is limited and the fair values disclosed may, or may not, be reasonable estimates of the prices at which a trade could have taken place at the reporting date. Due to the limited liquidity of the market in the Preferred Securities, the actual amount that could have been realised by a holder of the Preferred Securities could have been significantly different from the prices disclosed above.

Share capital
Ordinary shares are not redeemable and are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Segmental reporting
An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Directors perform regular reviews of the operating results of the Company and make decisions using financial information at the entity level only. Accordingly, the Directors believe that the Company has only one reportable operating segment.

The Directors are responsible for ensuring that the Company carries out business activities in line with the transaction documents. They may delegate some or all of the day to day management of the business, including the decisions to purchase and sell securities, to other parties both internal and external to the Company. The decisions of such parties are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Directors. Therefore the Directors retain full responsibility as to the major allocation decisions of the Company.

3. ISSUER ASSETS

	30th Jun 14	31st Dec 13
Issuer Assets (principal amount):		
Opening balance as at 1st January	23,456,000	23,456,000
Closing balance as at 30th June/31st December	€ 23,456,000	€ 23,456,000
Issuer Assets (carrying amount)		
Opening balance as at 1st January	1,198,602	6,333,120
Gain/(loss) on revaluation of Issuer Assets	208,758	(5,134,518)
Closing balance as at 30th June/31st December	€ 1,407,360	€ 1,198,602

3. ISSUER ASSETS - (CONTINUED)

The net proceeds from the issue of the Preferred securities of €150,000,000 were used by the Company to grant a loan facility (the "Loan") to Hypo Alpe-Adria-Bank International AG (formerly Hypo Alpe-Adria-Bank AG) ("HAA"), with HAA also providing a Support Agreement. The Loan Agreement and Support Agreement were entered into concurrently and in contemplation of each other. Consequently, these agreements were considered together to comprise the "Issuer Assets".

The Loan was granted on 7th October 2004 under the terms and conditions, detailed in the Facility Agreement between the Company and HAA. On 27th April 2012, the Loan Agreement was terminated for €nil consideration by mutual consent between the Company and HAA, with the Company's rights under the Issuer Assets subsequently being represented by the Support Agreement only. The Loan bore interest initially at a fixed rate of 6.50% per annum, with the first coupon being receivable in arrears on 7th October 2005. Thereafter the facility bore interest at a rate equal to the relevant Reference Rate plus a margin of 0.15%, subject to a cap of 8%, payable semi-annually in arrears every 7th April and 7th October following the first payment. Payment of interest was receivable only if the amount of interest due was available from annual profits of HAA's previous fiscal year (before movement of reserves). The relevant Reference Rate was the 10-year mid swap rate in Euro versus 6M EURIBOR.

The Support Agreement (formerly the Loan) has no fixed repayment date, however HAA had the option to repay the Loan in full on 7th October 2011, and is permitted to exercise such option on any interest payment date thereafter, subject to giving the Company 30 days prior notice.

The obligations under the Support Agreement (Issuer Assets) constitute unsecured and subordinated obligations of HAA ranking pari passu among themselves and pari passu with all other subordinated obligations of HAA. In the event of the dissolution, liquidation or bankruptcy of HAA, the obligations under the Support Agreement may be satisfied only after the non-subordinated claims of creditors have been satisfied, so that in any such event no amounts shall be payable in respect of the Support Agreement until the claims of all unsubordinated creditors of HAA shall have been satisfied in full.

No interest was received under the Support Agreement during the current period and previous year due to insufficient distributable profits arising at HAA. Consequently, no dividends were paid on the Preferred Securities.

4. CASH AND CASH EQUIVALENTS

	30th Jun 14	31st Dec 13
Administrator client account	€ 2	€ 2

5. PREFERRED SECURITIES

	30th Jun 14	31st Dec 13
Preferred Securities (principal amount):		
Opening balance as at 1st January	23,456,000	23,456,000
Closing balance as at 30th June/31st December	€ 23,456,000	€ 23,456,000

5. PREFERRED SECURITIES - (CONTINUED)

		30th Jun 14		31st Dec 13
Preferred Securities (carrying amount)				
Opening balance as at 1st January		1,198,602		6,333,120
Loss/(gain) on revaluation of Preferred Securities		208,758		(5,134,518)
Closing balance as at 30th June/31st December	€	1,407,360	€	1,198,602

150,000 Fixed/Floating Rate Non-cumulative Non-voting Preferred Securities (the "Preferred Securities"), each bearing a liquidation preference of €1,000 per Preferred Security (i.e. an aggregate liquidation preference of €150,000,000), were issued by the Company on 7th October 2004 under the terms of an Offering Circular dated 7th October 2004 (the "OC").

The Preferred Securities paid dividends initially at a rate of 6.50% per annum, with the first dividend amount payable in arrears on 7th October 2005. Thereafter the Preferred Securities pay dividends at a rate equal to the prevailing reference rate plus a margin of 0.15% per annum, subject to a cap of 8%, payable semi-annually in arrears every 7th April and 7th October following the fixed payment. The prevailing reference rate is the 10-year mid swap rate in Euro versus 6M EURIBOR.

A Support Agreement was entered into on 7th October 2004 between the Company and HAA as the Support Provider. Under this Agreement HAA undertakes to provide the Company with financial support, but HAA is not obliged to make any payment to the Company to the extent that such a payment would exceed HAA's distributable funds for the prior fiscal year or to the extent that such a payment would exceed HAA's annual surplus pursuant to HAA's own financial statements as at the reporting date immediately preceding the dividend payment date. The commercial effect of the Support Agreement is to give holders of the Preferred Securities rights that would be equivalent to their rights if the Preferred Securities had been issued by HAA itself.

The Preferred Securities are perpetual and therefore have no specified maturity date. The Preferred Securities are redeemable only at the option of the Company, in whole but not in part, from and including 7th October 2011 and on any interest payment date thereafter, upon giving the holders not less than 30 days notice. The Company may only redeem the Preferred Securities with the prior consent of HAA. Dividends on the Preferred Securities are payable on each Dividend Date at the rate specified in the Statement of Rights of the Preferred Securities as set out in the OC if the conditions specified therein are met.

The Company's obligation to pay a dividend on the Preferred Securities on any given Dividend Date will at all times be matched by the Company's right to receive an equal and opposite amount from HAA under the terms of the Issuer Assets (see note 3). However, in the event that one or more dividends are not payable, such dividends are non-cumulative (i.e. the right of the holders of the Preferred Securities to receive such dividends lapses) and no interest is payable on such unpaid dividends. In the event of the winding-up of the Company or the dissolution or winding-up of HAA, holders of the Preferred Securities will be entitled to receive for each Preferred Security a liquidation preference of €1,000 plus any accrued and unpaid dividends. The Preferred Securities are listed on the Euronext Amsterdam Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2014 TO 30TH JUNE 2014

5. PREFERRED SECURITIES - (CONTINUED)

As no interest was received from the Support Agreement (Issuer Assets) during the current period and prior period, no corresponding dividend payments were made to the holders of the Preferred Securities on the relevant dividend payment dates.

6. STATED CAPITAL

	30th Jun 14	31st Dec 13
AUTHORISED:		
Unlimited number of Ordinary Shares of no par value		
ISSUED AND FULLY PAID:		
2 Ordinary shares issued at €1 each	€ 2	€ 2

The Company has issued 2 ordinary shares at €1 each. These shares entitle holders to voting rights at any general meeting of the Company, to ordinary dividends as may be declared by the Directors from time to time, and to participate in the winding up of the Company.

The Company is not subject to externally imposed capital requirements.

7. TAXATION

Profits arising in the Company are subject to Jersey Income Tax at the rate of 0% (2013: 0%).

8. ULTIMATE CONTROLLING PARTY

The Company's immediate and ultimate holding company is HAA, a company incorporated in Austria.

9. EXPENSES

HAA has agreed to cover the Company's ongoing operational expenses under the terms of the Support Agreement.

10. RELATED PARTIES

Each of G.P. Essex-Cater, L.V. Pinnington and S.J. Hopkins is a Director of Sanne Corporate Services Limited, a company which provides administration services to the Company at commercial rates. S.J. Hopkins is also a Director of Sanne Secretaries Limited, a company which provides secretarial services to the Company at commercial rates.

M.H. Russling is an employee and officer of Hypo Alpe-Adria-Bank International AG and therefore should be regarded as interested in any transaction with Hypo Alpe-Adria-Bank International AG and the subsidiaries and affiliates of the same. Details of transactions with HAA are disclosed in the notes to the financial statements.

11. FINANCIAL RISK MANAGEMENT

Financial risk factors

The principal activity of the Company is the issue of Preferred Securities, the proceeds from which were used to grant a Loan to HAA. The strategies used by the Company in achieving its objectives regarding the use of its financial assets and liabilities were set when the Company entered into the transactions. The Company has matched the properties of its financial liabilities to its assets to avoid significant elements of risk generated by credit risk, liquidity risk and market risks such as interest rate risk, currency rate risk and price risk.

Fair values

The table below presents the fair values of the Company's assets and liabilities.

	30th Jun 14		31st Dec 13	
Financial assets:	**Principal amount**	**Fair value**	**Principal amount**	**Fair value**
Support Agreement / Issuer Assets	€ 23,456,000	€ 1,407,360	€ 23,456,000	€ 1,198,602
Financial liabilities:				
Preferred Securities	€ (23,456,000)	€ (1,407,360)	€ (23,456,000)	€ (1,198,602)

The fair value of the Preferred Securities has been obtained from quoted prices on the Euronext Amsterdam Stock Exchange. In the opinion of the Directors, the fair value of the Support Agreement / Issuer Assets held is approximately equal and opposite to the fair value of the Preferred Securities, as the terms and conditions of the Preferred Securities are equal and opposite to those of the Support Agreement / Issuer Assets and the credit risk attached to both the Preferred Securities and the Support Agreement / Issuer Assets are similar, being in each case closely related to that of HAA. In the opinion of the Directors, it is not practicable to estimate with sufficient reliability any difference in fair value between the Support Agreement / Issuer Assets and the Preferred Securities and any such difference in fair value that might exist is not expected to be significant.

Fair value hierarchy

The Directors consider that the market for the Preferred Securities is an active market as defined by IFRS 13. Consequently, the fair value of the Preferred Securities and Support Agreement/Issuer Assets is classified within Level 1 of the fair value hierarchy.

Market risk

Interest rate risk

The Company finances its operations through the issue of Preferred Securities upon which dividends are payable. Dividend payments under the Preferred Securities are non-cumulative and are equal and opposite to amounts receivable from HAA under the Support Agreement (Issuer Assets). Amounts receivable under the Support Agreement precisely match any amounts payable under the Preferred Securities. Therefore the Directors believe that there is no material interest rate risk to the Company.

11. FINANCIAL RISK MANAGEMENT - (CONTINUED)

Market risk - (continued)

Interest rate risk - (continued)

	Interest charging basis	30th Jun 14 Effective interest rate		30th Jun 14 (principal amount)	31st Dec 13 Effective interest rate		31st Dec 13 (principal amount)
Financial assets:							
Support Agreement / Issuer Assets	Fixed/Floating	0.000%	€	23,456,000	0.000%	€	23,456,000
Financial liabilities:							
Preferred Securities	Fixed/Floating	0.000%	€ (	23,456,000)	0.000%	€ (	23,456,000)

Currency rate risk

As all the Company's assets and liabilities are denominated in Euros the Directors believe that there is no material currency risk to the Company.

Other price risk

In the opinion of the Directors, there are no foreseeable other price risks that might affect the fair values of the Company's financial instruments.

Sensitivity analysis

As disclosed above, in the Director's opinion, there is no material difference between the fair value of the Issuer Assets and the fair value of the Preferred Securities. From the perspective of the Company, any change in the fair value of the Issuer Assets would be matched by an equal and opposite change in the fair value of the Preferred Securities. Consequently the Company has no net exposure to price risk. Also as disclosed above, in the Directors opinion, there is no material interest rate risk to the Company, nor is there any currency rate risk to the Company.

IFRS 7 requires disclosure of "a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date." As stated, whilst the financial instruments held by the Company are separately exposed to interest rate risk and market price risk, the Company itself is not exposed to market risk overall. Therefore, in the Directors' opinion, no sensitivity analysis is required to be disclosed. In addition, as the fair values have been determined directly from quoted market prices (i.e. Level 1 fair values under IFRS 13), no material assumptions have been made by the Directors when determining such fair values other than the assumption that such quoted market prices represent the best available estimate of fair value.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's principal financial asset is the Support Agreement (Issuer Assets) entered into with HAA, from which all of the Company's income is derived. Credit risk arises principally from this Support Agreement. The maximum exposure to credit risk, expressed as the gross principal amount of the Issuer Assets outstanding rather than the carrying value of such Issuer Assets, without taking into account any collateral held or other credit enhancements is as follows:

11. FINANCIAL RISK MANAGEMENT - (CONTINUED)

Credit risk - (continued)

		30th Jun 14	31st Dec 13
Support Agreement / Issuer Assets		23,456,000	23,456,000
Cash and cash equivalents		2	2
	€	23,456,002	23,456,002

The Directors believe that there is no material credit risk to the Company since dividend payments under the Preferred Securities are non-cumulative, and are equal and opposite to amounts receivable from HAA under the Support Agreement (Issuer Assets).

In the event that HAA is unable to repay the full principal amount of the remaining Support Agreement (Issuer Assets) balance, such loss would be borne by the holders of the Preferred Securities, not by the Company.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Distribution payments under the Preferred Securities are non-cumulative, and are equal and opposite to amounts receivable from HAA under the Support Agreement (Issuer Assets).

Due to the nature of the Company's operations, the Directors consider the net liquidity risk faced by the Company to be minimal. The most significant cash outflow consists of the payment of interest on the Preferred Securities. The timing of its cash outflows fall due on the same dates as the cash inflows from the Support Agreement (Issuer Assets). The Company's expenses are paid on its behalf by HAA and therefore the Directors consider its available cash resources to be sufficient.

Maturity of financial assets and liabilities

The expected maturity profile of the Company's financial assets and liabilities is as follows (at principal amount):

		30th Jun 14 Financial Assets		30th Jun 14 Financial Liabilities		31st Dec 13 Financial Assets		31st Dec 13 Financial Liabilities
In less than one year		2		-		2		-
In more than five years		23,456,000		(23,456,000)		23,456,000		(23,456,000)
	€	23,456,002	€	(23,456,000)	€	23,456,002	€	(23,456,000)

No interest or dividends are included above due to the current financial position of HAA. Please refer to notes 3 and 5 for details.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE PERIOD 1ST JANUARY 2014 TO 30TH JUNE 2014

12. OPERATING SEGMENTS

Geographical information
All the Company's revenues are generated from Austria.

Non-current assets
The Company does not have non-current assets other than the Issuer Assets.

Major investment company
The Company derived 100% (2013:100%) of its revenues from a single entity (HAA).

13. CAPITAL MANAGEMENT

The Company's objective, when managing its capital, is to safeguard the Company's ability to continue as a going concern. In order to maintain this, the Company's assets and liabilities and the relative underlying terms and conditions are exactly matched. The transactions are designed to enable the Company to pay its liabilities as they fall due only, without realising a return on capital. The level of interest income and interest expense are exactly matched and were established on incorporation of the Company in order that the Company realises a net result of €nil each period.

There were no changes in the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

14. SUBSEQUENT EVENTS

In the opinion of the Directors, there are no significant events subsequent to the period end that are deemed necessary to be adjusted or disclosed in the financial statements.