HUNTINGTON BANCSHARES INC/MD
Form 424B2
December 16, 2010

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**Filed Pursuant to Rule 424(b)(2)**
**Registration No. 333-156700**

**PROSPECTUS SUPPLEMENT**
**(To Prospectus dated January 13, 2009)**

$300,000,000
**Huntington Bancshares Incorporated**
7.000% Subordinated Notes due 2020

We are offering $300,000,000 aggregate principal amount of our 7.000% Subordinated Notes due 2020 (which we refer to as the Notes ). We will pay interest on the Notes on each June 15 and December 15, commencing on June 15, 2011. The Notes will mature on December 15, 2020. The Notes will not be redeemable prior to maturity. There is no sinking fund for the Notes. The Notes will not be listed on any securities exchange.

The Notes will be unsecured and subordinated in right of payment to the payment of our existing and future senior indebtedness, and they will be structurally subordinated to all of our subsidiaries existing and future indebtedness and other obligations. In the event of our bankruptcy or insolvency, the holders of the Notes will not be entitled to receive any payment with respect to the Notes until all holders of senior indebtedness are paid in full. The Notes are obligations of Huntington Bancshares Incorporated only and are not obligations of, and are not guaranteed by, any of our subsidiaries.

We intend to use the net proceeds from this offering and from our recently priced common stock offering, described under Prospectus Supplement Summary Common Stock Offering, together with other available funds, to repurchase all $1.398 billion of the Fixed Rate Cumulative Perpetual Preferred Stock, Series B (which we refer to as Series B Preferred Stock ), that we issued to the U.S. Department of the Treasury (which we refer to as U.S. Treasury ) as part of the U.S. Treasury s TARP Capital Purchase Program at such time as our banking regulators authorize and the U.S. Treasury formally approves such repurchase. See Use of Proceeds. Although we intend to use the net proceeds from this offering and the common stock offering, together with other available funds, to repurchase the Series B Preferred Stock, the consummation of this offering is not conditioned upon the consummation of the common stock offering or the repurchase.

The Notes will not be savings accounts, deposits or other obligations of any of our bank or non-bank subsidiaries and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency. The Notes are not guaranteed under the FDIC s Temporary Liquidity Guarantee Program.

*Investing in the Notes involves risks. See Risk Factors beginning on page S-7 of this prospectus supplement.*

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

| | Price to Public(1) | Underwriting Discounts | Proceeds to Us |
|---|---|---|---|
| Per Note | 100.000% | 0.875% | 99.125% |
| Total | $ 300,000,000 | $ 2,625,000 | $ 297,375,000 |

(1) Plus accrued interest, if any, from the original issue date.

The underwriters expect to deliver the Notes to purchasers in book-entry form through the facilities of The Depository Trust Company, on or about December 17, 2010.

*Sole Book-Running Manager*
**Goldman, Sachs & Co.**

*Joint Lead Managers*

**Morgan Stanley** **Sandler O Neill + Partners, L.P.**

*Co-Manager*
**Barclays Capital**

Prospectus Supplement dated December 15, 2010

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### Prospectus Supplement



### Prospectus



**You should rely only on the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not authorized anyone to provide you with different information. If you receive any other information, you should not rely on it.**

**We are not making an offer of the Notes covered by this prospectus supplement in any jurisdiction where the offer is not permitted.**

**You should not assume that the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus or any free writing prospectus prepared by us is accurate as of any date other than the respective dates thereof.**

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## ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of the offering. The second part is the accompanying prospectus, which describes more general information, some of which may not apply to the offering. You should read both this prospectus supplement and the accompanying prospectus, together with the additional information described under the heading Where You Can Find More Information below.

All references in this prospectus supplement to Huntington, we, us, our or similar references mean Huntington Bancshares Incorporated and its successors and include our consolidated subsidiaries only where specifically so stated.

If the information set forth in this prospectus supplement differs in any way from the information set forth in the accompanying prospectus, you should rely on the information set forth in this prospectus supplement.

Currency amounts in this prospectus supplement are stated in U.S. dollars.

## WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements, and other information with the Securities and Exchange Commission. Our SEC filings are available to the public over the Internet at the SEC s web site at *www.sec.gov* and on the investor relations page of our website at *www.huntington.com*. Except for those SEC filings incorporated by reference in this prospectus supplement, none of the other information on our website is part of this prospectus supplement. You may also read and copy any document we file with the SEC at its public reference facilities at 100 F Street N.E., Washington, D.C. 20549. You can also obtain copies of the documents upon the payment of a duplicating fee to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

## INFORMATION INCORPORATED BY REFERENCE

The SEC allows us to incorporate by reference much of the information that we file with it, which means that we can disclose important information to you by referring you to those publicly available documents. The information that we incorporate by reference is an important part of this prospectus supplement. Some information contained in this prospectus supplement updates the information incorporated by reference, and information that we file in the future with the SEC will automatically modify, supersede or update this prospectus supplement. In other words, in the case of a conflict or inconsistency between information in this prospectus supplement and/or information incorporated by reference into this prospectus supplement, you should rely on the information contained in the document that was filed later.

Statements contained in this prospectus supplement or the accompanying prospectus as to the contents of any contract or other document referred to in this prospectus supplement or the accompanying prospectus do not purport to be complete, and where reference is made to the particular provisions of such contract or other document, such provisions are qualified in all respects by reference to all the provisions of such contract or other document.

In reviewing any agreements incorporated by reference, please remember that they are included to provide you with information regarding the terms of such agreements and are not intended to provide any other factual or disclosure information about Huntington. The agreements may contain representations and warranties by Huntington or other parties, which should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate. The representations and warranties were made only as of the date of the relevant agreement or such other date or dates as may be specified in such agreement and are subject to more recent developments. Accordingly, those representations and

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warranties alone may not describe the actual state of affairs as of the date they were made or at any other time.

This prospectus supplement incorporates by reference the documents listed below and any future filings we make with the SEC under Section 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 until the termination of the offering of these securities:

Annual Report on Form 10-K for the year ended December 31, 2009 (including information specifically incorporated by reference into the Annual Report on Form 10-K from our definitive proxy statement filed on February 26, 2010);

Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2010; and

Current Reports on Forms 8-K and 8-K/A filed on December 13 (except for the furnished portions), October 26, August 24, July 22 (except for the furnished portions), April 27 (except for the furnished portions), March 9 (except for the furnished portions), January 22 (except for the furnished portions) and January 11, 2010.

Notwithstanding the foregoing, we are not incorporating any document or information deemed to have been furnished and not filed in accordance with SEC rules.

Upon written or oral request, we will provide at no cost to the requester a copy of any or all of the information that has been incorporated by reference in this prospectus supplement but not delivered with this prospectus supplement. You may make a request by writing to the following address or calling the following telephone number:

Jay Gould Sr.
Investor Relations
Huntington Bancshares Incorporated
41 South High Street
Columbus, Ohio 43287
Phone: (614) 480-4060

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## PROSPECTUS SUPPLEMENT SUMMARY

*The following summary is qualified in its entirety by the more detailed information included elsewhere or incorporated by reference into this prospectus supplement or the accompanying prospectus. Because this is a summary, it may not contain all of the information that is important to you. You should read this entire prospectus supplement and the accompanying prospectus, including the section entitled Risk Factors and the documents incorporated by reference herein, before making an investment decision.*

### Huntington Bancshares Incorporated

We are a multi-state diversified financial holding company organized under Maryland law in 1966 and headquartered in Columbus, Ohio. Through our subsidiaries, including our banking subsidiary, The Huntington National Bank, we provide full-service commercial and consumer banking services, mortgage banking services, equipment leasing, investment management, trust services, brokerage services, a customized insurance service program, and other financial products and services. Our over 600 banking offices are located in Indiana, Kentucky, Michigan, Ohio, Pennsylvania and West Virginia. We also offer retail and commercial financial services online at *huntington.com*, through our 24-hour telephone bank, and through our network of over 1,300 ATMs. The Auto Finance and Dealer Services group offers automobile loans to consumers and commercial loans to automobile dealers within our six-state banking franchise area. During 2010, we have continued the expansion of our automobile lending operations eastward, complementing our Eastern Pennsylvania operations with expansion into five New England States. Selected financial service activities are also conducted in other states including: Private Financial offices in Florida, Massachusetts and New York; and Mortgage Banking offices in Maryland and New Jersey. International banking services are available through the headquarters office in Columbus and limited purpose offices located in the Cayman Islands and Hong Kong.

As a registered financial holding company, we are subject to the supervision of the Federal Reserve. We are required to file with the Federal Reserve reports and other information regarding our business operations and the business operations of our subsidiaries.

At September 30, 2010, we had, on a consolidated basis, total assets of approximately $53.2 billion, total deposits of approximately $41.1 billion and total shareholders equity of approximately $5.6 billion.

Our principal executive office is located at Huntington Center, 41 South High Street, Columbus, Ohio 43287, telephone number: (614) 480-8300.

### Common Stock Offering

On December 13, 2010, we commenced and priced a separate registered public offering of 146,031,747 shares of our common stock at a price to the public of $6.30 per share, or approximately $920.0 million in aggregate gross proceeds. We undertook the common stock offering, which is scheduled to be consummated on December 17, 2010, subject to satisfaction of the conditions to closing set forth in the underwriting agreement for that offering, in connection with our proposed repurchase of the Series B Preferred Stock described under Use of Proceeds. The consummation of the offering of Notes pursuant to this prospectus supplement is not conditioned upon the consummation of the common stock offering, and vice versa. This prospectus supplement is not an offer to sell any such common stock; any offer to sell such common stock will be made only by a separate prospectus supplement.

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**Conflicts of Interest**

Our affiliate, The Huntington Investment Company, is a member of the Financial Industry Regulatory Authority, Inc. (which we refer to as FINRA ) and is participating in the distribution of the Notes. The distribution arrangements for this offering comply with the requirements of NASD Conduct Rule 2720, as administered by FINRA, regarding a FINRA member s firm participation in the distribution of securities of an affiliate. In accordance with Rule 2720, no FINRA member firm that has a conflict of interest under Rule 2720 may make sales in this offering to any discretionary account without the prior approval of the customer. Our affiliates, including The Huntington Investment Company, may use this prospectus supplement and the accompanying prospectus in connection with offers and sales of the Notes in the secondary market. These affiliates may act as principal or agent in those transactions. Secondary market sales will be made at prices related to market prices at the time of sale.

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## The Offering

*The following summary of this offering contains basic information about this offering and the terms of the Notes and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the Notes, please refer to the section of this prospectus supplement entitled Description of the Notes.*

| | |
|---|---|
| **Issuer:** | Huntington Bancshares Incorporated, a Maryland corporation |
| **Securities Offered:** | 7.000% Subordinated Notes due 2020 |
| **Aggregate Principal Amount:** | $300,000,000 |
| **Maturity:** | December 15, 2020 |
| **Issue Price:** | 100.000% plus accrued interest, if any, from and including December 17, 2010 |
| **Interest Rate:** | 7.000% annually |
| **Interest Payment Dates:** | Each June 15 and December 15, commencing June 15, 2011 |
| **Ranking:** | The Notes will be unsecured and subordinated in right of payment to the payment of our existing and future Senior Debt (as defined in the Indenture and described below under Description of the Notes ), will rank equal in right of payment to all of our existing and future indebtedness ranking on a parity with the Notes and will be senior to any obligation of Huntington that ranks junior and not equally with or prior to the Notes. As of September 30, 2010, we had no Senior Debt, approximately $50.0 million of indebtedness ranking on a parity with the Notes and approximately $587.4 million of indebtedness ranking junior to the Notes. Payment of principal and interest will be structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, of our subsidiaries. As of September 30, 2010, we had total consolidated indebtedness of $3.5 billion, including $2.9 billion of indebtedness of our subsidiaries.<br><br>The indenture governing the Notes does not contain any limitation on the amount of debt or other obligations ranking senior to or pari passu with the indebtedness evidenced by the Notes that we may incur hereafter. |
| **Form:** | Fully-registered global notes in book-entry form |
| **Denominations:** | $2,000 and integral multiples of $1,000 in excess thereof |
| **Further Issuances:** | The Notes will be limited initially to $300,000,000 in aggregate principal amount. We may, however, reopen the Notes and issue an unlimited principal amount of additional Notes in the future without the consent of the Note holders. |

| | |
|---|---|
| **Use of Proceeds:** | We estimate that the net proceeds from this offering will be approximately $296,075,000, after deducting estimated expenses and underwriting discounts and commissions. We intend to use the net proceeds, together with the proceeds of our common stock offering described above under Common Stock Offering and other funds, to repurchase all $1.398 billion of the Series B Preferred Stock that we issued to the |

| | |
|---|---|
| | U.S Department of the Treasury (which we refer to as the U.S. Treasury ) as part of the U.S. Treasury s TARP Capital Purchase Program (which we refer to as the CPP ) at such time as our banking regulators authorize and the U.S. Treasury formally approves such repurchase. We currently anticipate based on discussions with our banking regulators that we will be permitted to repurchase the Series B Preferred Stock following consummation of this offering and the common stock offering. If the repurchase is not authorized and approved, we will use the net proceeds from this offering for general corporate purposes. While we intend to use the net proceeds from this offering, together with the net proceeds from our common stock offering and other available funds, to repurchase the Series B Preferred Stock, the consummation of this offering is not conditioned upon the consummation of the common stock offering or the repurchase.<br><br>If the repurchase is completed, we may seek to repurchase the common stock warrant (which we refer to as the Warrant ) that we issued to the U.S. Treasury as a result of our participation in the CPP at a price to be negotiated with the U.S. Treasury. There can be no assurance that we will be authorized and approved to repurchase the Series B Preferred Stock or that we will repurchase the Warrant. |
| **Risk Factors:** | Investing in the Notes involves risks. Please refer to Risk Factors and other information included or incorporated by reference in this prospectus supplement or the accompanying prospectus for a discussion of factors you should carefully consider before investing in the Notes. |
| **Governing Law:** | The Notes and the subordinated debt indenture for the Notes will be governed by New York law. |
| **Listing and Trading Markets:** | We do not intend to list the Notes on any securities exchange. Currently there is no public market for the Notes and there can be no assurances that any public market for the Notes will develop. |

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## RISK FACTORS

*An investment in the Notes is subject to certain risks. The trading value of the Notes could decline due to any of these risks, and you may lose all or part of your investment. Before you decide to invest, you should consider the risk factors below relating to the offering as well as the risk factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as supplemented by our Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2010 and in the other documents incorporated by reference into this prospectus supplement or the accompanying prospectus.*

***Our obligations under the Notes will be unsecured and subordinated.***

Our obligations under the Notes will be unsecured and subordinated in right of payment to all of our existing and future Senior Debt. As of September 30, 2010, we had no Senior Debt, approximately $50.0 million of indebtedness ranking on a parity with the Notes and approximately $587.4 million of indebtedness ranking junior to the Notes. As of that date, we had a total consolidated indebtedness of $3.5 billion, including $2.9 billion of indebtedness of our subsidiaries. We may incur substantial other indebtedness, including additional Senior Debt and indebtedness ranking on a parity with the Notes, in the future. The indenture governing the Notes does not contain any limitation on the amount of debt or other obligations ranking senior to or pari passu with the indebtedness evidenced by the Notes that we may incur hereafter.

***The Notes will be structurally subordinated to the debt of our subsidiaries, which will not guarantee the Notes.***

Because we are a holding company, our rights and the rights of our creditors, including the holders of the Notes, to participate in the assets of any subsidiary during its liquidation or reorganization will be subject to the prior claims of the subsidiary s creditors unless we are ourselves a creditor with recognized claims against the subsidiary. Any loans that we make to The Huntington National Bank, our banking subsidiary, would be subordinate in right of payment to deposits and to other indebtedness of The Huntington National Bank. Claims from creditors (other than us) against the subsidiaries may include long-term and medium-term debt and substantial obligations related to deposit liabilities, federal funds purchased, securities sold under repurchase agreements, and other short-term borrowings. The Notes are not obligations of, nor guaranteed by, our subsidiaries and our subsidiaries have no obligation to pay any amounts due on the Notes. The indenture governing the Notes does not contain any limitation on the amount of debt or other obligations that our subsidiaries may incur hereafter.

***We are a holding company and depend on our subsidiaries for payments of principal and interest.***

The Notes are obligations of Huntington exclusively and are not guaranteed by any of our subsidiaries. We are a separate and distinct legal entity from our bank and other subsidiaries. Our principal source of funds to make payments on the Notes and our other securities is dividends from The Huntington National Bank. Various federal and state statutes and regulations limit the amount of dividends that our banking and other subsidiaries may pay to us without regulatory approval. The Huntington National Bank may not, without prior regulatory approval, pay a dividend in an amount greater than its undivided profits. As a result, for the year ended December 31, 2009 and for the nine months ended September 30, 2010, The Huntington National Bank did not pay any cash dividends to us and at December 31, 2009 or September 30, 2010, The Huntington National Bank could not have declared and paid any dividends to us without regulatory approval. We don t believe that The Huntington National Bank will receive regulatory approval to pay dividends to us in the near future, and there can be no assurances that The Huntington National Bank will receive such approval at any time while the Notes are outstanding.

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In addition, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice, such authority may require, after notice and hearing, that such bank cease and desist from such practice. Depending on the financial condition of The Huntington National Bank, the applicable regulatory authority might deem us to be engaged in an unsafe or unsound practice if The Huntington National Bank were to pay dividends. The Federal Reserve and the Office of the Comptroller of the Currency (the OCC ) have issued policy statements generally requiring insured banks and bank holding companies to pay dividends only out of current operating earnings.

Payment of dividends could also be subject to regulatory limitations if The Huntington National Bank became under-capitalized for purposes of the OCC s prompt corrective action regulations. Under-capitalized is currently defined as having a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0%, or a core capital, or leverage, ratio of less than 4.0%. Throughout 2009 and for the nine months ended September 30, 2010, The Huntington National Bank was in compliance with all regulatory capital requirements and considered to be well-capitalized.

***Holders of the Notes will have limited rights if there is an event of default.***

Payment of principal on the Notes may be accelerated only in the case of certain events of bankruptcy or insolvency involving Huntington. There is no right of acceleration in the case of default in the payment of principal of or interest on the Notes or in the performance of any of our other obligations under the Notes or the Indenture governing the Notes.

***The Indenture contains no financial covenants and does not contain a provision that would provide protection against a dramatic decline in credit quality.***

The Indenture contains no financial covenants and does not restrict us from paying dividends or issuing or repurchasing other securities, and does not contain any provision that would provide protection to the holders of the Notes against a sudden and dramatic decline in credit quality resulting from a merger, takeover, recapitalization, or similar restructuring or any other event involving Huntington or its subsidiaries that may adversely affect the credit quality of Huntington.

***Our credit ratings may not reflect all risks of an investment in the Notes.***

Our credit ratings are an assessment of our ability to pay our obligations as they become due. Consequently, real or anticipated changes in our credit ratings will generally affect the trading value of the Notes. Our credit ratings, however, may not reflect the potential risks related to the market or other factors on the value of the Notes. Furthermore, because your return on the Notes depends upon factors in addition to our ability to pay our obligations, an improvement in our credit ratings will not reduce the other investment risks related to the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

***We cannot assure you that an active trading market will develop for the Notes.***

Prior to this offering, there has been no trading market for the Notes, and we do not intend to apply for listing of the Notes on any securities exchange or to arrange for quotation on any interdealer quotation system. Although we have been informed by the underwriters that they intend to make a market in the Notes after the offering is completed, the underwriters may cease their market-making at any time without notice. In addition, the liquidity of the trading market in the Notes and the market price quoted for the Notes may be adversely affected by changes in the overall market for this type of security and by changes in our financial performance or prospects or in the prospects for companies in our industry generally. As a result, we cannot assure you that an active trading market will develop for the Notes. If an active trading market does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. In that case you may not be able to sell your Notes at a particular time or you may not be able to sell your Notes at a favorable price.

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***There can be no assurance as to if or when the Series B Preferred Stock will be repurchased.***

Subject to consultation with our banking regulators, and following consummation of our common stock and debt offerings, we intend to repurchase all of the 1,398,071 outstanding shares of our Series B Preferred Stock as described in Use of Proceeds. However, there can be no assurance as to the success of our offerings or if or when the Series B Preferred Stock will be repurchased. Until such time as the Series B Preferred Stock is repurchased, we will remain subject to the terms and conditions of the CPP and related documents. Among other things, our continued participation in the CPP subjects us to increased regulatory and legislative oversight, including with respect to executive compensation. These and any future oversight or legal requirements or implementing standards under the CPP may have unforeseen or unintended adverse effects on the financial services industry as a whole, and particularly on CPP participants such as ourselves.

***As a result of our loan sale and securitization activity, we may be required to repurchase the loans and/or indemnify against losses related to material breaches of representations and warranties in our loan sales. We have a reserve for such losses, but if our reserve for losses is insufficient, we may incur additional repurchase losses in future periods, adversely affecting our operating results.***

As described under Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management and Capital Operational Risk in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, we primarily conduct our loan sale and securitization activity with the Federal National Mortgage Association ( FNMA or Fannie Mae ) and the Federal Home Loan Mortgage Corporation ( FHLMC or Freddie Mac ). In connection with these and other securitization transactions, we make certain representations and warranties that the loans meet certain criteria, such as collateral type and underwriting standards. We may be required to repurchase the loans and/or indemnify these organizations against losses due to material breaches of these representations and warranties. We have a reserve for such losses, which is included in accrued expenses and other liabilities. At September 30, 2010, December 31, 2009, and September 30, 2009, this reserve was $18.0 million, $5.9 million, and $5.8 million, respectively. The reserve was estimated based on historical and expected repurchase activity, average loss rates, and current economic trends, including an increase in the amount of repurchase losses in recent quarters. If our reserve for losses is insufficient, including because our repurchase activity and average loss rates exceed our estimates, we may incur additional repurchase losses in future periods, adversely affecting our operating results.

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## RATIO OF EARNINGS TO FIXED CHARGES

The following table presents the consolidated ratio of earnings to fixed charges as defined in Item 503(d) of Regulation S-K for Huntington Bancshares Incorporated and its subsidiaries as defined in Item 503(d) of Regulation S-K. You should read these ratios in conjunction with the Exhibit 12.1 and other information in our Annual Report on Form 10-K for the year ended December 31, 2009 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, which reports are incorporated by reference in this prospectus supplement.

| | Nine Months Ended September 30, | | Years Ended December 31, | | | | |
|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2009 | 2008 | 2007 | 2006 | 2005 |
| Ratio of Earnings to Fixed Charges: | | | | | | | |
| Excluding interest on deposits | 3.47x | (24.07)x | (22.69)x | 0.16x | 1.05x | 2.49x | 3.23x |
| Including interest on deposits | 1.46x | (3.75)x | (3.43)x | 0.77x | 1.02x | 1.48x | 1.79x |

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## CAPITALIZATION

The following table sets forth, on a consolidated basis, our capitalization as of September 30, 2010 on an actual basis and as adjusted to give effect to (1) this offering, (2) our common stock offering described under Prospectus Supplement Summary Common Stock Offering and (3) our anticipated use of the proceeds from this offering and our common stock offering, along with available funds, to repurchase our Series B Preferred Stock. You should read the following table together with our consolidated financial statements and notes thereto incorporated by reference into this prospectus supplement and the accompanying prospectus.

| | As of September 30, 2010 | | | |
|---|---|---|---|---|
| ($ in thousands) | Actual | As Adjusted for Common Stock Issuance | As Adjusted for Debt Issuance | As Adjusted for Common Stock and Debt Issuances and TARP Repurchase(1) |
| | (Unaudited, dollars in thousands) | | | |
| **Debt** | | | | |
| Deposits | $ 41,072,371 | $ 41,072,371 | $ 41,072,371 | $ 41,072,371 |
| Short-term borrowings | 1,859,134 | 1,859,134 | 1,859,134 | 1,859,134 |
| Federal Home Loan Bank advances | 23,643 | 23,643 | 23,643 | 23,643 |
| Other long-term debt (includes $422,294 at September 30, 2010 measured at fair value)(2) | 2,393,071 | 2,393,071 | 2,393,071 | 2,393,071 |
| Subordinated notes | 1,202,568 | 1,202,568 | 1,502,568 | 1,502,568 |
| Accrued expenses and other liabilities | 1,128,586 | 1,128,586 | 1,128,586 | 1,128,586 |
| Total liabilities | $ 47,679,373 | $ 47,679,373 | $ 47,979,373 | $ 47,979,373 |
| **Shareholders equity** | | | | |
| Preferred Stock authorized 6,617,808 shares | | | | |
| 5.00% Series B Non-voting, Cumulative Preferred Stock, par value of $0.01 and liquidation value per share of $1,000 | $ 1,337,749 | $ 1,337,749 | $ 1,337,749 | $ 0 |
| 8.50% Series A Non-cumulative Perpetual Convertible Preferred Stock, par value of $0.01 and liquidation value per share of $1,000 | 362,507 | 362,507 | 362,507 | 362,507 |
| Common Stock par value $0.01 per share and authorized 1,500,000,000 shares at September 30, 2010 | 7,180 | 8,640 | 8,640 | 8,640 |
| Capital surplus | 6,743,724 | 7,627,014 | 7,627,014 | 7,627,014 |
| Less treasury shares, at cost | (8,969) | (8,969) | (8,969) | (8,969) |

| | | | | |
|---|---|---|---|---|
| Accumulated other comprehensive loss | (28,396) | (28,396) | (28,396) | (28,396) |
| Retained (deficit) earnings | (2,846,392) | (2,846,392) | (2,846,392) | (2,906,714) |
| Total Shareholders Equity | $ 5,567,403 | $ 6,452,153 | $ 6,452,153 | $ 5,054,082 |
| Total Liabilities and Shareholders Equity | $ 53,246,776 | $ 54,131,526 | $ 54,431,526 | $ 53,033,455 |
| **Capital Adequacy** | | | | |
| Tangible common equity to total tangible assets | 6.20% | | | 7.80% |
| Tier 1 common risk-based capital ratio | 7.39% | | | 9.32% |
| Tier 1 risk-based capital ratio | 12.82% | | | 11.62% |
| Total risk-based capital ratio | 15.08% | | | 14.58% |

(1) Assumes issuance of 146,031,747 shares of common stock and $300 million of subordinated debt, and the repayment of $1.398 billion of Series B Preferred Stock.

(2) Amounts represent certain assets and liabilities of a consolidated variable interest entity for which Huntington has elected the fair value option.

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## USE OF PROCEEDS

We expect to receive net proceeds from this offering of approximately $296,075,000, after deducting estimated expenses and underwriting discounts and commissions.

Subject to consultation with our banking regulators, following consummation of this offering and our common stock offering, we will notify the U.S. Treasury of our intent to repurchase all of the 1,398,071 outstanding shares of our Series B Preferred Stock. If permitted to do so, we expect to fund a portion of any such repurchase with the net proceeds from this offering and other available funds, including the net proceeds from our common stock offering. See Prospectus Supplement Summary Common Stock Offering. The Series B Preferred Stock would be repurchased at its $1,000 per share liquidation preference, plus accrued and unpaid dividends. We currently anticipate based on discussions with our banking regulators that we will be permitted to repurchase the Series B Preferred Stock following consummation of this offering and the common stock offering. However, there can be no assurance that we will be authorized and approved to repurchase the Series B Preferred Stock.

While we intend to use the net proceeds from this offering, together with the net proceeds from our common stock offering and other available funds, to repurchase the Series B Preferred Stock, the consummation of this offering is not conditioned upon the consummation of the common stock offering or the Series B Preferred Stock repurchase.

If we do not repurchase the Series B Preferred Stock, we will use the net proceeds from the sale of the Notes in this offering for general corporate purposes.

If we complete the repurchase of the Series B Preferred Stock, we may seek to repurchase the Warrant that we issued to the U.S. Treasury as a result of our participation in the CPP at a price to be negotiated with the U.S. Treasury. However, we may not decide or be able to do so and, if we do not repurchase the Warrant, the U.S. Treasury may exercise the Warrant or sell the Warrant to third parties.

## DESCRIPTION OF THE NOTES

We will issue the Notes under a Subordinated Debt Indenture, dated as of December 29, 2005, between Huntington Bancshares Incorporated, as the issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, as supplemented by a First Supplemental Indenture to be dated as of December 17, 2010. We refer to this Subordinated Debt Indenture, as supplemented by the First Supplemental Indenture, as the Indenture, and we refer to The Bank of New York Mellon Trust Company, N.A., in its capacity as the trustee, as the Trustee. You may request a copy of the Indenture from us as described under Information Incorporated by Reference. The following summaries of certain provisions of the Notes and the Indenture do not purport to be complete and are subject to and qualified in their entirety by reference to all of the provisions of the Notes and the Indenture, including the definitions of certain terms used in the Indenture. We urge you to read these documents because they, and not this description, define your rights as a holder of the Notes.

### General

The Notes will be unsecured, subordinated obligations of Huntington, and will mature on December 15, 2020 (which we refer to as the Maturity Date ). The Notes are not subject to redemption at the option of Huntington or to repayment at the option of the holders prior to the Maturity Date, and no sinking fund will be provided for the Notes. Except as described below under Clearance and Settlement, the Notes will be issued only in book-entry form and will be represented by one or more global notes (which we refer to as the Global Notes ) registered in the name of The Depository Trust Company (which, along with its successors, we refer to as DTC ) or its nominee. The Notes will be issued and may be transferred only in denominations of $2,000 or any amount in excess thereof that is an integral multiple of $1,000. See Clearance and Settlement.

The Notes will bear interest at the rate of 7.000% per annum from December 17, 2010 until the principal of the Notes has been paid in full or a sum sufficient to pay the principal of the Notes has been made available for payment. Interest on the Notes will be payable semi-annually in arrears on June 15 and December 15 of each year, commencing on June 15, 2011, and on the Maturity Date (we refer to each as an Interest Payment Date ). Payments will include interest accrued to (but excluding) the relevant Interest Payment Date. If the Maturity Date or any other Interest Payment Date falls on a day that is not a Business Day, the related payment will be made on the next succeeding Business Day with the same force and effect as if made on the day such payment was due, and no interest will accrue on the amount so payable for the period from and after such Maturity Date or other Interest Payment Date, as the case may be. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The term Business Day means any day that is not a Saturday or Sunday and that is not a day on which banking institutions are generally authorized or required by law or executive order to be closed in The City of New York, New York and Chicago, Illinois.

Payment of principal on the Notes may be accelerated only in the case of certain events of bankruptcy or insolvency. See Events of Default; Limitation on Suits.

No recourse will be available for the payment of principal of or interest on any Note, for any claim based thereon, or otherwise in respect thereof, against any stockholder, employee, agent, officer or director, as such, past, present or future, of Huntington or of any successor entity. The Indenture contains no covenants or restrictions restricting the incurrence of debt by us or by our subsidiaries. The Indenture contains no financial covenants and does not restrict us from paying dividends or issuing or repurchasing other securities, and does not contain any provision that would provide protection to the holders of the Notes against a sudden and dramatic decline in credit quality resulting from a merger, takeover, recapitalization, or similar restructuring or any other event involving Huntinom"> 155,049

Reports to shareholders and proxy solicitation

108,607

Independent auditors fees and expenses

103,699

Insurance expense

89,598

Custodian s fees and expenses

45,437

Transfer agent s fees and expenses

27,985

Miscellaneous

80,180

Net expenses

2,952,685

**Net Investment Income**

**5,352,944**

**Net Realized and Unrealized Gains/(Losses) on Investments and Foreign Currency Related Transactions**

**Net realized gain/(loss) from:**

Investment transactions

(4,802,154)

Foreign currency transactions

(536,036) (5,338,190)

**Net change in unrealized appreciation/(depreciation) on:**

Investments

3,401,530

Foreign currency translation

(8,849,968) (5,448,438)

Net realized and unrealized loss from investments and foreign currency related transactions

(10,786,628)

**Net Decrease in Net Assets Resulting from Operations**

**$(5,433,684)**

Amounts listed as are $0 or round to $0.

See Notes to Financial Statements.

# Statements of Changes in Net Assets

| | For the Year Ended October 31, 2014 | For the Year Ended October 31, 2013 |
|---|---|---|
| **Increase/(Decrease) in Net Assets** | | |
| **Operations:** | | |
| Net investment income | $ 5,352,944 | $ 6,175,670 |
| Net realized gain/(loss) from investment transactions | (4,802,154) | 13,714,088 |
| Net realized loss from foreign currency transactions | (536,036) | (75,226) |
| Net change in unrealized appreciation/depreciation on investments | 3,401,530 | 10,400,906 |
| Net change in unrealized appreciation/depreciation on foreign currency translation | (8,849,968) | (19,547,470) |
| **Net increase/(decrease) in net assets resulting from operations** | **(5,433,684)** | **10,667,968** |
| **Distributions to Shareholders from:** | | |
| Net investment income | (7,259,285) | (7,601,420) |
| Net realized gains | | (9,720,387) |
| Tax return of capital | (13,748,178) | (5,478,055) |
| Net decrease in net assets from distributions | (21,007,463) | (22,799,862) |
| **Common Stock Transactions:** | | |
| Proceeds from the at-the-market stock offering (Note 5) | 3,144,579 | |
| Expenses in connection with the at-the-market stock offering (Note 5) | (22,115) | |
| Change in net assets from common stock transactions | 3,122,464 | |
| Change in net assets resulting from operations | (23,318,683) | (12,131,894) |
| **Net Assets:** | | |
| Beginning of year | 213,102,808 | 225,234,702 |
| **End of year (including distributions in excess of net investment income of ($1,481,927) and ($1,088,412), respectively)** | **$ 189,784,125** | **$ 213,102,808** |

Amounts listed as are $0 or round to $0.

See Notes to Financial Statements.

# Financial Highlights

| | For the Fiscal Years Ended October 31, | | | | |
|---|---|---|---|---|---|
| | **2014** | **2013** | **2012** | **2011** | **2010** |
| **Per Share Operating Performance[a]:** | | | | | |
| Net asset value, beginning of year | $9.44 | $9.98 | $10.17 | $11.58 | $10.96 |
| Net investment income | 0.23 | 0.27 | 0.34 | 0.39 | 0.32 |
| Net realized and unrealized gains/(losses) on investments and foreign currencies | (0.48) | 0.20 | 0.54 | (0.68) | 1.31 |
| Total from investment operations | (0.25) | 0.47 | 0.88 | (0.29) | 1.63 |
| Distributions from: | | | | | |
| Net investment income | (0.32) | (0.34) | (0.71) | (0.52) | (0.50) |
| Net realized gains | | (0.43) | (0.37) | (0.44) | (0.06) |
| Tax return of capital | (0.60) | (0.24) | | (0.18) | (0.45) |
| Total distributions | (0.92) | (1.01) | (1.08) | (1.14) | (1.01) |
| Impact of expenses in connection with the at-the-market stock offering (Note 5) | | | 0.01 | (0.09) | |
| Impact from at-the-market stock offering (Note 5) | | | | 0.11 | |
| Net asset value, end of year | $8.27 | $9.44 | $9.98 | $10.17 | $11.58 |
| Market value, end of year | $7.95 | $10.71 | $10.38 | $10.31 | $12.70 |
| **Total Investment Return Based on[b]:** | | | | | |
| Market value | (17.52%) | 13.33% | 11.83% | (10.51%) | 21.62% |
| Net asset value | (2.65%) | 3.89%[c] | 9.00%[c] | (3.19%) | 15.35% |
| **Ratio to Average Net Assets/Supplementary Data:** | | | | | |
| Net assets, end of year (000 omitted) | $189,784 | $213,103 | $225,235 | $229,616 | $223,173 |
| Average net assets (000 omitted) | $199,956 | $220,475 | $218,950 | $244,946 | $211,324 |
| Net operating expenses | 1.48% | 1.41% | 1.33% | 1.34% | 1.39% |
| Net investment income | 2.68% | 2.80% | 3.46% | 3.43% | 2.91% |
| Portfolio turnover | 13% | 15% | 21% | 30% | 11% |

(a) Based on average shares outstanding.

(b) Total investment return based on market value is calculated assuming that shares of the Fund s common stock were purchased at the closing market price as of the beginning of the period, dividends, capital gains and other distributions were reinvested as provided for in the Fund s dividend reinvestment plan and then sold at the closing market price per share on the last day of the period. The computation does not reflect any sales commission investors may incur in purchasing or selling shares of the Fund. The total investment return based on the net asset value is similarly computed except that the Fund s net asset value is substituted for the closing market value.

(c) The total return shown above includes the impact of financial statement rounding of the NAV per share and/or financial statement adjustments.

Amounts listed as are $0 or round to $0.

See Notes to Financial Statements.

# Notes to Financial Statements

October 31, 2014

### 1. Organization

Aberdeen Australia Equity Fund, Inc. (the Fund ) is a non-diversified closed-end management investment company incorporated in Maryland on September 30, 1985. The Fund s principal investment objective is long-term capital appreciation through investment primarily in equity securities of Australian companies listed on the Australian Stock Exchange Limited. Its secondary objective is current income, which is expected to be derived primarily from dividends and interest on Australian corporate and governmental securities. The Fund normally invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in equity securities, consisting of common stock, preferred stock and convertible stock, of companies tied economically to Australia (each an Australian Company ). This 80% investment policy is a non-fundamental policy of the Fund and may be changed by the Fund s Board of Directors (the Board ) upon 60 days prior written notice to shareholders. As a fundamental policy, at least 65% of the Fund s total assets must be invested in companies listed on the Australian Stock Exchange Limited ( ASX ). Aberdeen Asset Management Asia Limited, the Fund s investment manager, uses the following criteria in determining if a company is tied economically to Australia: whether the company (i) is a constituent of the ASX; (ii) has its headquarters located in Australia, (iii) pays dividends on its stock in Australian Dollars; (iv) has its accounts audited by Australian auditors; (v) is subject to Australian taxes levied by the Australian Taxation Office; (vi) holds its annual general meeting in Australia; (vii) has common stock/ordinary shares and/or other principal class of securities registered with Australian regulatory authorities for sale in Australia; (viii) is incorporated in Australia; or (ix) has a majority of its assets located in Australia or a majority of its revenues are derived from Australian sources. There can be no assurance that the Fund will achieve its investment objective.

### 2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements. The policies conform to accounting principles generally accepted in the United States of America ( GAAP ). The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses for the period. Actual results could differ from those estimates. The accounting records of the Fund are maintained in U.S. Dollars and the U.S. Dollar is used as both the functional and reporting currency. However, the Australian Dollar is the functional currency for U.S. federal tax purposes.

#### a. Security Valuation:

The Fund values its securities at current market value or fair value consistent with regulatory requirements. Fair value is defined in the Fund s valuation and liquidity procedures as the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants without a compulsion to contract at the measurement date.

Equity securities that are traded on an exchange are valued at the last quoted sale price on the principal exchange on which the security is traded at the Valuation Time subject to application, when appropriate, of valuation factors described in the paragraph below. The Valuation Time is as of the close of regular trading on the New York Stock Exchange (usually 4:00 p.m. Eastern Time). In the absence of a sale price, the security is valued at the mean of the bid/ask price quoted at the close on the principal exchange on which the security is traded. Securities traded on NASDAQ are valued at the NASDAQ official closing price. Closed-end funds and exchange-traded funds ( ETFs ) are valued at the market price of the security at the Valuation Time. A security using any of these pricing methodologies is determined to be a Level 1 investment.

Foreign equity securities that are traded on foreign exchanges that close prior to the Valuation Time are valued by applying valuation factors to the last sale price or the mean price as noted above. Valuation factors are provided by an independent pricing service provider. These valuation factors are used when pricing the Fund s portfolio holdings to estimate market movements between the time foreign markets close and the time the Fund values such foreign securities. These valuation factors are based on inputs such as depositary receipts, indices, futures, sector indices/ETFs, exchange rates, and local exchange opening and closing prices of each security. When prices with the application of valuation factors are utilized, the value assigned to the foreign securities may not be the same as quoted or published prices of the securities on their primary markets. A security that applies a valuation factor is determined to be a Level 2 investment because the exchange-traded price has been adjusted. Valuation factors are not utilized if the independent pricing service provider is unable to provide a valuation factor or if the valuation factor falls below a predetermined threshold; in such case, the security is determined to be a Level 1 investment.

In the event that a security s market quotations are not readily available or are deemed unreliable (for reasons other than because the foreign exchange on which they trade closed before the Valuation Time), the security is valued at fair value as determined by the Fund s Pricing Committee, taking into account the relevant factors and surrounding circumstances using valuation policies and procedures approved and established by the Board. A security that

# Notes to Financial Statements (continued)

October 31, 2014

has been fair valued by the Pricing Committee may be classified as Level 2 or 3 depending on the nature of the inputs.

In accordance with the authoritative guidance on fair value measurements and disclosures under GAAP, the Fund discloses the fair value of its investments using a three-level hierarchy that classifies the inputs to valuation techniques used to measure the fair value. The hierarchy assigns Level 1 measurements to valuations based upon unadjusted quoted prices in active markets for identical assets, Level 2 measurements to valuations based upon significant observable inputs, including adjusted quoted prices in active markets for identical assets, and Level 3 measurements to valuations based upon unobservable inputs that are significant to the valuation. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value including a pricing model and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability, which are based on market data obtained from sources

independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. A financial instrument s level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. The three-level hierarchy of inputs is summarized below:

Level 1 quoted prices in active markets for identical investments;

Level 2 other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk); or

Level 3 significant unobservable inputs (including a Fund s own assumptions in determining the fair value of investments).

The following is a summary of the inputs used as of October 31, 2014 in valuing the Fund s investments at fair value. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Please refer to the Portfolio of Investments for a detailed breakout of the security types:

| **Investments, at Value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Long-Term Investments | $ | $ 186,248,016 | $ | $ 186,248,016 |
| Short-Term Investment | | 2,206,000 | | 2,206,000 |
| **Total** | **$** | **$ 188,454,016** | **$** | **$ 188,454,016** |

Amounts listed as are $0 or round to $0.

For movements between the Levels within the fair value hierarchy, the Fund has adopted a policy of recognizing transfers at the end of each period. During the year ended October 31, 2014, there were no transfers between Level 1, 2, or 3. For the year ended October 31, 2014, there have been no significant changes to the fair valuation methodologies.

### b. Repurchase Agreements:

The Fund may enter into repurchase agreements under the terms of a Master Repurchase Agreement. It is the Fund s policy that its custodian/counterparty segregate the underlying collateral securities, the value of which exceeds the principal amount of the repurchase transaction, including accrued interest. The repurchase price generally equals the price paid by the Fund plus interest negotiated on the basis of current short-term rates. To the extent that any repurchase transaction exceeds one business day, the collateral is valued on a daily basis to determine its adequacy. Under the Master Repurchase Agreement, if the counterparty defaults and the value of the collateral declines, or if bankruptcy proceedings are commenced

with respect to the counterparty of the security, realization of the collateral by the Fund may be delayed or limited. Repurchase agreements are subject to contractual netting arrangements with the counterparty, Fixed Income Clearing Corp. For additional information on individual repurchase agreements, see the portfolio of investments. The Fund held a repurchase agreement of $2,206,000 as of October 31, 2014. The value of the related collateral exceeded the value of the repurchase agreement at October 31, 2014.

**c. Foreign Currency Translation:**

Foreign securities, currencies, and other assets and liabilities denominated in foreign currencies are translated into U.S. Dollars at the exchange rate of said currencies against the U.S. Dollar, as of the Valuation Time, as provided by an independent pricing service approved by the Board.

# Notes to Financial Statements (continued)

October 31, 2014

Foreign currency amounts are translated into U.S. Dollars on the following basis:

(i) market value of investment securities, other assets and liabilities at the exchange rates at the current daily rates of exchange at the Valuation Time; and

(ii) purchases and sales of investment securities, income and expenses at the relevant rates of exchange prevailing on the respective dates of such transactions.

The Fund isolates that portion of the results of operations arising from changes in the foreign exchange rates due to the fluctuations in the market prices of the securities held at the end of the reporting period. Similarly, the Fund isolates the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of portfolio securities sold during the reporting period.

Net exchange gain/(loss) is realized from sales and maturities of portfolio securities, sales of foreign currencies, settlement of securities transactions, dividends, interest and foreign withholding taxes recorded on the Fund s books. Net unrealized foreign exchange appreciation/(depreciation) includes changes in the value of portfolio securities and other assets and liabilities arising as a result of changes in the exchange rate. The net realized and unrealized foreign exchange gain/(loss) shown in the composition of net assets represents foreign exchange gain/(loss) for book purposes that may not have been recognized for tax purposes.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of domestic origin, including unanticipated movements in the value of the foreign currency relative to the U.S. Dollar. Generally, when the U.S. Dollar rises in value against foreign currency, the Fund s investments denominated in that currency will lose value because its currency is worth fewer U.S. Dollars; the opposite effect occurs if the U.S. Dollar falls in relative value.

### d. Security Transactions, Investment Income and Expenses:

Security transactions are recorded on the trade date. Realized and unrealized gains/(losses) from security and currency transactions are calculated on the identified cost basis. Dividend income is recorded on the ex-dividend date except for certain dividends on foreign securities, which are recorded as soon as the Fund is informed after the ex-dividend date. Interest income and expenses are recorded on an accrual basis.

### e. Distributions:

The Fund has a managed distribution policy to pay distributions from net investment income supplemented by net realized foreign exchange gains, net realized short-term capital gains and return of capital distributions, if necessary, on a quarterly basis. The managed distribution policy is subject to regular review by the Board. The Fund will also declare and pay distributions at least annually from net realized gains on investment transactions and net realized foreign exchange gains, if any. Dividends and distributions to shareholders are recorded on the ex-dividend date.

Dividends and distributions to shareholders are determined in accordance with federal income tax regulations, which may differ from GAAP. These differences are primarily due to differing treatments for foreign currencies, loss deferrals and recognition of market discount and premium.

### f. Federal Income Taxes:

For federal income and excise tax purposes, substantially all of the Fund s transactions are accounted for using the Australian Dollar as the functional currency. Accordingly, realized currency gains/(losses) are realized from changes in the foreign exchange rates against the Australian Dollar or are a result from the repatriation of Australian Dollars into U.S. Dollars. This may differ substantially from the realized currency gains recognized under GAAP within the financial statements. Furthermore, the Fund s distribution requirements are calculated on a federal tax basis whereby currency gains/(losses) are considered income and distributed out as such.

The Fund intends to continue to qualify as a regulated investment company by complying with the provisions available to certain investment companies, as defined in Subchapter M of the Internal Revenue Code of 1986, as amended, and to make distributions of net investment income and net realized capital gains sufficient to relieve the Fund from all, or substantially all, federal income taxes. Therefore, no federal income tax provision is required. Since tax authorities can examine previously filed tax returns, the Fund s U.S. federal and state tax returns for each of the four fiscal years up to the most recent fiscal year ended October 31 are subject to such review.

**3. Agreements and Transactions with Affiliates**

**a. Investment Manager and Investment Adviser:**

Aberdeen Asset Management Asia Limited (the Investment Manager ) serves as investment manager to the Fund and Aberdeen Asset Management Limited (the Investment Adviser ) serves as investment adviser to the Fund, pursuant to a management agreement and an advisory agreement, respectively. The Investment Manager and the Investment Adviser are wholly-owned subsidiaries of Aberdeen Asset Management PLC.

# Notes to Financial Statements (continued)

October 31, 2014

The Investment Manager makes investment decisions on behalf of the Fund on the basis of recommendations and information furnished to it by the Investment Adviser, including the selection of, and responsibility for the placement of orders with, brokers and dealers to execute portfolio transactions on behalf of the Fund.

Pursuant to the management agreement, the Fund pays the Investment Manager a fee, payable monthly by the Fund, at the following annual rates: 1.10% of the Fund s average weekly Managed Assets up to $50 million, 0.90% of the Fund s average weekly Managed Assets between $50 million and $100 million and 0.70% of the Fund s average weekly Managed Assets in excess of $100 million. Managed Assets is defined in the management agreement as net assets plus the amount of any borrowings for investment purposes.

The Investment Manager pays fees to the Investment Adviser for its services rendered. The Investment Manager informed the Fund that it paid $423,707 to the Investment Adviser, with respect to the Fund, during the fiscal year ended October 31, 2014.

**b. Fund Administration:**

Aberdeen Asset Management Inc. ( AAMI ), an affiliate of the Investment Manager and the Investment Adviser, is the Fund s Administrator, pursuant to an agreement under which AAMI receives a fee, payable monthly by the Fund, at an annual fee rate of 0.08% of the Fund s average weekly Managed Assets up to $500 million, 0.07% of the Fund s average weekly Managed Assets between $500 million and $1.5 billion, and 0.06% of the Fund s average weekly Managed Assets in excess of $1.5 billion. For the year ended October 31, 2014, AAMI earned $159,965 from the Fund for administration services.

**c. Investor Relations:**

Under the terms of an Investor Relations Services Agreement, AAMI serves as the Fund s investor relations services provider.

Pursuant to the terms of the Investor Relations Services Agreement, AAMI provides, among other things, objective and timely information to shareholders based on publicly-available information; provides information efficiently through the use of technology while offering shareholders immediate access to knowledgeable investor relations representatives; develops and maintains effective communications with investment professionals from a wide variety of firms; creates and maintains investor relations communication materials such as fund manager interviews, films and webcasts, published white papers, magazine and articles and other relevant materials discussing the Fund s investment results, portfolio positioning and outlook; develops and maintains effective communications with large institutional shareholders; responds to

specific shareholder questions; and reports activities and results to the Board and management detailing insight into general shareholder sentiment.

For the fiscal year ended October 31, 2014, the Fund incurred fees of approximately $152,832 for investor relations services. Investor relations fees and expenses in the Statement of Operations include certain out-of-pocket expenses.

**4. Investment Transactions**

Purchases and sales of investment securities (excluding short-term securities) for the fiscal year ended October 31, 2014, were $25,651,691 and $36,077,490, respectively.

**5. Capital**

The authorized capital of the Fund is 30 million shares of $0.01 par value common stock. As of October 31, 2014, there were 22,938,517 shares of common stock issued and outstanding.

In October 2013, the Fund filed a shelf registration statement with the SEC, which permits the Fund to issue up to $130 million in shares of common stock through one or more public offerings, including at-the-market offerings ( ATM offerings), provided that the registration statement is updated and certain performance conditions are met over a three year period. Shares are offered through ATM offerings only when market conditions are considered favorable. Such shares would only be issued when the premium to net asset value is greater than the costs associated with the transaction. Any proceeds raised would be used for investment purposes. In accordance with the terms of a sales agreement, the Fund may offer and sell up to 3,250,000 of its shares, par value $0.01 per share, from time to time through JonesTrading Institutional LLC as its agent for the offer and sale of the shares. For the fiscal year ended October 31, 2014, there were 364,398 shares sold through ATM offerings. For the year ended October 31, 2014 and year ended October 31, 2013, Offering Costs of $178,400 and $18,843 were capitalized as a prepaid expense, respectively. When shares are sold, a portion of the cost attributed to those shares will be charged to paid-in capital. Upon expiration of this shelf offering in January, 2015, any remaining prepaid Offering Costs with this registration statement will be expensed to the Fund. For the fiscal year ended October 31, 2014 and 2013 Offering costs in the amount of $22,115 and $0, respectively were charged to paid-in capital. These costs are noted on the Statement of Changes in Net Assets.

## 6. Open Market Repurchase Program

On March 1, 2001, the Board approved a stock repurchase program. The Board amended the program on December 12, 2007. The stock repurchase program allows the Fund to repurchase up to 10% of its

# Notes to Financial Statements (continued)

October 31, 2014

outstanding common stock in the open market during any 12-month period, if and when the discount to NAV is at least 8%. For the fiscal year ended October 31, 2014 and fiscal year ended October 31, 2013, the Fund did not repurchase any shares through this program.

### 7. Portfolio Investment Risks

#### a. Risks Associated with Foreign Securities and Currencies:

Investments in securities of foreign issuers carry certain risks not ordinarily associated with investments in securities of U.S. issuers. These risks include future political and economic developments, and the possible imposition of exchange controls or other foreign governmental laws and restrictions. In addition, with respect to certain countries, there is the possibility of expropriation of assets, confiscatory taxation, and political or social instability or diplomatic developments, which could adversely affect investments in those countries.

Certain countries also may impose substantial restrictions on investments in their capital markets by foreign entities, including restrictions on investments in issuers of industries deemed sensitive to relevant national interests. These factors may limit the investment opportunities available and result in a lack of liquidity and high price volatility with respect to securities of issuers from developing countries. Foreign securities may also be harder to price than U.S. securities.

#### b. Focus Risk:

The Fund may have elements of risk not typically associated with investments in the United States due to focused investments in a limited number of countries or regions subject to foreign securities or currencies risks. Such focused investments may subject the Fund to additional risks resulting from political or economic conditions in such countries or regions and the possible imposition of adverse governmental laws or currency exchange restrictions could cause the securities and their markets to be less liquid and their prices to be more volatile than those of comparable U.S. securities.

### 8. Contingencies

In the normal course of business, the Fund may provide general indemnifications pursuant to certain contracts and organizational documents. The Fund s maximum exposure under these arrangements is dependent on future claims that may be made against the Fund, and therefore, cannot be estimated; however, based on experience, the risk of loss from such claims is considered remote.

### 9. Tax Information

The U.S. federal income tax basis of the Fund s investments and the net unrealized appreciation as of October 31, 2014 were as follows:

| Tax Basis of Investments | Appreciation | Depreciation | Net Unrealized Appreciation |
|---|---|---|---|
| $163,542,060 | $ 34,209,137 | $ (9,297,181) | $ 24,911,956 |

The tax character of distributions paid during the fiscal years ended October 31, 2014 and October 31, 2013 was as follows:

| | October 31, 2014 | October 31, 2013 |
|---|---|---|
| Distributions paid from: | | |
| Ordinary Income | $ 7,259,285 | $ 7,601,420 |
| Net long-term capital gains | | 9,720,387 |
| Tax return of capital | 13,748,178 | 5,478,055 |
| **Total tax character of distributions** | **$ 21,007,463** | **$ 22,799,862** |

As of October 31, 2014, the components of accumulated earnings on a tax basis were as follows:

| | |
|---|---|
| Undistributed ordinary income net | $ |
| Undistributed long-term capital gains net | |
| Total undistributed earnings | $ |
| Capital loss carryforward | (5,181,527)* |
| Other currency gains | 32,036,904 |
| Other temporary differences | (7,131) |
| Unrealized appreciation/(depreciation) securities | 24,911,956** |
| Unrealized appreciation/(depreciation) currency | (11,363,920) |
| **Total accumulated earnings/(losses) net** | **$ 40,396,282** |

Aberdeen Australia Equity Fund, Inc.

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# Notes to Financial Statements (continued)

October 31, 2014

* On October 31, 2014, the Fund had a net capital loss carryforward of $(5,181,527) which will be available to offset like amounts of any future taxable gains. Under the Regulated Investment Company Modernization Act of 2010, the Fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short term as under previous law. Capital loss carryforwards expire as follows:

| Amount | Expires |
|---|---|
| $242,844 | Unlimited (Short-Term) |
| $4,938,683 | Unlimited (Long-Term) |

** The difference between book-basis and tax-basis unrealized appreciation/(depreciation) is attributable to: the realization for tax purposes of unrealized gains on investments in passive foreign investment companies, differing treatments for foreign currencies, and the tax deferral of wash sales.

GAAP requires that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. Accordingly, the table below details the necessary reclassifications, which are a result of permanent differences primarily attributable to foreign currency transactions and the sale of stock of passive foreign investment companies. These reclassifications have no effect on net assets or net asset values per share.

| Distributions in Excess of Net Investment Income | Accumulated Net Realized Loss from Investment Transactions | Accumulated Net Realized Foreign Exchange Gains | Paid in Capital |
|---|---|---|---|
| $ 1,512,826 | $ (178,963) | $ (1,678,623) | $ 344,760 |

### 10. Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board issued guidance to improve the financial reporting of repurchase agreements and other similar transactions. The guidance includes expanded disclosure requirements for entities that enter into repurchase agreements and similar transactions accounted for as secured borrowings. The guidance is effective for financial statements with fiscal years beginning on or after December 15, 2014 and interim periods within those fiscal years. Management is evaluating the impact, if any, of this guidance on the Funds financial statement disclosures.

### 11. Subsequent Events

Management has evaluated the need for disclosures and/or adjustments resulting from subsequent events through the date the financial statements were issued. Based on this evaluation, no disclosures or adjustments were required to the financial statements as of October 31, 2014.

On December 9, 2014, the Fund announced that it will pay on January 12, 2015 a distribution of $0.22 per share to all shareholders of record as of December 31, 2014.

# Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Aberdeen Australia Equity Fund, Inc.

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of the Aberdeen Australia Equity Fund, Inc. (the Fund ), as of October 31, 2014, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 2014, by

correspondence with the custodian, or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Fund as of October 31, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

Philadelphia, Pennsylvania

December 29, 2014

# Federal Tax Information: Dividends and Distributions (unaudited)

The following information is provided with respect to the distributions paid by the Aberdeen Australia Equity Fund, Inc. during the fiscal year ended October 31, 2014:

| Payable Date | Total Cash Distribution | Long-Term Capital Gain | Tax Return of Capital | Net Ordinary Dividend | Foreign Taxes Paid(1) | Gross Ordinary Dividend | Qualified Dividends(2) | Foreign Source Income |
|---|---|---|---|---|---|---|---|---|
| 1/17/14 | 0.250000 | 0.000000 | 0.000000 | 0.250000 | 0.000705 | 0.250705 | 0.053360 | 0.053360 |
| 3/31/14 | 0.230000 | 0.000000 | 0.159519 | 0.070481 | 0.002237 | 0.072718 | 0.072718 | 0.072718 |
| 6/30/14 | 0.220000 | 0.000000 | 0.220000 | 0.000000 | 0.000000 | 0.000000 | 0.000000 | 0.000000 |
| 9/30/14 | 0.220000 | 0.000000 | 0.220000 | 0.000000 | 0.000000 | 0.000000 | 0.000000 | 0.000000 |

(1) The foreign taxes paid represent taxes incurred by the Fund on interest received from foreign sources. Foreign taxes paid may be included in taxable income with an offsetting deduction from gross income or may be taken as a credit for taxes paid to foreign governments. You should consult your tax advisor regarding the appropriate treatment of foreign taxes paid.

(2) The Fund hereby designates the amount indicated above or the maximum amount allowable by law.

# Supplemental Information (unaudited)

### Board of Directors Consideration of Advisory and Sub-Advisory Agreements

At an in-person meeting of the Board of Directors (the Board ) of Aberdeen Australia Equity Fund, Inc. ( IAF or the Fund ) held on September 8, 2014, the Board, including a majority of the Directors who are not considered to be interested persons of the Fund (the Independent Directors ) under the Investment Company Act of 1940, as amended (the 1940 Act ), approved for an annual period the continuation of the Fund s management agreement with Aberdeen Asset Management Asia Limited (the Investment Manager ) and the investment advisory agreement among the Fund, the Investment Manager and Aberdeen Asset Management Limited (the Investment Adviser ). Collectively, the Investment Manager and the Investment Adviser are referred to herein as the Advisers and the aforementioned agreements with the Advisers are referred to as the Advisory Agreements. The Investment Adviser is an affiliate of the Investment Manager.

In considering whether to approve the renewal of the Fund s Advisory Agreements, the Board reviews a variety of information provided by the Advisers relating to IAF, the Advisory Agreements and the Advisers, including comparative performance, fee and expense information and other information regarding the nature, extent and quality of services provided by the Advisers under their respective Advisory Agreements. The materials provided to the Board generally include, among other items: (i) information on the investment performance of the Fund and the performance of peer groups of funds and the Fund s performance benchmarks; (ii) information on the Fund s advisory fees and other expenses,

including information comparing the Fund s expenses to those of a peer group of funds and information about any applicable expense limitations and fee breakpoints ; (iii) information about the profitability of the Advisory Agreements to the Advisers; (iv) a report prepared by the Advisers in response to a request submitted by the Independent Directors independent legal counsel on behalf of such Directors; and (v) a memorandum from the Independent Directors independent legal counsel on the responsibilities of the Board in considering for approval the investment advisory and investment sub-advisory arrangements under the 1940 Act and Maryland law. The Board, including the Fund s Independent Directors, also considered other matters such as: (i) the Advisers financial results and financial condition; (ii) the Fund s investment objective and strategies; (iii) the Advisers investment personnel and operations; (iv) the procedures employed to determine the value of the Fund s assets; (v) the allocation of the Fund s brokerage, if any, including, if applicable, allocations to brokers affiliated with the Advisers and the use, if any, of soft commission dollars to pay Fund expenses and to pay for research and other similar services; (vi) the resources devoted to, and the record of compliance with, the Fund s investment policies and restrictions, policies on personal securities transactions and other compliance policies; and (vii) possible conflicts of interest. Throughout the process, the Board was afforded the opportunity to ask questions of and request additional materials from the Advisers.

In addition to the materials requested by the Directors in connection with their annual consideration of the continuation of the Advisory Agreements, the Directors received materials in advance of each

# Supplemental Information (unaudited) (continued)

regular quarterly meeting of the Board that provided information relating to the services provided by the Advisers.

The Independent Directors were advised by separate independent legal counsel throughout the process. The Independent Directors also consulted in executive sessions with counsel to the Independent Directors regarding consideration of the renewal of the Advisory Agreements. The Directors also considered the recommendation of the Board s Contract Review Committee, consisting solely of the Board s Independent Directors, that the Advisory Agreements be renewed. In considering whether to approve the continuation of the Advisory Agreements, the Board, including the Independent Directors, did not identify any single factor as determinative. Individual Directors may have evaluated the information presented differently from one another, giving different weights to various factors. Matters considered by the Board, including the Independent Directors, in connection with its approval of the continuation of the Advisory Agreements included the factors listed below.

*The nature, extent and quality of the services provided to the Fund under the Advisory Agreements.* The Directors considered the nature, extent and quality of the services provided by the Advisers to the Fund and the resources dedicated to the applicable Fund by the Advisers. The Board considered, among other things, the Advisers investment experience. The Board received information regarding the Advisers compliance with applicable laws and SEC and other regulatory inquiries or audits of the Fund and the Advisers. The Board also considered the background and experience of the Advisers senior management personnel and the qualifications, background and responsibilities of the portfolio managers primarily responsible for the day-to-day portfolio management services for the Fund. The Board also considered the allocation of responsibilities among the Advisers. In addition, the Board considered the financial condition of the Advisers and whether they had the financial wherewithal to provide a high level and quality of service to the Fund. The Board also considered that they receive information on a regular basis from the Fund s Chief Compliance Officer regarding the Advisers compliance policies and procedures. The Board also considered the Advisers risk management processes. The Board considered the Advisers brokerage policies and practices. Management reported to the Board on, among other things, its business plans and changes. The Board reviewed and assessed the quality of the services the Fund received from the Advisers throughout the year, and that the Board received detailed portfolio review and performance reports through Board meetings, discussion and reports during the preceding year.

After reviewing these and related factors, the Board concluded that they were satisfied with the nature, quality and extent of the

services provided and supported the renewal of the applicable Advisory Agreements.

*Investment performance of the Fund and the Advisers.* The Board received and reviewed with management, among other performance data, information compiled by Strategic Insight Mutual Fund Research and Consulting, LLC ( SI ), an independent third-party provider of investment company data as to the Fund s total return, as compared to the funds in the Fund s Morningstar category (the Morningstar Group ). The Board also received performance information from management that compared the Fund s return to comparable non-U.S. investment companies in its Lipper category.

The Board received and considered information for each of the last five fiscal years regarding the Fund s total return on a gross and net basis and relative to the Fund s benchmark, the Fund s share performance and premium/discount information and the impact of foreign currency movements on the Fund s performance. The Board also received and reviewed information as to the Fund s total return for each of the last five fiscal years as compared with the total returns of its respective Morningstar Group average, and other comparable Aberdeen-managed funds and segregated accounts. The Board considered management s discussion of the factors contributing to differences in performance, including differences in the investment strategies of each of these other funds and accounts. The Board also reviewed information as to the Fund s discount/premium ranking relative to its Morningstar Group. The Board took into account management s discussion of the Fund s performance.

The Board received and reviewed, among other performance data, information compiled by SI as to the Fund s total return, as compared to the funds in the Fund s Morningstar Group. The SI report indicated that the Fund s annualized net total returns were below those of its benchmark for the one-, three-, five- and ten-year periods ended April 30, 2014. The Board also received performance information from management that compared the Fund s return to comparable non-U.S. investment companies in its Lipper category.

The Board received and considered information for each of the last five fiscal years regarding the Fund s total return on a gross and net basis and relative to the Fund s benchmark, the Fund s share performance and premium/discount information and the impact of foreign currency movements on the Fund s performance. The Board also received and reviewed information as to the Fund s total return for the last ten fiscal years as compared with the total returns of the Morningstar Group, and for the last five fiscal years as compared with other Aberdeen-managed funds (and one non-Aberdeen managed Fund) with sufficiently similar investment portfolios to those of the Fund. The Board considered management s discussion of

# Supplemental Information (unaudited) (concluded)

the factors contributing to differences in performance, including differences in the investment strategies of each of these other funds. The Board also reviewed information as to the Fund s discount/premium ranking relative to the Morningstar Group. The Board also noted that the Fund s annualized net total returns were below those of its benchmark for the one-, three-, five- and ten-year periods ended April 30, 2014. The Board took into account management s discussion of the Fund s performance and that the Morningstar peer group was not a very meaningful comparison given the disparate investment mandates of the peers.

*Fees and expenses.* The Board reviewed with management the effective annual management fee rate paid by the Fund to the Investment Manager for investment management services. Additionally, the Board received and considered information compiled at the request of the Fund by SI, comparing the Fund s effective annual management fee rate with the fees paid by a peer group consisting of other comparable closed-end funds (each such group, a Peer Group ). The Board also took into account the management fee structure, including that management fees for the Fund were based on the Fund s total managed assets. The Board also considered that the compensation paid to the Investment Adviser is paid by the Investment Manager, and, accordingly that the retention of the Investment Adviser and Sub-Adviser does not increase the fees or expenses otherwise incurred by the Fund s shareholders. The Board also considered information about the Investment Adviser s and Investment Sub-Adviser s fees, including the amount of the management fees retained by the Investment Manager after payment of the advisory and sub-advisory fees. The Board also received information from management regarding the fees charged by the Advisers to other U.S. and non-U.S. clients investing primarily in an asset class similar to that of the Fund. The Board considered the fee comparisons in light of the differences in resources and costs required to manage the different types of accounts.

The Board also took into account management s discussion of the Fund s expenses, including the factors that impacted the Fund s expenses.

Specifically, the SI data indicated that the Fund s effective management fee rate (computed based on average managed assets for the six months ended April 30, 2014, and which reflects both the advisory fee and the administration fee) was at the Peer Group s median fee rate. The Board noted that, among other information, the SI data also indicated that the Fund s annualized net total expense

ratio based on average net assets for the six months ended April 30, 2014 was below the median expense ratios of the Peer Group. The Board also took into account the size of the Fund and its effect on the Fund s expense ratio. The Board also received information from management regarding the fees charged by the Advisers to other non-U.S. clients with sufficiently similar investment portfolios and investment management services to those of the Fund.

*Economies of Scale.* The Board took into account management s discussion of the Fund s management fee structure. The Board determined that the management fee structure was reasonable and reflects economies of scale being shared between the Fund and the Advisers. This determination was based on various factors, including that the Fund s management fee schedule provides breakpoints at higher asset levels and how the Fund s management fee compares relative to its Peer Group at higher asset levels.

The Directors also considered other factors, which included but were not limited to the following:

the effect of any market and economic volatility on the performance, asset levels and expense ratios of the Fund.

whether the Fund has operated in accordance with their investment objectives and the Fund s record of compliance with their investment restrictions, and the compliance programs of the Advisers. The Directors also considered the compliance-related resources the Advisers and their affiliates were providing to the Fund.

so-called fallout benefits to the Advisers and their affiliates, such as reputational and other indirect benefits. The Directors considered any possible conflicts of interest associated with these fallout and other benefits, and the reporting, disclosure and other processes in place to disclose and monitor such possible conflicts of interest.

* * *

Based on their evaluation of all factors that they deemed to be material, including those factors described above, and assisted by the advice of independent counsel, the Directors, including the Independent Directors, concluded that renewal of the Advisory Agreements would be in the best interest of the Fund and its shareholders. Accordingly, the Board, including the Board s Independent Directors voting separately, approved the Fund s Advisory Agreements for an additional one-year period.

# Management of the Fund (unaudited)

The names of the Directors and Officers of the Fund, their addresses, years of birth, and principal occupations during the past five years are provided in the tables below. Directors that are deemed interested persons (as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended) of the Fund, the Investment Manager or Investment Adviser are included in the table below under the heading Interested Directors. Directors who are not interested persons, as described above, are referred to in the table below under the heading Independent Directors.

**As of October 31, 2014**

| Name, Address and Year of Birth | Position(s) Held With the Fund | Term of Office and Length of Time Served | Principal Occupation(s) During Past Five Years | Number of Funds in Fund Complex* Overseen by Director | Other Directorships Held by Director |
|---|---|---|---|---|---|
| **Interested Director** | | | | | |
| **Hugh Young**** Aberdeen Asset Management Asia Limited 21 Church Street #01-01 Capital Square Two Singapore 049480 Year of Birth: 1958 | Class II Director | Term expires 2017; Director since 2001 | Mr. Young has been a member of the Executive Management Committee and Director of Aberdeen Asset Management PLC since 1991 and 2011, respectively. He has been Managing Director of Aberdeen Asset Management Asia Limited since 1991. | 2 | None |
| **Independent Directors** | | | | | |
| **P. Gerald Malone** 48 Barmouth Road London SW18 2DP United Kingdom Year of Birth: 1950 | Class II Director | Term expires 2017; Director since 2008 | Mr. Malone is, by profession, a solicitor of some 38 years standing. He has served as a Minister of State in the United Kingdom Government. Mr. Malone currently serves as Independent Chairman of one London AIM-listed company (healthcare software) in addition to a privately owned pharmaceutical company. He is Chairman of the Board of Trustees of Aberdeen Funds and Chairman of the Board of Directors of Aberdeen Asia-Pacific Income Fund, Inc. and Aberdeen Global Income Fund, Inc. | 27 | None |
| **Neville J. Miles** 142 Martins Lane Knockrow | Chairman of the Board; Class I Director | Term expires 2016; Director since 1996 | Mr. Miles is, and has been for a period in excess of ten years, Chairman of Ballyshaw Pty. Ltd. (share trading, real estate development and investment). He also is a non-executive director of a number of Australian companies. | 27 | None |

NSW 2010 Australia

Year of Birth: 1946

| | | | | | |
|---|---|---|---|---|---|
| **William J. Potter**<br><br>c/o Aberdeen Asset<br><br>Management Inc.,<br><br>1735 Market Street<br><br>32nd Floor<br><br>Philadelphia, PA 19103<br><br>Year of Birth: 1948 | Class III Director | Term expires 2015; Director since 1985 | Mr. Potter has been Chairman of Meredith Financial Group (investment management) since 2004, a Director of Alexandria Bancorp (international banking and trustee services) since 1989, and a Director of National Foreign Trade Council (international trade) since 1983. | 3 | None |
| **Peter D. Sacks**<br><br>c/o Aberdeen Asset<br><br>Management Inc.,<br><br>1735 Market Street,<br><br>32nd Floor<br><br>Philadelphia, PA 19103<br><br>Year of Birth: 1945 | Class II Director | Term expires 2017; Director since 1999 | Mr. Sacks has been a Director and Founding Partner of Toron AMI International Asset Management (investment management) since 1988. He is also a Director and Investment Advisory Committee member of several private and public sector funds in Canada | 27 | None |

# Management of the Fund (unaudited) (continued)

| Name, Address and Year of Birth | Position(s) Held With the Fund | Term of Office and Length of Time Served | Principal Occupation(s) During Past Five Years | Number of Funds in Fund Complex* Overseen by Director | Other Directorships Held by Director |
|---|---|---|---|---|---|
| **Moritz Sell**<br>1 Crown Court,<br>Cheapside London EC2V6LR<br>Year of Birth: 1967 | Class I Director | Term expires 2016; Director since 2004 | Mr. Sell currently serves as a Senior Advisor to Markston International LLC, an independent investment manager. Mr. Sell was a director and market strategist of Landesbank Berlin AG (banking) and its predecessor, now holding company, Landesbank Berlin Holding AG (formerly named Bankgesellschaft Berlin AG) from 1996 to July 2013. | 3 | None |
| **John T. Sheehy**<br>B.V. Murray and Company<br>666 Goodwin Avenue<br>Suite 300<br>Midland Park, NJ 07432<br>Year of Birth: 1942 | Class III Director | Term expires 2015; Director since 1985 | Mr. Sheehy has been a Senior Managing Director of B.V. Murray and Company (investment banking) since 2001 and Director of Macquarie AIR-serv Holding, Inc. (automotive services) from 2006 to 2013. He was a Managing Member of Pristina Capital Partners, LLC (water purification technology development) from 2007 to 2011, a Director of Smarte Carte, Inc. (airport services) from 2007 until 2010, and Managing Member of The Value Group LLC (venture capital) from 1997 to 2009. | 27 | None |

* Aberdeen Asia-Pacific Income Fund, Inc., Aberdeen Global Income Fund, Inc., Aberdeen Chile Fund, Inc., Aberdeen Israel Fund, Inc., Aberdeen Indonesia Fund, Inc., Aberdeen Latin America Equity Fund, Inc., Aberdeen Emerging Markets Smaller Company Opportunities Fund, Inc., the Aberdeen Funds, Aberdeen Investment Funds, Aberdeen Singapore Fund, Inc., Aberdeen Japan Equity Fund, Inc., Aberdeen Greater China Fund, Inc., The Asia-Tigers Fund, Inc. and The India Fund, Inc. have the same Investment Manager and Investment Adviser as the Fund, or an investment adviser that is affiliated with the Investment Manager and Investment Adviser and may thus be deemed to be part of the same Fund Complex as the Fund.

** Mr. Young is deemed to be an interested person because of his affiliation with the Fund s Investment Manager and Investment Adviser.

# Management of the Fund (unaudited) (continued)

**Information Regarding Officers who are not Directors**

| Name, Address and Year of Birth | Position(s) Held With the Fund | Term of Office* and Length of Time Served | Principal Occupation(s) During Past Five Years |
|---|---|---|---|
| **Jeffrey Cotton****<br>Aberdeen Asset Management Inc.<br>1735 Market St. 32nd Floor<br>Philadelphia, PA 19103<br>Year of Birth: 1977 | Chief Compliance Officer and Vice President, Compliance | Since 2011 | Currently, Vice President and Head of Compliance Americas for Aberdeen Asset Management Inc. Mr. Cotton joined Aberdeen in 2010. Prior to joining Aberdeen, Mr. Cotton was a Senior Compliance Officer at Old Mutual Asset Management (2009-2010) supporting its affiliated investment advisers and mutual fund platform. Mr. Cotton was also a VP, Senior Compliance Manager at Bank of America/Columbia Management (2006-2009). |
| **Mark Daniels**<br>Aberdeen Asset Management Limited<br>Level 6, 201 Kent St<br>Sydney, NSW 2000 Australia<br>Year of Birth: 1955 | Vice President | Since 2005 | Currently, Investment Director, Equities-Asia (since 2011). Previously, Head of Australian Equities of the Aberdeen Group (asset management group consisting of subsidiaries of Aberdeen Asset Management PLC) (since 2005); Fund Manager of Aberdeen Asset Managers Limited (1990 to 2005). |
| **Sharon Ferrari****<br>Aberdeen Asset Management Inc.<br>1735 Market St. 32nd Floor<br>Philadelphia, PA 19103<br>Year of Birth: 1977 | Assistant Treasurer | Since 2009 | Currently, Senior Fund Administration Manager for Aberdeen Asset Management Inc. Ms. Ferrari joined Aberdeen Asset Management Inc. as a Senior Fund Administrator in 2008. |
| **Martin J. Gilbert**<br>Aberdeen Asset Management PLC<br>10 Queen s Terrace<br>Aberdeen, Scotland<br>AB10 1YG<br>Year of Birth: 1955 | Vice President | Since 2008 | Mr. Gilbert is a founding director and shareholder, and Chief Executive of Aberdeen Asset Management PLC, the holding company of the fund management group that was established in 1983. He was President of the Fund, Aberdeen Global Income Fund, Inc. and Aberdeen Asia-Pacific Income Fund, Inc. from February 2004 to March 2008. He was Chairman of the Board of the Fund and of Aberdeen Asia-Pacific Income Fund, Inc. from 2001 to September 2005. He was a Director of Aberdeen Asset Management Asia Limited, the Fund s Investment Manager, from 1991 to 2014, a Director of Aberdeen Asset Management Limited, the Fund s Investment Adviser, from 2000 to 2014, and a Director of Aberdeen Asset Managers (C.I.) Limited, the Fund s former investment manager, from 2000 to 2005. He Was a Director from 1995 to 2014, and was President from September 2006 to 2014 of Aberdeen Asset Management Inc., the Fund s Administrator. Mr. Gilbert also serves as officer and/or director of various Aberdeen group subsidiary companies, Aberdeen-managed investment trusts and funds boards. |
| **Alan Goodson**** | Vice President | Since 2009 | |

| | | | |
|---|---|---|---|
| Aberdeen Asset Management Inc.<br><br>1735 Market St. 32nd Floor<br><br>Philadelphia, PA 19103<br><br>Year of Birth: 1974 | | | Currently, Head of Product US, overseeing Product Management, Product Development and Investor Services for Aberdeen s registered and unregistered investment companies in the US and Canada. Mr. Goodson is Vice President of Aberdeen Asset Management Inc. and joined Aberdeen in 2000. |
| **Matthew Keener****<br><br>Aberdeen Asset Management Inc.<br><br>1735 Market St. 32nd Floor<br><br>Philadelphia, PA 19103<br><br>Year of Birth: 1976 | Assistant Secretary | Since 2008 | Currently, Senior Product Manager for Aberdeen Asset Management Inc. Mr. Keener joined Aberdeen Asset Management Inc. in 2006 as a Fund Administrator. |
| **Megan Kennedy****<br><br>Aberdeen Asset Management Inc.<br><br>1735 Market St. 32nd Floor<br><br>Philadelphia, PA 19103<br><br>Year of Birth: 1974 | Vice President and Secretary | Since 2008 | Currently, Head of Product Management for Aberdeen Asset Management Inc. Ms. Kennedy joined Aberdeen Asset Management Inc. in 2005 as a Senior Fund Administrator. Ms. Kennedy was promoted to Assistant Treasurer Collective Funds/North American Mutual Funds in February 2008 and promoted to Treasurer Collective Funds/North American Mutual Funds in July 2008. |

Aberdeen Australia Equity Fund, Inc.

# Management of the Fund (unaudited) (concluded)

| Name, Address and Year of Birth | Position(s) Held With the Fund | Term of Office* and Length of Time Served | Principal Occupation(s) During Past Five Years |
|---|---|---|---|
| **Andrea Melia****<br>Aberdeen Asset Management Inc.<br>1735 Market St. 32nd Floor<br>Philadelphia, PA 19103<br>Year of Birth: 1969 | Treasurer and Principal Accounting Officer | Since 2009 | Currently, Head of Fund Administration US for Aberdeen Asset Management Inc. Ms. Melia joined Aberdeen Asset Management Inc. in September 2009. Prior to joining Aberdeen, Ms. Melia was Director of fund administration and accounting oversight for Princeton Administrators LLC, a division of BlackRock Inc. and had worked with Princeton Administrators since 1992. |
| **Jennifer Nichols****<br>Aberdeen Asset Management Inc.<br>1735 Market St. 32nd Floor<br>Philadelphia, PA 19103<br>Year of Birth: 1978 | Vice President | Since 2008 | Currently, Global Head of Legal for Aberdeen Asset Management PLC. Director and Vice President for Aberdeen Asset Management Inc. Ms. Nichols joined Aberdeen Asset Management Inc. in October 2006. |
| **Christian Pittard****<br>Aberdeen Asset Managers Services Limited<br>Bow Bells House, 1 Bread Street<br>London<br>United Kingdom<br>Year of Birth: 1973 | President | Since 2009 | Currently, Group Development Director, Collective Funds for Aberdeen Asset Investment Services Limited. Previously, Director and Vice President (2006-2008), Chief Executive Officer (from October 2005 to September 2006) and employee (since June 2005) of Aberdeen Asset Management Inc.; Member of Executive Management Committee of Aberdeen Asset Management PLC (since August 2005). |
| **Sofia Rosala****<br>Aberdeen Asset Management Inc.<br>1735 Market St. 32nd Floor<br>Philadelphia, PA 19103<br>Year of Birth: 1974 | Vice President and Deputy Chief Compliance Officer | Since 2014 | Currently, Deputy Fund Chief Compliance Officer and U.S. Counsel for Aberdeen Asset Management Inc. (since July 2012). Prior to joining Aberdeen, Ms. Rosala was Counsel for Vertex, Inc. from April 2011 to June 2012. She was also an Associate attorney with Morgan, Lewis and Bockius from May 2008-April 2011. |
| **Lucia Sitar****<br>Aberdeen Asset Management Inc.<br>1735 Market St. 32nd Floor | Vice President | Since 2008 | Currently, Managing U.S. Counsel for Aberdeen Asset Management Inc. Ms. Sitar joined Aberdeen Asset Management Inc. in July 2007 as U.S. Counsel. |

Philadelphia, PA 19103

Year of Birth: 1971

* Officers hold their positions with the Fund until a successor has been duly elected and qualifies. Officers are generally elected annually at the meeting of the Board of Directors next following the annual meeting of shareholders. The officers were last elected on March 6, 2013.

** Messrs. Cotton, Goodson, Keener and Pittard and Mses. Ferrari, Kennedy, Melia, Nichols, Rosala and Sitar hold one or more officer positions with one or more of the following funds: Aberdeen Asia-Pacific Income Fund, Inc., Aberdeen Global Income Fund, Inc., Aberdeen Funds, Aberdeen Investment Funds, Aberdeen Indonesia Fund, Inc., Aberdeen Israel Fund, Inc., Aberdeen Latin America Equity Fund, Inc., Aberdeen Chile Fund, Inc., Aberdeen Emerging Markets Smaller Company Opportunities Fund, Inc., Aberdeen Singapore Fund, Inc., Aberdeen Japan Equity Fund, Inc., The Asia-Tigers Fund, Inc., The India Fund, Inc., and Aberdeen Greater China Fund, Inc., each of which may be deemed to be part of the same Fund Complex as the Fund.

# Corporate Information

**Directors**

Neville J. Miles, *Chairman*

P. Gerald Malone

William J. Potter

Peter D. Sacks

Moritz Sell

John T. Sheehy

Hugh Young

**Officers**

Christian Pittard, *President*

Jeffrey Cotton, *Chief Compliance Officer and Vice President, Compliance*

Megan Kennedy, *Vice President and Secretary*

Andrea Melia, *Treasurer and Principal Accounting Officer*

Mark Daniels, *Vice President*

Martin J. Gilbert, *Vice President*

Alan Goodson, *Vice President*

Jennifer Nichols, *Vice President*

Lucia Sitar, *Vice President*

Sharon Ferrari, *Assistant Treasurer*

Matthew Keener, *Assistant Secretary*

Sofia Rosala, *Deputy Chief Compliance Officer and Vice President*

**Investment Manager**

Aberdeen Asset Management Asia Limited

21 Church Street

#01-01 Capital Square Two

Singapore 049480

**Investment Adviser**

Aberdeen Asset Management Limited

Level 6, 201 Kent Street

Sydney, NSW 2000, Australia

**Administrator**

Aberdeen Asset Management Inc.

1735 Market Street, 32nd Floor

Philadelphia, PA 19103

**Custodian**

State Street Bank and Trust Company

1 Iron Street 5th Floor

Boston, MA 02210

**Transfer Agent**

Computershare Trust Company, N.A.

P.O. Box 30170

College Station, TX 77842

**Independent Registered Public Accounting Firm**

KPMG LLP

1601 Market Street

Philadelphia, PA 19103

**Legal Counsel**

Willkie Farr & Gallagher LLP

787 Seventh Ave

New York, NY 10019

**Investor Relations**

Aberdeen Asset Management Inc.

1735 Market Street, 32nd Floor

Philadelphia, PA 19103

1-866-839-5205

InvestorRelations@aberdeen-asset.com

**Aberdeen Asset Management Asia Limited**

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that the Fund may purchase, from time to time, shares of its common stock in the open market.

Shares of Aberdeen Australia Equity Fund, Inc. are traded on the NYSE MKT Equities Exchange under the symbol IAF . Information about the Fund s net asset value and market price is available at www.aberdeeniaf.com.

This report, including the financial information herein, is transmitted to the shareholders of Aberdeen Australia Equity Fund, Inc. for their general information only. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person. Past performance is no guarantee of future returns.

**Item 2 Code of Ethics.**

As of October 31, 2014, the Registrant had adopted a Code of Ethics that applies to the Registrant s principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions (the Code of Ethics ). During the period covered by this report, there were no material changes to the Code of Ethics. During the period covered by this report, there were no waivers to the provisions of the Code of Ethics. A copy of the Code of Ethics has been filed as an exhibit to this Form N-CSR.

**Item 3 Audit Committee Financial Expert.**

The Registrant s Board of Directors has determined that John T. Sheehy, a member of the Board of Directors Audit and Valuation Committee, possesses the attributes, and has acquired such attributes through means, identified in instruction 2 of Item 3 to Form N-CSR to qualify as an audit committee financial expert, and has designated Mr. Sheehy as the Audit and Valuation Committee s financial expert. Mr. Sheehy in an independent director pursuant to paragraph (a)(2) of Item 3 to Form N-CSR.

**Item 4 Principal Accountant Fees and Services.**

(a) (d) Below is a table reflecting the fee information requested in Items 4(a) through (d):

| **Fiscal Year Ended** | **(a) Audit Fees** | **(b)[1] Audit-Related Fees** | **(c)[2] Tax Fees** | **(d) All Other Fees** |
|---|---|---|---|---|
| October 31, 2014 | $ 54,600 | $ 41,350 | $ 7,140 | $ 0 |
| October 31, 2013 | $ 53,545 | $ 30,250 | $ 7,550 | $ 0 |

1 Related to public offering of shares.

2 The Tax Fees are for the completion of the Registrant s federal and state tax returns.

(e)(1) The Registrant s Audit and Valuation Committee (the Committee ) has adopted a Charter that provides that the Committee shall annually select, retain or terminate the Fund s independent auditor and, in connection therewith, to evaluate the terms of the engagement (including compensation of the independent auditor) and the qualifications and independence of the independent auditor, including whether the independent auditor provides any consulting, auditing or tax services to the Registrant s investment adviser or any sub-adviser, and to receive the independent auditor s specific representations as to their independence, delineating all relationships between the independent auditor and the Registrant, consistent with the PCAOB Rule 3526 or any other applicable auditing standard. The Committee Charter also provides that the Committee shall review in advance, and consider approval of, any and all proposals by Management or the Registrant s investment adviser that the Registrant, the investment adviser or their affiliated persons, employ the independent auditor to render permissible non-audit services to the Registrant and to consider whether such services are consistent with the independent auditor s independence.

(e)(2) None of the services described in each of paragraphs (b) through (d) of this Item involved a waiver of the pre-approval requirement by the Audit and Valuation Committee pursuant to Rule 2-01 (c)(7)(i)(C) of Regulation S-X.

(f) Not applicable.

(g) Non-Audit Fees

For the fiscal years ended October 31, 2014 and October 31, 2013, respectively, KPMG billed $812,544 and $877,862 for aggregate non-audit fees for services to the Registrant and to the Registrant s Investment Manager and Investment Adviser.

(h) The Registrant s Audit and Valuation Committee of the Board of Directors has considered whether the provision of non-audit services that were rendered to the Registrant s investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the Registrant that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant s independence and has concluded that it is.

**Item 5 Audit Committee of Listed Registrants.**

(a) The Registrant has a separately-designated standing Audit and Valuation Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act (15 U.S.C. 78c(a)(58)(A)).

For the fiscal year ended October 31, 2014, the audit committee members were:

Neville J. Miles

Peter D. Sacks

Moritz Sell

John T. Sheehy

(b) Not applicable.

**Item 6 Investments.**

(a) Included as part of the Report to Stockholders filed under Item 1 of this Form N-CSR.

(b) Not applicable.

**Item 7 Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**
Pursuant to the Registrant s Proxy Voting Policy and Procedures, the Registrant has delegated responsibility for its proxy voting to its Investment Manager and Investment Adviser, provided that the Registrant s Board of Directors has the opportunity to periodically review the Investment Manager s and Investment Adviser s proxy voting policies and material amendments thereto.

The proxy voting policies of the Registrant are included herewith as Exhibit (d) and policies of the Investment Manager and Investment Adviser are included as Exhibit (e).

**Item 8 Portfolio Managers of Closed-End Management Investment Companies.**
(a)(1) The information in the table below is as of January 7, 2015

| Individual & Position | Services Rendered | Past Business Experience |
|---|---|---|
| Hugh Young<br><br>Managing Director | Responsible for equities globally from the Singapore office. | Currently member of the Executive Management Committee and Director of Aberdeen Asset Management PLC since 1991 and 2011, respectively. He has been Managing Director of Aberdeen Asset Management Asia Limited since 1991. |
| Mark Daniels<br><br>Investment Director Equities Asia | Responsible for Australian equities portfolio management | Currently, Investment Director, Equities-Asia (since 2011). Previously, Head of Australian Equities of the Aberdeen Group (asset management group consisting of subsidiaries of Aberdeen Asset Management PLC) (since 2005); Fund Manager of Aberdeen Asset Managers Limited (1990 to 2005). |
| Michelle Lopez<br><br>Senior Investment Manager | Responsible for Australian equities portfolio management | Currently Senior Investment Manager on the Australian equities desk. She joined Aberdeen in 2004 upon graduation. |
| Natalie Tam<br><br>Senior Investment Manager | Responsible for Australian equities portfolio management | Currently Senior Investment Manager on the Australian equity desk. She joined Aberdeen in 2005 from Deutsche Bank, where she worked as an equity research analyst. |
| Robert Penaloza<br><br>Head of Australian Equities | Oversees management of Australian equities portfolio management | Currently a Head of Australian Equities. Joined Aberdeen in 1997 as an assistant investment manager on the Asia ex-Japan equity desk. |

(a)(2) The information in the table below is as of October 31, 2014

| Name of Portfolio Manager | Type of Accounts | Total Number of Accounts Managed | Total Assets ($M) | Number of Accounts Managed for Which Advisory Fee is Based on Performance | Total Assets for Which Advisory Fee is Based on Performance ($M) |
|---|---|---|---|---|---|
| Hugh Young | Registered Investment Companies | 21 | $ 13,518.17 | 0 | $ 0 |
| | Pooled Investment Vehicles | 82 | $ 58,553.28 | 2 | $ 398.26 |
| | Other Accounts | 132 | $ 46,938.58 | 16 | $ 5,017.36 |
| Mark Daniels | Registered Investment Companies | 10 | $ 2,701.93 | 0 | $ 0 |
| | Pooled Investment Vehicles | 57 | $ 34,346.76 | 2 | $ 398.26 |
| | Other Accounts | 77 | $ 26,794.38 | 11 | $ 3,615.39 |
| Michelle Lopez | Registered Investment Companies | 10 | $ 2,701.93 | 0 | $ 0 |
| | Pooled Investment Vehicles | 57 | $ 34,346.76 | 2 | $ 398.26 |
| | Other Accounts | 77 | $ 26,794.38 | 11 | $ 3,615.39 |
| Natalie Tam | Registered Investment Companies | 10 | $ 2,701.93 | 0 | $ 0 |
| | Pooled Investment Vehicles | 57 | $ 34,346.76 | 2 | $ 398.26 |
| | Other Accounts | 77 | $ 26,794.38 | 11 | $ 3,615.39 |
| Robert Penaloza | Registered Investment Companies | 10 | $ 2,701.93 | 0 | $ 0 |
| | Pooled Investment Vehicles | 57 | $ 34,346.76 | 2 | $ 398.26 |
| | Other Accounts | 77 | $ 26,794.38 | 11 | $ 3,615.39 |

Total assets are as of October 31, 2014 and have been translated to U.S. dollars at a rate of £1.00 = $1.60.

In accordance with legal requirements in the various jurisdictions in which they operate, and their own Conflicts of Interest policies, all subsidiaries of Aberdeen Asset Management PLC, (together Aberdeen), have in place arrangements to identify and manage Conflicts of Interest that may arise between them and their clients or between their different clients. Where Aberdeen does not consider that these arrangements are sufficient to manage a particular conflict, it will inform the relevant client(s) of the nature of the conflict so that the client(s) may decide how to proceed.

The portfolio managers management of other accounts , including (1) mutual funds; (2) other pooled investment vehicles; and (3) other accounts that may pay advisory fees that are based on account performance ( performance-based fees ), may give rise to potential conflicts of interest in connection with their management of a Fund s investments, on the one hand, and the investments of the other accounts, on the other. The other accounts may have the same investment objective as a fund. Therefore, a potential conflict of interest may arise as a result of the identical investment objectives, whereby the portfolio manager could favor one account over another. However, Aberdeen believes that these risks are mitigated by the fact that: (i) accounts with like investment strategies managed by a particular portfolio manager are generally managed in a similar fashion, subject to exceptions to account for particular investment restrictions or policies applicable only to certain accounts, differences in cash flows and account sizes, and similar factors; and (ii) portfolio manager personal trading is monitored to avoid potential conflicts. In addition, Aberdeen has adopted trade allocation procedures that require equitable allocation of trade orders for a particular security among participating accounts.

In some cases, another account managed by the same portfolio manager may compensate Aberdeen based on the performance of the portfolio held by that account. The existence of such performance-based fees may create additional conflicts of interest for the portfolio manager in the allocation of management time, resources and investment opportunities.

Another potential conflict could include instances in which securities considered as investments for a Fund also may be appropriate for other investment accounts managed by Aberdeen or its affiliates. Whenever decisions are made to buy or sell securities by the Fund and one or more of the other accounts simultaneously, Aberdeen may aggregate the purchases and sales of the securities and will allocate the securities transactions in a manner that it believes to be equitable under the circumstances. As a result of the allocations, there may be instances where the Fund will not participate in a transaction that is allocated among other accounts. While these aggregation and allocation policies could have a detrimental effect on the price or amount of the securities available to a fund from time to time, it is the opinion of Aberdeen that the benefits from the Aberdeen organization outweigh any disadvantage that may arise from exposure to simultaneous transactions. Aberdeen has adopted policies that are designed to eliminate or minimize conflicts of interest, although there is no guarantee that procedures adopted under such policies will detect each and every situation in which a conflict arises.

(a)(3)

Aberdeen Asset Management PLC s ( Aberdeen ) remuneration policies are designed to support its business strategy as a leading international asset manager. The objective is to attract, retain and reward talented individuals for the delivery of sustained, superior returns for Aberdeen s clients and shareholders. Aberdeen operates in a highly competitive international employment market, and aims to maintain its strong track record of success in developing and retaining talent.

Aberdeen s policy is to recognize corporate and individual achievements each year through an appropriate annual bonus scheme. The aggregate value of awards in any year is dependent on the group s overall performance and profitability. Consideration is also given to the levels of bonuses paid in the market. Individual awards, which are payable to all members of staff are determined by a rigorous assessment of achievement against defined objectives.

A long-term incentive plan for key staff and senior employees comprises of a mixture of cash and deferred shares in Aberdeen PLC or select Aberdeen funds (where applicable). Overall compensation packages are designed to be competitive relative to the investment management industry.

Base Salary

Aberdeen s policy is to pay a fair salary commensurate with the individual s role, responsibilities and experience, and having regard to the market rates being offered for similar roles in the asset management sector and other comparable companies. Any increase is generally to reflect inflation and is applied in a manner consistent with other Aberdeen employees; any other increases must be justified by reference to promotion or changes in responsibilities.

Annual Bonus

Aberdeen s policy is to recognize corporate and individual achievements each year through an appropriate annual bonus scheme. The Remuneration Committee of Aberdeen determines the key performance indicators that will be applied in considering the overall size of the bonus pool. In line with practice amongst other asset management companies, individual bonuses are not subject to an absolute cap. However, the aggregate size of the bonus pool is dependent on the group s overall performance and profitability. Consideration is also given to the levels of bonuses paid in the market. Individual awards are determined by a rigorous assessment of achievement against defined objectives, and are reviewed and approved by the Remuneration Committee.

Aberdeen has a deferral policy which is intended to assist in the retention of talent and to create additional alignment of executives interests with Aberdeen s sustained performance and, in respect of the deferral into funds, managed by Aberdeen, to align the interest of asset managers with our clients.

Staff performance is reviewed formally at least once a year. The review process evaluates the various aspects that the individual has contributed to Aberdeen, and specifically, in the case of portfolio managers, to the relevant investment team. Discretionary bonuses are based on client service, asset growth and the performance of the respective portfolio manager. Overall participation in team meetings, generation of original research ideas and contribution to presenting the team externally are also evaluated.

In the calculation of a portfolio management team s bonus, Aberdeen takes into consideration investment matters (which include the performance of funds, adherence to the company investment process, and quality of company meetings) as well as more subjective issues such as team participation and effectiveness at client presentations. To the extent performance is factored in, such performance is not judged against any specific benchmark and is evaluated over the period of a year - January to December. The pre- or after-tax performance of an individual account is not considered in the determination of a portfolio manager s discretionary bonus; rather the review process evaluates the overall performance of the team for all of the accounts the team manages.

Portfolio manager performance on investment matters is judged over all of the accounts the portfolio manager contributes to and is documented in the appraisal process. A combination of the team s and individual s performance is considered and evaluated.

Although performance is not a substantial portion of a portfolio manager s compensation, Aberdeen also recognizes that fund performance can often be driven by factors outside one s control, such as (irrational) markets, and as such pays attention to the effort by portfolio managers to ensure integrity of our core process by sticking to disciplines and processes set, regardless of momentum and hot themes. Short-terming is thus discouraged and trading-oriented managers will thus find it difficult to thrive in the Aberdeen environment. Additionally, if any of the aforementioned undue risks were to be taken by a portfolio manager, such trend would be identified via Aberdeen s dynamic compliance monitoring system.

(a)(4)

| **Individual** | **Dollar Range of Equity Securities in the Registrant Beneficially Owned by the Portfolio Manager as of October 31, 2014** |
|---|---|
| Hugh Young | $10,001- $50,000 |
| Mark Daniels | $0 |
| Michelle Lopez | $0 |
| Natalie Tam | $0 |
| Robert Penaloza | $0 |

(b) Not applicable.

**Item 9 Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.**

REGISTRANT PURCHASES OF EQUITY SECURITIES

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1] | (d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs [1] |
|---|---|---|---|---|
| November 1, 2013 through November 30, 2013 | 0 | 0 | 0 | 2,257,412 |
| December 1, 2013 through December 31, 2013 | 0 | 0 | 0 | 2,257,412 |
| January 1, 2014 through January 31, 2014 | 0 | 0 | 0 | 2,257,412 |
| February 1, 2014 through February 28, 2014 | 0 | 0 | 0 | 2,257,412 |
| March 1, 2014 through March 31, 2014 | 0 | 0 | 0 | 2,257,412 |
| April 1, 2014 through April 30, 2014 | 0 | 0 | 0 | 2,257,412 |
| May 1, 2014 through May 31, 2014 | 0 | 0 | 0 | 2,257,412 |
| June 1, 2014 through June 30, 2014 | 0 | 0 | 0 | 2,257,412 |
| July 1, 2014 through July 31, 2014 | 0 | 0 | 0 | 2,257,412 |
| August 1, 2014 through August 31, 2014 | 0 | 0 | 0 | 2,257,412 |
| September 1, 2014 through September 30, 2014 | 0 | 0 | 0 | 2,257,412 |
| October 1, 2014 through October 31, 2014 | 0 | 0 | 0 | 2,257,412 |
| Total | 0 | 0 | 0 | |

[1] The Registrant s stock repurchase program was announced on March 19, 2001 and further amended by the Registrant s Board of Directors on December 12, 2007. Under the terms of the current program, the Registrant is permitted to repurchase up to 10% of its outstanding shares of common stock, par value $.01 per share, on the open market during any 12 month period if and when the discount to net asset value is at least 8%.

**Item 10 Submission of Matters to a Vote of Security Holders.**

During the period ended October 31, 2014, there were no material changes to the procedures by which shareholders may recommend nominees to the Registrant s Board of Directors.

**Item 11 Controls and Procedures.**

(a) The Registrant s principal executive and principal financial officers, or persons performing similar functions, have concluded that the Registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the Act ) (17 CFR 270.30a-3(c)) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on the evaluation of these controls and procedures required by Rule 30a-3(b) under the Act (17 CFR 270.30a3(b)) and Rule 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d15(b)).

(b) There were no changes in the Registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d)) that occurred during the Registrant s last fiscal half-year that has materially affected, or is reasonably likely to materially affect, the Registrant s internal control over financial reporting.

**Item 12 Exhibits.**

(a)(1) Code of Ethics pursuant to Item 2(f) of this Form N-CSR.

(a)(2) Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940, as amended.

(a)(3) Not applicable.

(b) Certifications pursuant to Rule 30a-2(b) under the Investment Company Act of 1940, as amended.

(c) A copy of the Registrant s notices to stockholders, which accompanied distributions paid, pursuant to the Registrant s Managed Distribution Policy since the Registrant s last filed N-CSR, are filed herewith as Exhibits (c), as required by the terms of the Registrant s SEC exemptive order.

(d) Proxy Voting Policy of Registrant.

(e) Proxy Voting Policies and Procedures of Investment Manager.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Aberdeen Australia Equity Fund, Inc.

BY: */s/ Christian Pittard*
Christian Pittard,
Principal Executive Officer of
Aberdeen Australia Equity Fund, Inc.

Date: January 7, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

BY: */s/ Christian Pittard*
Christian Pittard,
Principal Executive Officer of
Aberdeen Australia Equity Fund, Inc.

Date: January 7, 2015

BY: */s/ Andrea Melia*
Andrea Melia,
Principal Financial Officer of
Aberdeen Australia Equity Fund, Inc.

Date: January 7, 2015

EXHIBIT LIST

12(a)(1) Code of Ethics of the Registrant for the period covered by this report as required pursuant to Item 2 of this Form N-CSR.

12(a)(2) Rule 30a-2(a) Certifications

12(b) Rule 30a-2(b) Certifications

12(c) Distribution notice to stockholders

12(d) Registrant s Proxy Voting Policies

12(e) Investment Manager s and Investment Adviser s Proxy Voting Policies