

HETA ASSET RESOLUTION

Information for Creditors and Investors

Klagenfurt am Wörthersee, 06.11.2015

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Introduction

In an ad-hoc announcement on 13 August 2015, the Management Board of HETA stated its intention, subject to legal restrictions and starting with the publication of the interim financial report as of 30 June 2015, to publish in a structured form further information concerning HETA which is of general interest to creditors and investors.

With the aim of creating additional transparency towards creditors and investors the Management Board of HETA has thus published the present company presentation. For individual topics this document also provides answers to questions that HETA has received in response to its invitation to put forward specific questions. With invitation has been issued to all creditors and investors in the ad-hoc announcement of 13 August 2015.

In connection with the information contained in this company presentation, the Management Board of HETA expressly refers creditors and investors to the corresponding disclaimer in the company presentation. It is also pointed out that the company presentation may be updated or supplemented at any time; any such updates and supplements can be downloaded from the HETA website under Investor Relations/Investor Information.

On this basis, in accordance with the invitation issued on 13 August 2015, creditors or their representatives can also continue to send in further specific questions of general interest to creditors and investors in writing to this e-mail address: holding@heta-asset-resolution.com. The decision as to which questions will be answered, and also as to the form and content of answers, will continue to rest with HETA.

Please note that the FMA as resolution authority is also planning to publish relevant information on topics relating to BaSAG and the application of BaSAG by the FMA as resolution authority on its website (www.fma.gv.at). We would therefore also ask you to look at the FMA website at regular intervals.

List of abbreviations

In this presentation, the following abbreviations are used for the following terms:

BWG	Bankwesengesetz (Austrian Banking Act)
HETA	HETA ASSET RESOLUTION AG (formerly Hypo Alpe-Adria-Bank International AG or HBInt)
BaSAG	Bundesgesetz zur Sanierung und Abwicklung von Banken (Austrian Federal Act on the Recovery and Resolution of Banks)
GSA	Gesetz zur Schaffung einer Abbaueinheit (Austrian Federal Act for the Creation of a Wind-Down Unit)
BLB	Bayerische Landesbank
FMA	Finanzmarktaufsicht (Austrian Financial Market Authority)
MoU	Memorandum of Understanding between the Republic of Austria and the Free State of Bavaria of 7.7.2015
PL	Performing Loans
NPL	Non-Performing Loans
GREM	Group Real Estate Management (specialist division within HETA for valuation and management of real estate)
CHF	Swiss francs
HGAA	Hypo Group Alpe Adria
HBI	Hypo Alpe-Adria-Bank SpA (Italy)
SEE	South-Eastern Europe
NBV	Net book value
UGB	Unternehmensgesetzbuch (Austrian Commercial Code)
HaaSanG	Bundesgesetz über Sanierungsmaßnahmen für die Hypo Alpe Adria Bank International AG (Austrian Federal Act on Restructuring Measures for Hypo Alpe Adria Bank International AG)
AQR	Asset Quality Review
SSM	Single Supervisory Mechanism

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1 Structure and purpose of the company

1.1 Organisational structure

1.2 Purpose of the company

1.3 Corporate Governance

1 Structure and purpose of the company HETA ASSET RESOLUTION

1.1 Organisational structure

Legal framework conditions

GSA (Austrian Federal Act on the Creation of a Wind-Down Unit)

- HETA is a **partially regulated wind-down unit** (note: certain provisions of the Austrian Banking Act (BWG) continue to apply)
- **Function of HETA:** Orderly, active and best possible realisation pursuant to wind-down plan. The portfolio wind-down is to take place in accordance with the wind-down plan and is to be executed as quickly as possible within the framework of the objectives
- **Permissible transactions:** Restriction of transactions exclusively to the purpose of the portfolio wind-down
- **Regular reporting** (quarterly and annual report) concerning the course of realisation

BaSAG (Austrian Federal Act on the Recovery and Restructuring of Banks)

- As of **1 March 2015**, by an administrative ruling of the FMA as resolution authority concerning the imposition of resolution measures, HETA was made subject to BaSAG. With this decision, all eligible debt securities, liabilities and interest were made subject to a **payment moratorium** which is to expire at the end of **31 May 2016**.
- **Aim of BaSAG:** Orderly resolution of institutions; creditors may not be placed in a worse position than would be the case in the event of the insolvency of the institution
- **Independent valuation and measures:** By the end of the moratorium, a final valuation of the assets and liabilities of HETA will be carried out by an independent valuation auditor (§ 54 (2) BaSAG). On this basis, the FMA will draw up a **resolution plan** in which the resolution measures will be specified.

1 Structure and purpose of the company

1.1 Organisational structure

Chief Executive Officer (1)

Compliance and operations

- Dealing with key topics as guarantor of strict fulfilment of tasks and motivation for employees
- Additional supervisory function of the wind-down by Audit and Compliance
- Uniform coordination and steering of the Group in the context of cross-divisional topics
- Ensuring operations and IT infrastructure
- Focus on efficiency and economic viability of operations
- Management of legal risks

Chief Finance and Risk Officer (1)

Steering and supervision

- Steering and supervision of the wind-down from financial and risk perspectives at portfolio and part-portfolio level
- Supervision of the wind-down units in the execution of operational business
- Accounting and reporting topics
- Back-office and administrative functions for the wind-down areas and operational control

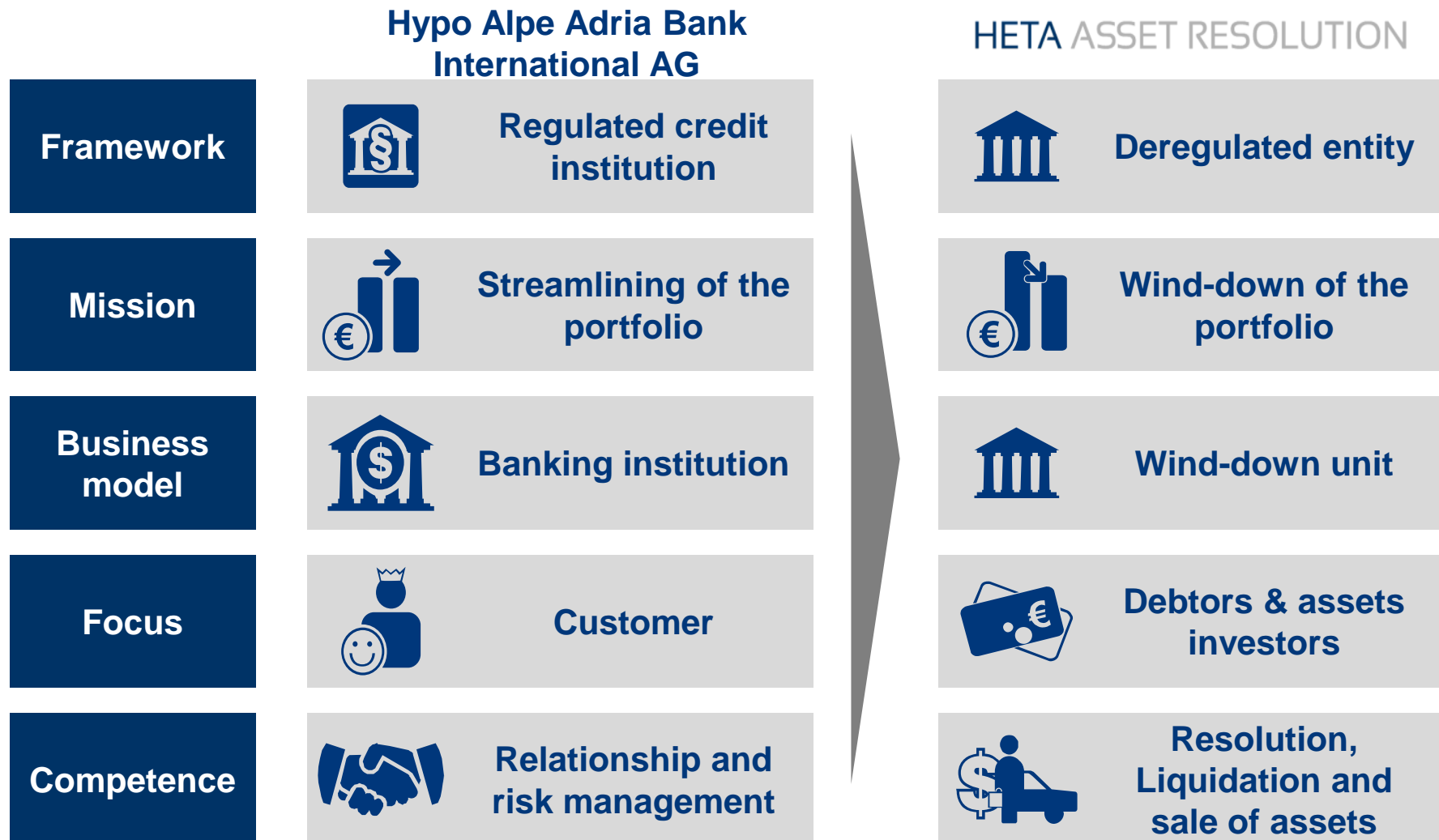
Chief Resolution Officers (2)

Wind-down and sale

- Focus on wind-down performance of the holding company and the wind-down units
- Expansion of the operational steering of the wind-down by means of increased management presence in the countries
- Sales of individual assets and portfolios
- Liquidity management
- Management of special topics HGAA and HBI

1 Structure and purpose of the company

1.2 Purpose of the company



1 Structure and purpose of the company

1.2 Purpose of the company

Value-preserving portfolio wind-down	Focus on core function	Operational efficiency
<p><i>Sale and wind-down focus</i></p> <ul style="list-style-type: none"> • Expeditious wind-down of the existing portfolio in the best possible way to preserve value • Active sale, liquidation and resolution of the assets in the shortest possible time • Clear strategies for wind-down portfolio, sub-clusters and individual assets; setting the framework of activities • Strengthening the sales functions and streamlining of sales processes • Start of portfolio sales 	<p><i>Lean organisation</i></p> <ul style="list-style-type: none"> • Ensuring a stable, functioning and flexible management and organisational structure on an ongoing basis, with adequate staffing • Focusing of functions on the requirements of the wind-down and on the management of wind-down specific risks • Core functions ensure that the entire life cycle of the realisation is covered • Ensuring further critical functions 	<p><i>Cost optimisation</i></p> <ul style="list-style-type: none"> • Execution of the wind-down with maximum professionalism • Reducing applications to those necessary for steering, management and operational use • Cost avoidance and cost optimisation as success factor • Preservation of public interests and public funds for the protection of creditors and taxpayers • Liquidity hedging
<i>Next steps</i>	<i>Next steps</i>	<i>Next steps</i>
<ul style="list-style-type: none"> • Continuing focus on asset wind-down • Completion of portfolio sales started • Initiation of new portfolio sales 	<ul style="list-style-type: none"> • Further optimisation of the sales organisation to achieve the best possible realisation result • Conclusion of the implementation of the Target Operating Model 	<ul style="list-style-type: none"> • Dismantling of still existing bank functions; focusing on wind-down functions • Execution of training measures (sales)

1 Structure and purpose of the company

1.3 Corporate Governance

How can we envisage the decision-making process in practice?

The Management Board takes its decisions at meetings of the Management Board. Meetings of the Management Board take place at least once a week. If the transaction in question is a “transaction requiring consent”, the matter is also presented to the Supervisory Board for approval. As a general principle, all transactions that have to be approved by the Supervisory Board must also be presented to the resolution authority for “non-prohibition”

What is the relationship between the Supervisory Board and the resolution authority?

The resolution authority becomes involved with a matter only when the relevant resolutions have been adopted by the management bodies of HETA (i.e. the Management Board and the Supervisory Board). In the event of a positive decision, the authority issues a “non-prohibition”. The transaction cannot be implemented until the non-prohibition has been issued by the authority. In practice, therefore, a transaction is first approved by the HETA Management Board. If the transaction in question is a transaction that requires the consent of the HETA Supervisory Board, the Management Board then obtains the approval of the Supervisory Board. After the Supervisory Board has given its consent the transaction is submitted to the resolution authority for “non-prohibition”. The transaction is only executed after “non-prohibition” by the resolution authority.

1 Structure and purpose of the company

1.3 Corporate Governance

What documents form the basis for the Corporate Governance of HETA?

The basic document is the Articles of Association of HETA. Following the issuing of the administrative ruling, these have been drastically amended on the basis of the requirements imposed by the resolution authority. The new Articles of Association of HETA are available on the HETA website (www.heta-asset-resolution.com). On this basis, customary rules of procedure apply in respect of the individual management bodies of HETA (i.e. the Management Board and the Supervisory Board), setting out in greater detail not only the various reporting duties to the Supervisory Board, the resolution authority and the resolution advisory committee but also the transactions requiring the consent of the Supervisory Board, and listing in greater detail the rights of the resolution authority and the resolution advisory committee as set out in the Articles of Association.

What Corporate Governance rights does the resolution authority have?

Summary of rights and duties towards the resolution authority: (a) Extension of HETA's reporting duties to the resolution authority and the resolution advisory committee. (b) Important resolutions adopted by the HETA Supervisory Board also require non-prohibition by the resolution authority, which also involves its resolution advisory committee for this purpose (transactions extending beyond the ordinary course of business, transactions that adversely affect the resolution objectives in a relevant manner, transactions involving amounts in excess of defined threshold values, etc.). (c) The resolution authority can take part in Supervisory Board meetings and require that transactions other than those envisaged in (b) be dealt with by the advisory committee or be made subject to mandatory non-prohibition by the resolution authority (escalation right). (d) Consent of the resolution authority at the General Meeting of HETA is necessary for distribution of the balance sheet profit and choice of auditor.

1 Structure and purpose of the company

1.3 Corporate Governance

What is the resolution advisory committee and what are its tasks?

The resolution advisory committee is not an executive body of HETA, but an advisory committee of the resolution authority. It has no decision-making competence. It is made up of external experts appointed by the resolution authority.

The resolution advisory committee has comprehensive rights of information and access towards HETA and reporting duties towards the resolution authority, in order to be able to report to the resolution authority on an ongoing basis concerning the wind-down process and ensure the observance of the resolution objectives. The resolution advisory committee can also make recommendations regarding the resolution measures to be imposed by the resolution authority.

The resolution advisory committee is directly involved by the resolution authority in the run-up to decisions that have to be taken by the resolution authority concerning the “non-prohibition” of transactions. Similarly, in cases where the escalation right is exercised by representatives of the resolution authority on the HETA Supervisory Board, the resolution advisory committee can be involved by the resolution authority in the run-up to decisions concerning the “non-prohibition” of transactions affected. In such cases, HETA also has corresponding duties of disclosure and reporting duties towards the resolution advisory committee.

2. Interim financial statements pursuant to UGB/BWG as of 30.06.2015

2.1 Overview of assets and liabilities

2.2 Liabilities

2.3 Assets

Important notes

The figures shown in this section are based on the pro forma interim financial statements for HETA as of 30 June 2015 (separate financial statements pursuant to UGB/BWG), which – in the absence of any statutory requirement – have not been examined by an auditor or subjected to any auditor's review. The interim financial statements as of 30 June 2015 do not contain all the information and notes that are included in the most recently published annual financial report as of 31 December 2014, and must therefore be read in conjunction with the latter and with the interim financial report in accordance with § 87 (2) of the Austrian Stock Exchange Act (BörseG).

Relevant adjusting events that occurred up to the drafting date for the interim financial statements, i.e. up to 28 August 2015, have been taken into account. The valuation of assets and liabilities, and of provisions, is based mainly on forecasts, plans, estimates and statements relating to the future, which are based on the expectations, plans, estimates and forecasts of HETA at the time regarding future circumstances and events, and which are associated with known and unknown risks, uncertainties and assumptions that may affect HETA, the HETA Group, as well as wind-down divisions, income or developments of HETA and the HETA Group. The occurrence of such risks or uncertainties, or the non-materialisation of assumptions, may cause the actual results and values of the individual assets and liabilities, as well as the actual financial position, financial performance and cash flows of HETA or of the HETA Group to deviate significantly from the present-day forecasts, plans, estimates and statements relating to the future as taken into account in the interim financial statements as of 30 June 2015 and as set out in the following pages.

IN CONNECTION WITH THE FOLLOWING PRESENTATION OF THE INTERIM FINANCIAL STATEMENTS AS OF 30.06.2015, WE MAKE PARTICULAR REFERENCE TO THE DISCLAIMER ON PAGE 2 OF THE PRESENTATION. WE THEREFORE REQUEST THAT YOU READ THIS DISCLAIMER CAREFULLY BEFORE REVIEWING THIS SECTION.

2 Interim financial statements pursuant to UGB/BWG as of 30.06.2015

2.1 Overview of assets and liabilities

HETA AG separate financial statements pursuant to UGB/BWG as of 30.06.2015

Values in millions of EUR

Assets	30.06.2015	31.12.2014	Liabilities	30.06.2015	31.12.2014
1. Cash and balances with central banks	2.109,7	2.358,8	1. Liabilities to credit institutions	3.617,1	2.929,2
2. Treasury bills and other bills for refinancing with central banks	155,8	233,1	2. Liabilities to customers	1.683,4	1.668,1
3. Loans and advances to credit institutions	3.238,9	2.520,4	3. Liabilities evidenced by certificates	8.816,3	8.616,4
4. Loans and advances to customers	2.972,2	3.246,4	4. Other liabilities	217,0	140,5
5. Bonds and other fixed income securities	223,1	391,4	5. Deferred items	19,6	24,7
6. Shares and other non-fixed income securities	29,4	20,9	6. Provisions	1.374,7	2.122,2
7. Shares in associated companies	0,0	0,0	6A. Fund for general banking risks	0,0	0,0
8. Shares in affiliated companies	532,6	505,3	7. Subordinated liabilities	1.944,0	1.095,6
9. Intangible fixed assets	3,3	3,6	8. Supplementary capital	0,0	0,0
10. Tangible fixed assets	4,5	4,1	9. Issued capital	3.494,2	3.494,2
11. Other assets	323,5	316,2	10. Appropriated paid in capital	0,0	0,0
12. Deferred items	8,2	9,3	11. Profit reserves	0,0	0,0
			12. Liability reserves pursuant to § 23 (6) BWG	0,0	0,0
			13. Net accumulated losses	-11.565,2	-10.481,4
TOTAL ASSETS	9.601,1	9.609,5	TOTAL LIABILITIES	9.601,1	9.609,5

Information on off-balance sheet items

Other off balance sheet financial obligations in millions of EUR (UGB)	30.06.2015	31.12.2014
Contingent liabilities	165	215
Guarantees and warranties	165	197
Letters of credit	0	19
Contingent liabilities arising from credit derivatives	0	0
Credit risks	298	436
Towards former subsidiary bank HBI based on Term Sheet 6/2015	100	0
Towards HETA group companies	139	155
Towards third party customers	59	281

2 Interim financial statements pursuant to UGB/BWG as of 30.06.2015

2.2 Liabilities

HETA AG interim financial statements as of 30.06.2015: BALANCE SHEET pursuant to UGB/BWG – CLASSIFICATION OF LIABILITIES

LIABILITIES (amounts in millions of €)		30.06.2015							
1. Liabilities to credit institutions	3.617	Towards BayernLB 2.519	BONDS (with provincial government guarantee) 475	CASH COLLATERALS 1) (excluding SEE network) 448	Förderbank economic development bank (asset-backed liability) 70	Liabilities towards former SEE network (of which 33.6m cash collateral) 36	Other 69		
2. Liabilities to customers	1.683	BONDS (with provincial government guarantee) 1.328	BONDS via Pfandbriefstelle (with provincial government guarantee) 37	towards IC group company (securities investment company 1 with European investor) 188	Towards other IC group companies 71	BONDS (without provincial government guarantee) 22	Other 38		
3. Liabilities evidenced by certificates	8.816	Towards BayernLB (Nom. CHF 300m) 288	ISSUES (with provincial government guarantee) 6.933	MORTGAGE BONDS (asset-backed liabilities, covered pool) 2) 270	ISSUES via Pfandbriefstelle (with provincial government guarantee) 1.202	Accrued interest 123			
4. Other liabilities	217	Liabilities arising from 2011 guarantee fee to Province of Carinthia 23	Liabilities arising from 2015 guarantee fee to Republic of Austria 36	Foreign currency valuation from derivatives transactions 3) incl. FX-related balance sheet reduction 96	Accrued interest and upfront payments received from derivatives transactions 54	Other 9			
5. Deferred items	20	Deferral from release of liability swaps (own issues) 19	Deferral of premium (own issues) 1						
6. Provisions	1.375	Provision in connection with sale of SEE network 4) 451	CLOSING COSTS incl. legal and consultancy costs (business- related) 5) 481	Anticipated loss provision from derivatives 6) 202	Risks arising from credit business (third parties) 36	BayernLB: Provisions for compensation claims and costs of EKEG proceedings 80	PROVISION FOR STAFF I (Pension provision without provincial government guarantee 3m, severance 4m, restructuring 24m, other staff provisions 9m) 40	PROVISION FOR STAFF II Pension provision (with provincial government guarantee) 3	Other provisions 82
7. Subordinated liabilities	1.944	Issue guarantee by Republic of Austria 1.015	OTHER SUBORDINATED CAPITAL (with provincial government guarantee) 893	INTEREST ON SUBORDINATED CAPITAL third parties (unguaranteed) 36					
8. Supplementary capital 7)	0								
9. Issued capital	3.494	Participation capital 2009 275	Participation capital 2013 800	SHARE CAPITAL 2.419					
10. Appropriated paid-in capital	0	-8.071							
11. Liability reserve pursuant to § 23 (6) BWG	0								
12. Net accumulated losses	-11.565								
Total liabilities	9.601								

340

Asset-backed liabilities

2.887

Liabilities towards and provisions in connection with BayernLB

854

Liability items derived from derivatives business
and generally liquidity-neutral

EUR 11.1 billion

Total provincial government-guaranteed liabilities

340	Asset-backed liabilities
2.887	Liabilities towards and provisions in connection with BayernLB
854	Liability items derived from derivatives business and generally liquidity-neutral
EUR 11.1 billion	Total provincial government-guaranteed liabilities

2 Interim financial statements pursuant to UGB/BWG as of 30.06.2015

2.2 Liabilities

EXPLANATORY NOTES ON LIABILITIES:

1. Cash collaterals: Contain cash collateral payments from counterparts in derivatives transactions in respect of positive (from the perspective of HETA AG) market values.
2. Pfandbriefstelle with covered pool collateralisation: CHF 250 million and EUR 20 million with provincial government guarantee, residual amount of EUR 10.5 million without provincial government guarantee.
3. Foreign currency valuation (other liabilities): Recognition of valuation from FX derivatives transactions in the amount of EUR 184 million; FX-related balance sheet reduction in the amount of EUR -88 million in conjunction with § 58 (2) BWG (forward price valuation) taken into account (opposite position on the assets side: loans and advances to customers).
4. Provisions in connection with sale of SEE network in the amount of EUR 451 million are made up as follows:
EUR 248 million company value sale
EUR 148 million Republic of Austria liability fee
EUR 44 million FIMBAG profit participation
EUR 11 million cost provisions
5. Including closing costs in the amount of EUR 398 million, relating to administrative and personnel costs arising for HETA AG up to the end of 2020 less any costs passed on.
6. Provision for anticipated losses on derivatives: Relates to the provision for negative market values from derivatives transactions which are not in a hedging relationship. As a general rule, cash collateral must be provided for negative (from the perspective of HETA AG) market values from derivatives.
7. Supplementary capital: The supplementary capital issues are shown at a book value of EUR 0 on the basis of loss allocations already considered in previous years.

2 Interim financial statements pursuant to UGB/BWG as of 30.06.2015

2.2 Liabilities

Detailed presentation of provisions formed by HETA AG as of 31.12.2014 and as of 30.06.2015:

Provisions of Heta AG	EUR million		
	30.06.2015	31.12.2014	Δ
Leave not yet taken	3	3	0
Anniversary payments	1	1	0
Severance and pension provision	10	11	-1
Remunerations for employees	5	5	0
Legal and consultancy expenses	73	86	-13
Provision for risks arising from credit business	50	58	-1
Restructuring provision	24	24	0
Obligations towards subsidiaries	20	20	0
Obligations arising from sale transactions	451	311	140
Provisions for anticipated claims from creditors	0	887	-887
Provisions in connection with closing costs	398	425	-27
Provisions in connection with issued participation capital	0	0	0
Provisions in connection with anticipated losses from pending transactions	202	245	-43
Other provisions	139	48	91
Total	1.375	2.122	-740

- Based on the repeal of HaaSanG, a provision formed as of 31.12.2014 in respect of “Provisions for anticipated claims of creditors” was released (used) in the first half of 2015.
- The change in connection with anticipated losses from pending transactions concerns the release of a provision for anticipated losses regarding derivatives, based on the change in the market value of the derivatives.
- The change in the remaining other provisions is mainly due to the formation of provisions in connection with a compensation claim of the former majority owner in connection with the EKEG proceedings (EUR 70 million) and the provision for costs of third parties in connection with a liability claim (EUR 30 million).

2 Interim financial statements pursuant to UGB/BWG as of 30.06.2015

2.2 Liabilities

In the consolidated interim financial statements for HETA pursuant to IFRS as of 30 June 2015, an amount of EUR +2.3 billion higher is shown for **equity capital** (EUR -5.8 billion) than the amount reported in the pro forma interim financial statements for HETA Asset Resolution AG pursuant to UGB/BWG (EUR -8.1 billion). The most important deviations are attributable to the following circumstances:

Reconciliation of equity capital from separate financial statement to consolidated financial statement	
	30.06.2015
	Amounts in billions of EUR
Equity capital according to UGB/BWG (Heta as individual institution)	-8,1
- Equity capital as shown in consolidated financial statements to which minority shareholders in two group companies are entitled	0,5
- Valuation of own liabilities at fair value under IFRS, while these are shown at repayment value on the liabilities side under UGB/BWG	0,4
- Valuation difference in the measurement of the provisions in connection with guarantees entered into	0,1
- Future expected staff and administrative costs for the resolution of Heta, for which a (closing cost) provision has been made under UGB/BWG	0,4
- Expected future operating losses of the subsidiaries included in the consolidated financial statements, which under UGB/BWG have been included in the valuation of the refinancing lines provided to subsidiaries	0,3
- Provisions for negative changes in the CHF exchange rate, for which under UGB/BWG a value adjustment in accordance with § 57 (1) BWG has been made on the basis of the expected devaluation	0,1
- Future expected losses from the sale of performing loans, for which a value adjustment has also been made in accordance with § 57 (1) BWG	0,1
- Provision made under UGB/BWG for negative market values from derivatives which were previously in a hedging relationship with issued liabilities	0,2
- Other effects from different valuation approaches under UGB/BWG vs. IFRS	0,2
Consolidated equity capital pursuant to IFRS (Heta Group)	-5,8

2 Interim financial statements pursuant to UGB/BWG as of 30.06.2015

2.3 Assets

HETA AG interim financial statements as of 30.06.2015: BALANCE SHEET pursuant to UGB/BWG – CLASSIFICATION OF ASSETS

ASSETS (amounts in millions of €)		30.06.2015															
		Liquidity (OeNB)															
1. Cash and credit balances with central banks	2.110	2.110															
2. Treasury bills and other bills for refinancing with central banks	156	Federal Government debt instruments incl. pro rata interest (current assets, CA)				Public sector debt instruments and similar securities (CA)											
		137				19											
3. Loans and advances to credit institutions of which valuation adjustments of which portfolio risk provision for latent losses	5.115 -1.872 -4	Former subsidiary banks				Other banks				Securities							
		3.458				1.655				2							
		-1.869															
4. Loans and advances to customers of which intercompany value adjustments (provisions) of which third party value adjustments (provisions) of which § 57 (1) BWG: provision for sale of performing loans of which § 57 (1) BWG: provision for FX risks of which portfolio risk provision for latent losses	8.154 3.037 -1.898 -138 -89 -19	IC group companies				Securities				Third party claims							
		4.795				175				3.184							
		3.037															
						-30				-1.868							
5. Bonds and other fixed income securities	223	issuers (CA) incl. (Interest accruals, IA)				Bonds from other issuers (CA) incl. IA											
		28				195											
6. Shares and other non-fixed income securities	29	Shares				Other fixed income securities											
		15				14											
7. Shares in associated companies	0																
8. Shares in affiliated companies	533	Securities of investment company 1, with European investor				Securities of investment company 2, with US investor				Foreign affiliated companies (in liquidation)		Other affiliated companies (mainly intermediate holding companies)					
		265				254				4		10					
9. Intangible fixed assets	3	Bank software															
		3															
10. Tangible fixed assets	5	Property Klagenfurt/AAZ				Installations in leased properties		Dwellings in operational use		Other							
		1				1		1		2							
11. Other assets	323	Accruals in connection with derivatives				Purchase price claim in connection with sale of SEE network		Claim against Republic from call on guarantee		Security deposit payment for building lease AAZ		IC claim against Group subsidiaries		Trading book positions against third parties		Other	
		151				50		36		20		27		20		18	
12. Deferred items	8	Accrued interest															
		8															
Total assets	9.601																

2 Interim financial statements pursuant to UGB/BWG as of 30.06.2015

2.3 Assets

As of 30.06.2015, the item “Cash and balances with central banks” amounts to **EUR 2,110 million**.

- This item relates to an account at Oesterreichische Nationalbank AG
- Currency: credit balances in EUR
- Term: payable on demand

2 Interim financial statements pursuant to UGB/BWG as of 30.06.2015

2.3 Assets

The item “Treasury bills and other bills for refinancing with central banks” amounts to **EUR 156 million**.

Treasury bills and other bills for refinancing with central banks	Amounts in millions of EUR
Government debt securities including pro rata interest	137
Debt securities of public entities and similar securities	19
Total	156

- All securities in this item are allocated to the current assets bank book (in FY 2014, the securities were reallocated from the non-current assets bank book to the current assets bank book on the basis of GSA wind-down requirements).
- Government debt securities: This item relates to securities (bonds) issued by states.
- Debt securities of public entities and similar securities: This item includes issued securities of other public entities (cities, municipal authorities, federal provinces, etc.).
- All securities are listed on stock exchanges and denominated in euros.

2 Interim financial statements pursuant to UGB/BWG as of 30.06.2015

2.3 Assets

The item “Loans and advances to credit institutions” amounts to **EUR 5,115 million** (gross receivable amount).

Loans and advances to credit institutions		Amounts in millions of EUR
Banks	Gross claim	Net claim
SEE network ¹⁾	2.029	
Effects from sale agreement ²⁾	-1.036	
		993
Former Italian subsidiary	1.430	
Value adjustment	-833	
		597
Other banks ³⁾	1.654	1.654
Securities	2	2
Value adjustments (in particular portfolio risk provision)		-7
Totals	5.115	3.239

1) In connection with the SEE sale agreement increase per 1.7.2015 to EUR 2,135 million (of which EUR 941 million denominated in CHF)

2) Relates to effects deducted on the assets side from the Share Purchase Agreement (SPA, sale agreement); in addition, the minimum purchase price of EUR 50 million is shown under "other assets"; provisions in connection with the SPA in the amount of EUR 451 million are shown on the liabilities side

3) Loans and advances to other banks include liquidity investments and money market accounts for steering of foreign currencies

2 Interim financial statements pursuant to UGB/BWG as of 30.06.2015

2.3 Assets

The item “Loans and advances to customers” amounts to **EUR 8,154 million** (gross receivable amount).

Loans and advances to customers		Amounts in millions of EUR
Customers	Gross claim	Net claim
IC group companies	4.795	
Value adjustment	-3.037	
		1.758
Third party customers	3.184	
Value adjustment	-1.868	
		1.316
Securities	175	
Value adjustment	-30	
		145
§ 57 (1) BWG: provision for performing loan sales		-138
§ 57 (1) BWG: provision for FX risks		-89
Portfolio risk provision for latent losses (PRP_LL)		-19
Totals	8.154	2.973

2 Interim financial statements pursuant to UGB/BWG as of 30.06.2015

2.3 Assets

The item “Bonds and other fixed income securities” amounts to **EUR 223 million**.

Bonds and other fixed income securities		Amounts in millions of EUR
a) From public issuers		Balance sheet value
Fixed income securities denominated in EUR	28	
Fixed income securities denominated in FX	0	
		28
b) From other issuers		
Fixed income securities denominated in EUR*)	177	
Fixed income securities denominated in FX	18	
		195
Totals	223	223

*) also includes accrued interest reclassification

- All securities in this item are allocated to the current assets bank book (in FY 2014, the securities were reallocated from the non-current assets bank book to the current assets bank book on the basis of GSA wind-down requirements).
- All securities are bonds.
- Currency: mainly EUR, non-EUR securities amount to EUR 17.5 million.

2 Interim financial statements pursuant to UGB/BWG as of 30.06.2015

2.3 Assets

The item “Shares and other non-fixed income securities” amounts to **EUR 29 million**.

Shares and other non-fixed income securities		Amounts in millions of EUR
Shares		Balance sheet value
Shares - denominated in EUR	15	
Shares - denominated in FX	1	
		15
Other non-fixed income securities		
Other non-fixed income securities - denom. in EUR	1	
Other non-fixed income securities - denom. in FX	13	
		14
Totals	29	29

- The balance sheet value of the shares is EUR 15.5 million.
- The balance sheet value of the other non-fixed income securities including accrued interest is EUR 14 million, and also includes fund shares in SEE.

2 Interim financial statements pursuant to UGB/BWG as of 30.06.2015

2.3 Assets

The item “Shares in associated and affiliated companies” amounts to a total of **EUR 533 million**.

Shares in associated and in affiliated companies		Amounts in millions of EUR
Shares in associated companies		Book value of participating interests, 30.06.2015
Shares in associated companies		0
Shares in affiliated companies		
Shares in Austrian affiliated companies/particularly intermediate holding companies with 100% ownership of HETA		9
Majority held shares in foreign affiliated companies/particularly securities investment companies		523
<i>of which securities investment company 1 with European investor</i>		254
<i>of which securities investment company 2 with US investor</i>		265
<i>of which foreign affiliated companies (in liquidation)</i>		4
Totals		533

- Participating interests in associated companies are valued at EUR 3 (i.e. markedly < EUR 1 million).
- Combined under the intermediate holding companies are both the leasing participations and the brush participations as well as the tourism participations.
- Valuation is based on expected returns on the share in the equity capital of the participations.

2 Interim financial statements pursuant to UGB/BWG as of 30.06.2015

2.3 Assets

The “**Intangible fixed assets**” (item 9) amount to **approx. EUR 3 million**; this item contains mainly banking software.

The “**Tangible fixed assets**“ (item 10) amount to **approx. EUR 5 million**; with approx. EUR 1 million being accounted for by operationally used property (operating site at AAZ Klagenfurt; land only), approx. EUR 0.4 million by operationally used buildings (mainly dwellings) and approx. EUR 0.9 million by capital investments in properties owned by third parties (installations in leased properties).

2 Further information on the interim report

2.3 Assets

The “Other assets” (item 11) amount to **EUR 323 million**.

Other assets	Amounts in millions of EUR
Interest and deferred items	151
Purchase price claim in connection with sale of SEE network	50
Claim against Republic from call on a guarantee	36
Security deposit payment for building leasing AAZ/Klagenfurt	20
IC claim against Group subsidiaries	14
IC claim against Group subsidiary – release of profit sharing certificate series	13
Trading book positions against third parties	20
Remaining items	19
Total	323

The “Deferred items” (item 12) amount to **EUR 8 million** and consist mainly of accrued interest (netting of prepaid expenses and deferred liability items).

3 Medium-term planning for HETA

3.1 Introduction

3.2 Portfolio overview

3.3 General assumptions regarding the wind-down

3.4 Indicative financial plan 2015–2020

3 Medium-term planning for HETA

3.1 Introduction

On **30 October 2014**, **HBInt returned its full banking licence** and since then has been managed under the new name of HETA as a **partially regulated wind-down company on the basis of the GSA**. As such it has the task of managing its assets with the aim of ensuring **a structured, active and best-possible realisation of its assets**. The portfolio wind-down is to be effected **as quickly as possible**. Pursuant to the provisions of GSA, the portfolio wind-down must take place pursuant to a wind-down plan (GSA wind-down plan).

According to the legal view of the resolution authority, under the BaSAG regime, HETA no longer has to draw up a GSA wind-down plan. On the contrary, the resolution authority will carry out its own fair, careful and realistic valuation of the assets and liabilities of HETA, which will also form the basis for the application of resolution instruments. It is only on this basis (pursuant to the legal opinion of the resolution authority) that HETA has to draw up a wind-down plan in accordance with the provisions regarding wind-down plans for wind-down units as envisaged in the BaSAG (BaSAG wind-down plan).

On the basis of the clear realisation perspective for the assets of HETA as specified in GSA, recognised **guidelines for the valuation of the assets** have been approved with the support of external advisers and auditors; these guidelines take into account the desired disposal objectives and the current market conditions that need to be taken into consideration in the context of the disposal. On the basis of these guidelines, the assets of HETA have been subjected to a revaluation, the results of which have been taken into account in the 2014 annual financial statements.

3 Medium-term planning for HETA

3.1 Introduction

HETA has largely concluded its work on planning for the portfolio wind-down on the basis of the objectives set out in GSA. In an effort to create transparency, the Management Board of HETA is bringing the result of this work to the attention of creditors and investors. On the basis of the legal situation as described above, however, the statements made are not to be understood as a GSA wind-down plan or a BaSAG wind-down plan, but as a (provisional) medium-term plan for HETA up to 2020 (**medium-term plan**).

On 1 March 2015, the FMA announced that the due dates for the debt securities and liabilities issued by HETA, and also the dates on which the interest accruing thereon is to be paid, are deferred until 31 May 2016 (moratorium). The moratorium has far-reaching implications as far as the medium-term plan is concerned. The resolution authority has informed HETA that no assumptions can be made in the medium-term plan concerning the choice of, and the effects of, the possible resolution measures to be instituted by the FMA. The following **planning assumptions** have therefore been made simplified and non-binding for planning purposes:

- a) It is assumed that the eligible liabilities in the FMA's administrative ruling will not be serviced for planning purposes until 2020 and will remain entirely at the level as per the start of the moratorium. Interest expenses arising on these liabilities will be recorded as for previous due dates; however, they will not be paid out but will be deferred (default interest not taken into account).
- b) The planned returns arising from the wind-down of the assets of HETA will increase HETA's cash liquidity, since they will not be used for the repayment of eligible liabilities. The cash liquidity is currently invested with the OeNB.

3 Medium-term planning for HETA

3.1 Introduction

These planning assumptions have been made by HETA on an independent basis. There has been no exchange of information with the resolution authority on this subject that might reveal to HETA how the resolution authority will ultimately deal with these matters. The resolution authority's approach (which will be determined on an independent basis) may therefore make it necessary for the planning assumptions to be altered; important changes may also have to be made to the financial planning itself.

Before the authority undertakes any resolution measures or exercises its power to write down or convert relevant capital instruments, it must ensure that a **fair, cautious and realistic valuation of the assets and liabilities of HETA pursuant to § 54 et seq. BaSAG** is undertaken. The resolution authority will carry out its **own valuation** and use its own **independent expert** for this purpose.

Although the resolution authority has been kept informed concerning HETA's work on its medium-term planning, it has not been involved in any phase of the drafting thereof, neither has it made any comments at any stage. No guidelines or requirements have been put forward by the resolution authority as to how the valuation of individual assets and liabilities of HETA is to be approached. Conversely, HETA has also not been involved in the resolution authority's work on its own valuation of HETA's assets and liabilities.

3 Medium-term planning for HETA

3.1 Introduction

The question of whether and to what extent the resolution authority will have recourse in its valuation to the preliminary work, assumptions and valuations of HETA as set out in the present medium-term planning cannot be judged by HETA.

HETA therefore points out that the medium-term planning does not allow any conclusions to be drawn as to the choice of potential resolution measures pursuant to BaSAG which may be imposed by the resolution authority, or the effects thereof.

In particular, no reliable statement can be made on the basis of the medium-term planning regarding the date of any creditor satisfaction or the amount thereof.

IN CONNECTION WITH THE MEDIUM -TERM PLANNING, WE MAKE PARTICULAR REFERENCE TO THE DISCLAIMER ON PAGE 2 OF THE PRESENTATION. WE THEREFORE REQUEST THAT YOU READ THIS DISCLAIMER CAREFULLY BEFORE REVIEWING THIS SECTION CONCERNING THE MEDIUM -TERM PLANNING.

3 Medium-term planning for HETA

3.2 Portfolio overview

The following representation provides an **overview of HETA's portfolio for resolution as at 31 December 2014 after the results of the Portfolio Review have been taken into account (Group view)**. To provide a better differentiation of the portfolio characteristics, and for the effective management of the portfolio wind-down by means of defined wind-down strategies, the wind-down portfolio has been subdivided into six homogeneous main clusters and 30 sub-clusters.

Clusters	As of 31.12.2014	Sub-Clusters							
Cluster 1: Performing Loans (Leasing + Loans)	G: € 1.3 billion 9,507 items	20 MAX PL Corporate (G: € 0.5 billion)		Corporate (G: € 0.5 billion)		Public Sector Borrowers (G: € 0.1 billion)		Retail (G: € 0.1 billion)	
Cluster 2: Non-Performing Loans (Leasing + Loans)	Gross: € 6.4 billion 15,329 items	20 MAX NPL (G: € 1.5 billion)	CRE Office (G: € 0.6 billion)	CRE Commercial (G: € 0.8 billion)	CRE Industrial (G: € 0.4 billion)	CRE Other (G: € 1.2 billion)	RRE (G: € 0.4 billion)	Movables (G: € 0.5 billion)	NPL Other/Non- Collateralised (G: € 0.9 billion)
Cluster 3: Reposessed Assets & Investment Properties	Net book value: € 1.1 billion 1,194 items ²⁾	20 MAX RI + IP (NBV: € 0.1 billion)	PREP (NBV: € 0.3 billion)	CRE (NBV: € 0.4 billion)	RRE (NBV: € 0.1 billion)	Wind-Down- Participations (NBV: € 0.2 billion)	Reposessed Movables (NBV: € ~0.0 billion)	Operating Lease Movables (NBV: € ~0.0 billion)	
Cluster 4: Treasury Portfolio	€ 7.5 billion 218 items	Securities (€ 1.8 billion)		Equity Instruments (€ 0.9 billion)		Derivatives (€ 1.9 billion)		Cash Oesterreichische Nationalbank (€ 2.4 billion)	Current Account Financial Institutions (€ 0.5 billion)
Cluster 5: HBI/HGAA Funding	€ 3.2 billion 19 items	HBI Funding (€ 1.2 billion)				HGAA Funding (€ 2.0 billion)			
Cluster 6: Other Assets & Adjustment Items	€ 0.4 billion	Tangible Fixed Assets ³⁾ (€ ~0.0 billion)		Immaterial Assets ³⁾ (€ ~0.0 billion)		Other Assets (€ 0.4 billion)		Other Participations ³⁾ (€ ~0.0 billion)	
Total: Gross Exposure € 19.9 billion									

1) Simulated Master List Plus, June 2015

2) Excluding wind-down participations, movables, operating lease movables

3) PREP assets already accounted for in Cluster 3

Legend: G = gross exposure; N = net exposure

3 Medium-term planning for HETA

3.2 Portfolio overview

The following principles have been taken into account in the formation of the segments:

- Subdivision into project classes with comparable risk profile (particularly regarding comparable markets/exogenous risks)
- Appropriate granularity for controllability of clusters
- Definition of comparable wind-down strategies within the clusters
- Availability of necessary specialist expertise and procedural requirements for processing of clusters
- Use of already existing clusters

The cluster stratification was carried out as of 30 June 2014. The **responsibilities for the individual clusters and sub-clusters** were also specified as of this date.

Because of the size of clusters 1 and 2, these are currently managed in the form of 4 sub-clusters which group the portfolios of receivables pursuant to countries.

Future changes in the cluster division to bring it into line with new market conditions are possible at any time.

The portfolio wind-down will be carried out by “**cluster steering**” (6 clusters).

3 Medium-term planning for HETA

3.2 Portfolio overview

As of 31 December 2014, the main clusters 1 to 6 at HETA (Group) level are essentially made up as follows:

a. **Cluster 1**

This cluster mainly comprises **Performing Loans and Lease-to-go Exposures** in HETA. The gross exposure corresponds to a share of ~7% of total HETA assets. The greater part of the exposures are booked in Austrian, Slovenian and Croatian subsidiaries. There is no concentration of the booked exposure on Austrian subsidiaries, the customers (GoB) being evenly distributed among these countries.

b. **Cluster 2**

This cluster mainly comprises **Non-Performing Loans and Non-Performing Lease-to-go Exposures** in HETA. The gross exposure corresponds to a share of ~32% of total HETA assets. The greater part of the exposures are booked in Austrian, Slovenian and Croatian subsidiaries. The booked exposure is concentrated on Austrian subsidiaries, the majority (exposure) of the customers (GoB) being located in Croatia.

3 Medium-term planning for HETA

3.2 Portfolio overview

c. Cluster 3

This cluster comprises **three main real asset types**:

- **Real estate properties** in which HETA has a share of more than ~25% of the owning company and assets of fully consolidated SPVs
- **Wind-down participations**
- **Movables** (mostly vehicles, machinery, boats, aircraft and assets from the renewable energies sector)

The greater part of the net book value falls to Slovenia, Italy and Croatia. HETA AG holds ~16% of the total net book value in this cluster

d. Cluster 4

This cluster mainly comprises what is termed HETA's Treasury Portfolio. The gross exposure corresponds to ~36% of HETA's assets. HETA AG currently holds ~88% of the total gross exposure in Cluster 4 (the remaining shares relate to minority participations).

The **main items** are:

- “Securities” (~26% of the total gross exposure of the cluster): mainly government bonds, state-guaranteed bonds, supranational and agency bonds, municipal bonds, bank bonds, covered bonds, bonded loans, stocks, alternative investments, structured credits (ABS) and own issues.

3 Medium-term planning for HETA

3.2 Portfolio overview

d. Cluster 4 (continued)

- Minority participations (~12% of the total gross exposure of the cluster)
- “Derivatives” (~20% of the total gross exposure of the cluster): mainly positive market values of derivatives held with commercial banks for hedging purposes (including cash collaterals “posted”)
- “Cash Oesterreichische Nationalbank” (~32% of the total gross exposure of the cluster): mainly all cash items, particularly overnight cash deposits at Oesterreichische Nationalbank (OeNB)
- “Financial Institutions Current Account” (~10% of the total gross exposure of the cluster): mainly clearing accounts with financial institutions

e. Cluster 5

This cluster comprises receivables of HETA AG from the former group companies **HGAA** and **HBI**. At € 4.1 billion, the gross exposure (including off-balance sheet items) corresponds to ~20% of HETA assets.

The main sub-clusters are:

- HBI Funding (~48% of the total gross exposure of the cluster)
- HGAA Funding (~52% of the total gross exposure of the cluster)

3 Medium-term planning for HETA

3.2 Portfolio overview

f. Cluster 6

This cluster mainly comprises HETA's remaining balance sheet items. At € 0.2 billion, the nominal value corresponds to ~1% of HETA assets. The assets contained in Cluster 6 are all held by HETA AG.

- **“Tangible fixed assets”** (~29% of the total NBV of the cluster):
mainly office buildings in own possession
- **“Intangible assets”** (~0% of the total NBV of the cluster):
mainly goodwill, software
- **“Other assets”** (~71% of the total NBV of the cluster):
mainly deferred taxes
- **“Other participations”** (~0% of the total NBV of the cluster):
mainly minority participations and participations required for business operations, e.g. SWIFT

3 Medium-term planning for HETA

3.3 General assumptions regarding the wind-down

To ensure the effective wind-down of the assets, HETA has developed **strategic guidelines**:

Wind-down of assets by 2020

Subject to observance of the legal requirements as set out in § 3 (1) GSA, HETA must wind down its assets in a structured, active and efficient manner, while at the same time ensuring best possible realisation.

On this basis, it was already decided before the moratorium that the **assets of HETA** would be wound down **by 2020** (corresponding to the 2015 budget year plus five additional years).

The reasons for this are as follows:

- Saving on operational costs in order to maintain business activity
- Generation of liquidity in order to service liabilities

HETA aims to wind down around 80% of its assets within three years, i.e. by 2018.

3 Medium-term planning for HETA

3.3 General assumptions regarding the wind-down

Overview of key planning assumptions:

General planning assumptions

- **Planning basis:** Final annual financial statements 2014, interim financial statements June 2015
- **Planning and wind-down period 2015–2020**
→ Wind-down rate for the Heta portfolio: 80% of assets by end of 2018, 100% by end of 2020
- **Valuation of the portfolio at realisable sales values** (with focus on realisation in the next 2 to 3 years)
- **Planned selling price (= cash-in):** To be planned in the amount of the **realisable sales value**
- **“Gone Concern” principle:** Provisions for all known costs in the 2014 annual financial statements on the basis of the AQR results and market values
- Consideration also given to HaaSanG (decision by the Constitutional Court)
- MoU BLB²⁾ not taken into account

Wind-down strategies

- **Sale** as preferred wind-down strategy for all clusters and assets, **no repossessions as a general principle.**
- **Performing Loans (PL):** Loans with maturity ≤ 5 years to be “held”
- **Non-Performing Loans (NPL):** Repossessions to be avoided
 - Maximum duration for already initiated repossessions < 1 year
 - In exceptional cases, repossessions will be necessary (e.g. public auctions with no bidders, realisation of leased assets)
- **Reposessed Items & Investment Properties:**
 - **Real Estate:** Sale of assets on the books and already initiated repossessions by the end of the wind-down horizon
 - **Movables:** Sale in accordance with GREM guideline (new repossessions of boats and heavy machinery can be planned by end of 2017 ¹⁾, sale of other movables by end of 2019) – auctions for the sale of remaining assets at the end of the wind-down horizon
 - **Participations:** Sale at the net book value of the underlying asset

3 Medium-term planning for HETA

3.3 General assumptions regarding the wind-down

Planned annual wind-down volume up to 2020:

The total reduction in Heta Group assets (excluding the cash position) up to 2020 will amount to around EUR 8.2 billion or 85%.

- In 2015, the balance sheet wind-down of around EUR 2.2 billion is to be achieved mainly through the reduction of financial assets by around EUR 1 billion and the reduction of loans and advances to banks by around EUR 0.7 billion (net wind-down of nostro-loro in HETA AG). Loans and advances to customers are to be reduced by a net amount of around EUR 0.3 billion.
 - The greatest reduction for 2016 comes from Cluster 3 (about half of which is being wound down) and from Cluster 2.
 - The reduction for 2017 is essentially attributable to net loans and advances to customers (approx. EUR 0.7 billion) and the further wind-down of financial assets and derivatives in HETA AG.
 - It is expected that by 2020 the balance sheet should consist mainly of the refinancing lines for SEE and HBI and the residential building promotion loans of HETA AG.
- The total **cash balance in 2020 is assumed to amount to approx. EUR 6.3 billion** (premise: no interest or capital repayments on the liabilities side).

3 Medium-term planning for HETA

3.4 Indicative financial plan 2015–2020

1. The 2015–2020 financial plan represents the **current estimation regarding HETA's future capital and liquidity situation and is to be regarded as a guideline**, since no assumptions are taken into consideration regarding the choice of potential resolution measures (resolution powers/instruments) to be imposed by the FMA in accordance with BaSAG, and the effects thereof.
2. The **assets of HETA AG (UGB) will be reduced from EUR 7.3 billion in 2014 to approx. EUR 1.4 billion EUR in 2020 due to the non-servicing of eligible liabilities (the increasing cash liquidity being disregarded)**. This corresponds to an average annual reduction of 23%. The balance sheet wind-down is essentially achieved by sales, repayments and consumption of risk provisions formed.
3. The main items in the **residual portfolio remaining in 2020 (excluding cash reserve) will be the remaining refinancing lines to HGAA (SEE) and HBI and the residential building promotion loans**.
4. **On the liabilities side**, the main items remaining in 2020 will be the (assumed) **non-serviced liabilities and negative equity**. Following consultation with the FMA, HETA plans to adjust its assumptions regarding the residual portfolio in the next updated version of the medium-term plan.

3 Medium-term planning for HETA

3.4 Indicative financial plan 2015–2020

5. **Following execution of the Portfolio Review, the UGB equity capital of HETA AG in 2014 amounts to EUR -6.98 billion.** Because the planning for 2015–2020 is without profit-loss effect, the UGB equity capital of HETA AG will only change over the wind-down period to the extent of the effect arising from the **1st half of 2015 (EUR -1.1 billion, mainly due to HaaSanG).** Thereafter it is regarded as constant, since all currently known risk costs have been taken into account as per the level in the 2014 annual financial statements. Special effects (e.g. arising from legal proceedings, market risks, etc.) are disregarded.
6. The liquidity of HETA AG is anticipated to rise from EUR 2.4 billion in 2014 to EUR 6.3 billion in 2020. As of the **1st half of 2015 there was a reduction in liquidity to EUR 2.1 billion, which is mainly attributable to the change in the CHF exchange rate.**
7. The indicative financial plan 2015–2020 has been redrafted on the **basis of the interim results for 2015.**

Changes affecting profit and loss

- Derecognition of income arising from HaaSanG (EUR -823 million)
- Provision for hedging instrument taken into account (EUR -145 million)
- Revaluation of refinancing line to HBI (EUR +120 million)

3 Medium-term planning for HETA

3.4 Indicative financial plan 2015–2020

Balance sheet changes in consequence of consideration of interim result

Assets:

- Loans and advances to banks: EUR +154 million → adjustment of refinancing line to HBI
- Risk provisions for loans and advances to banks: EUR -109 million → adjustments of refinancing lines to HBI (revaluation) and HGAA (with retail brush taken into account)

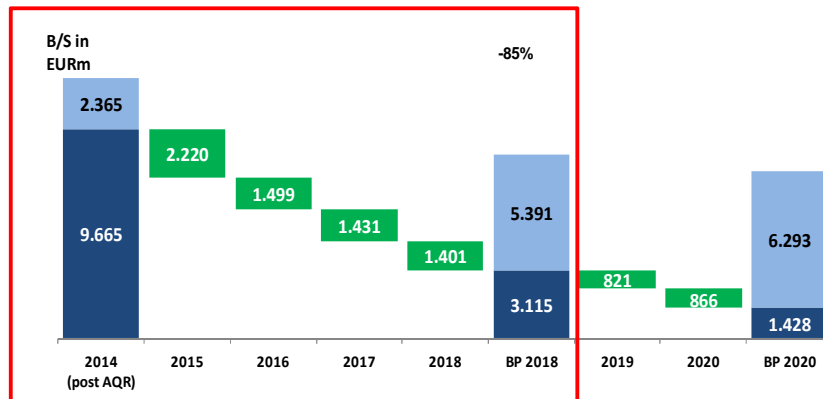
Liabilities:

- Liabilities towards banks: EUR +0.9 billion → HaaSanG, BLB
- Provisions: EUR -0.7 billion → HaaSanG, release of provision through profit and loss
- Subordinate capital: EUR +0.8 billion → HaaSanG liabilities towards third parties (not BLB)
- Equity capital: EUR -1.1 billion → deterioration of result

3 Medium-term planning for HETA

3.4 Indicative financial plan 2015–2020

Assets side of the balance sheet:

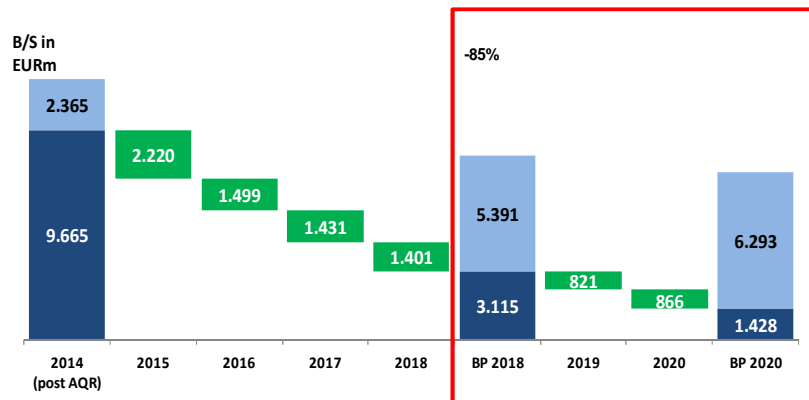


- **Balance sheet wind-down of Heta Group assets** (excluding cash position) by **EUR 8.2 billion, corresponding to 85% compared with 2014** (cash position in 2020: EUR 6.3 billion)
- **2015, balance sheet wind-down and formation of cash reserve of approx. EUR -2.2 billion** is mainly due to the **reduction in financial assets in the extent of approx. EUR -1.0 billion** (Heta AG: AFS matured securities and sale of derivatives, and also the wind-down arising from receivables of two consolidated special purpose companies, the wind-down arising from loans and advances to banks (net wind-down EUR -747 million; mainly nostro-loro and debt securities), the wind-down of loans and advances to customers (net wind-down EUR -286 million) and the wind-down in the HAR subsidiaries of EUR -136 million.
- **Wind-down in 2016 will lead to an increase in the cash reserve by EUR 1.5 billion**, mainly due to a reduction in capital assets (**EUR -482 million**) . Further wind-down of financial assets and derivatives is planned in the amount of around EUR -359 million.
- **EUR 1.4 billion reduction in 2017** through net loans and advances to customers (EUR -744 million) and wind-down of financial assets.
- **EUR 1.4 billion disposal in 2018**, mainly through wind-down of loans and advances to customers, financial assets and capital assets.

3 Medium-term planning for HETA

3.4 Indicative financial plan 2015–2020

Assets side of the balance sheet:



- In 2019 and 2020, essentially **only loans and advances to customers can be wound down**; the wind-down will be strongly driven by use of IVA, build-up of liquidity will be in a lesser extent than in previous years.
- In 2020, apart from **liquidity**, the balance sheet will consist only of **refinancing lines to SEE and HBI** and the **residential building promotion loans** of HETA AG.
- The total cash reserve will be around EUR 6.3 billion in 2020; as already mentioned*, no reliable statement concerning any creditor satisfaction can be derived from the build-up of liquidity as envisaged in the medium-term plan.
- The amount and date of any creditor satisfaction will depend entirely on decisions taken by the resolution authority.
- Accordingly, the payment flow achieved from the wind-down activities and as quantified in the balance sheet is only of conditional relevance as far as creditors are concerned – this applies in particular with regard to cash-equivalent considerations.

* See 3.1., Introduction

Indicative financial plan 2015–2020

HETA ASSET RESOLUTION

Balance sheet for 2015-20 planning, Heta GROUP, IFRS consolidated (in millions of EUR)

<i>in EURm</i>	2013 (GA&R)	2014 (post AQR)	half-year 2015	Budget 2015	Budget 2015 vs. YE 2014	Plan 2016	Plan 2017	Plan 2018	Plan 2019	Plan 2020
Total assets	26.219	12.031	11.578	10.383	-1.648	9.732	9.008	8.506	8.151	7.721
Cash	2.313	2.365	2.117	2.937	572	3.786	4.492	5.391	5.857	6.293
Loans to credit institutions	2.087	4.942	5.567	3.712	-1.229	3.309	3.297	2.864	2.505	2.248
Risk provisions (loans to CI)		-1.840	-1.719	-1.358	483	-1.327	-1.304	-1.280	-1.201	-1.206
Loans to customers	19.289	8.739	8.411	8.184	-555	6.644	4.594	2.582	1.273	267
Risk provisions (customer loans) ¹⁾	-3.875	-6.015	-5.941	-5.745	270	-4.388	-3.082	-1.694	-811	0
Assets on Stock ³⁾	1.542	934	920	843	-91	361	214	128	88	0
Trading assets	13	0	0	0	0	0	0	0	0	0
Derivative Financial Instruments	1.070	956	755	813	-143	691	345	173	86	0
Financial Assets - FVO	505	489	474	239	-251	203	101	51	25	0
Financial Assets - AFS	2.421	1.106	674	459	-647	257	192	167	160	0
Financial Assets - HTM	84	0	0	0	0	0	0	0	0	0
Financial Assets - at equity	6	2	2	1	-1	1	1	0	0	0
Other assets	764	353	317	298	-54	195	158	124	169	119
Total liabilities	26.219	12.031	11.578	10.383	-1.648	9.732	9.008	8.506	8.151	7.721
Liabilities to credit institutions	4.665	2.845	3.518	3.105	259	3.104	3.002	2.894	2.838	2.878
Liabilities to customers	6.121	1.576	1.524	1.433	-143	1.401	1.390	1.385	1.384	1.379
Liabilities evidenced by certificates	10.396	8.751	8.851	8.981	230	8.956	8.886	8.851	8.834	8.816
Negative fair value from derivatives	777	790	573	591	-199	503	251	126	63	0
Provisions	192	1.446	712	629	-817	561	521	489	364	152
Other Liabilities	294	168	245	20	-149	238	238	219	221	181
Subordinated capital	1.915	1.155	1.972	1.944	789	1.944	1.944	1.944	1.944	1.944
Equity	1.859	-4.700	-5.817	-6.320	-1.620	-6.975	-7.224	-7.400	-7.497	-7.629
Active FTE	6.008	1.805	1.734	1.320	-485	1.083	844	635	464	75

1) Including risk provisions of "other receivables"

2) Consisting of capital assets, operating lease movables, reposessions and emergency acquired assets

3) Real estate

INDICATIVE FINANCIAL PLAN 2015–2020

Balance sheet for 2015-20 planning, Heta AG, UGB, in millions of EUR

Balance Sheet local GAAP in MEUR	ACTUAL 2013	2014 (post AQR)	HY 2015	Budget 2015	Budget 2015 vs. YE 2014	Budget 2015 vs. HY 2015	BP 2016	BP 2017	BP 2018	BP 2019	BP 2020
ASSETS											
1. Cash reserve, central banks	1.560	2.359	2.110	2.937	579	828	3.786	4.492	5.391	5.857	6.293
2 Loans/advances to banks	3.880	4.563	5.266	3.277	-1.286	-1.988	3.417	3.357	2.897	2.587	2.287
o/w Cluster 5 - SEE		1.988	2.030	2.135	147	105	2.135	2.135	1.735	1.435	1.210
o/w Cluster 5 - Bidder Brush SEE		566		566	0	566	566	566	566	566	566
o/w Cluster 5 - Retail Brush SEE		0		75	75	75	75	75	75	0	0
o/w Cluster 5 - HBI		1.647	1.710	1.017	-630	-693	1.117	1.117	1.117	1.117	1.117
- IVA on banks		-2.239	-2.149	-1.485	755	664	-1.429	-1.380	-1.331	-1.226	-1.206
o/w Cluster 5 - SEE		-1.003	-1.036	-1.002	1	34	-946	-897	-848	-743	-723
o/w Cluster 5 - Bidder Brush SEE		-458		-458	0	-458	-458	-458	-458	-458	-458
o/w Cluster 5 - Retail Brush SEE		0		-75	-75	-75	-75	-75	-75	0	0
o/w Cluster 5 - HBI		-1.233	-1.113	-483	750	630	-483	-483	-483	-483	-483
3. Loans and advances to customers	11.471	9.173	8.276	5.391	-3.783	-2.885	4.029	2.851	1.772	1.029	448
o/w refinancing of HAR subsidiaries (incl. D/E Swap)		4.833	4.365	1.488	-3.345	-2.877	1.123	792	424	239	0
o/w Heta AG portfolio (incl. Centrice)		4.340	3.911	3.902	-438	-8	2.906	2.060	1.309	712	267
- IVA on customers	-2.062	-5.659	-5.123	-2.361	3.298	2.762	-1.746	-1.363	-873	-528	-181
o/w refinancing of HAR subsidiaries (incl. D/E Swap)		-3.411	-2.768	0	3.411	2.768	0	0	0	0	0
o/w Heta AG portfolio (incl. Centrice)		-2.248	-2.355	-2.361	-113	-6	-1.746	-1.363	-873	-528	-181
4. Securities	1.342	788	411	430	-359	18	233	179	160	156	0
5. Shares of affiliated companies	1.177	505	533	270	-235	-263	0	0	0	0	0
6. Other assets	220	120	278	178	58	-100	146	125	104	83	54
Total assets	17.587	9.610	9.601	8.637	-973	-964	8.436	8.261	8.120	7.958	7.695
LIABILITIES											
1. Liabilities towards banks	3.740	2.865	3.617	3.147	282	-470	3.158	3.058	2.958	2.908	2.898
2. Liabilities towards customers	1.600	1.640	1.683	1.418	-221	-265	1.388	1.388	1.388	1.388	1.388
3. Certificated liabilities	9.612	8.498	8.816	8.816	318	0	8.816	8.816	8.816	8.816	8.816
4. Other liabilities	118	351	217	215	-136	-2	298	398	519	597	617
5. Deferred items	292	25	20	20	-5	0	20	20	20	20	20
6. Provisions	171	2.122	1.375	1.173	-949	-201	911	736	573	384	110
7. Subordinate liabilities	1.892	1.096	1.944	1.944	848	0	1.944	1.944	1.944	1.944	1.944
8. Supplementary capital	0	0	0	0	0	0	0	0	0	0	0
9. Share capital	2.809	3.494	3.494	3.494	0	0	3.494	3.494	3.494	3.494	3.494
11. Capital reserve	250	0	0	0	0	0	0	0	0	0	0
12. Retained earnings	0	0	0	-10.481	-10.481	-10.481	-11.592	-11.592	-11.592	-11.592	-11.592
13. Liability reserve	247	0	0	0	0	0	0	0	0	0	0
16. Balance sheet profit	-3.143	-10.481	-11.565	-1.111	9.371	10.454	0	0	0	0	0
18. Untaxed reserves	0	0	0	0	0	0	0	0	0	0	0
Total equity (items 9–18)		-6.987	-8.071	-8.098	-1.111	-27	-8.098	-8.098	-8.098	-8.098	-8.098
Total liabilities	17.587	9.610	9.601	8.637	-973	-964	8.436	8.261	8.120	7.958	7.695

INDICATIVE FINANCIAL PLAN 2015–2020

Profit & loss account for 2015-20 planning, HETA AG, UGB, in millions of EUR

Details HETA AG – UGB					HETA AG						
All values in millions of EUR					BR Nov						
Income statement in millions	ACTUAL 2013	2014 (post AGR)	HY 2015	Budget 2015	Budget 2015 vs. YE 2014	Budget 2015 vs. HY 2015	BP 2016	BP 2017	BP 2018	BP 2019	BP 2020
Interest and similar income	750,3	622,7	239,6	440,8	-181,9	201,2	364,6	212,2	193,5	179,5	164,2
Interest and similar expenses	727,3	676,1	203,3	465,4	-210,7	262,1	360,4	221,4	203,1	187,9	170,6
Net interest income	23,0	-53,4	36,3	-24,6	28,8	-60,9	4,2	-9,2	-9,6	-8,4	-6,5
Income from securities and participations	7,4	3,4	0,7	0,0	-3,4	-0,7	0,0	0,0	0,0	0,0	0,0
Commission income	9,0	4,9	0,9	1,4	-3,5	0,5	1,5	1,4	1,3	1,0	0,7
Commission expenses	-80,4	-72,9	-36,9	-63,8	-9,1	-26,9	-0,2	-0,2	-0,1	-0,1	-0,1
Income/expenses from financial transactions	-2,0	6,0	-28,8	-25,0	-31,0	3,8	-25,0	-10,0	-10,0	-10,0	-10,0
Other operating income	18,5	59,0	15,1	10,5	-48,6	4,6	6,0	5,9	5,9	5,9	5,5
Operating income	-24,6	-53,0	-12,6	-101,5	-48,5	-88,9	-13,5	-12,1	-12,6	-11,5	-10,4
General administrative expenses	-128,8	-144,3	-40,9	-95,2	-49,1	-54,3	-87,2	-77,6	-64,0	-53,3	-57,6
Staff costs	-55,8	-56,2	-21,3	-46,1	-10,1	-24,8	-46,7	-41,7	-33,6	-25,4	-21,5
Other administrative expenses	-73,0	-88,1	-19,6	-49,1	-39,0	-29,5	-40,5	-35,9	-30,4	-27,9	-36,1
Depreciation of assets	-5,4	-7,8	-1,0	-2,5	-5,3	-1,6	-5,0	-5,3	-5,9	-5,1	-3,1
Other operating expenses	-31,1	-30,4	-0,9	-0,1	-30,3	-1,0	-0,1	-0,0	-0,0	-0,0	-0,0
Operating expenses	-165,3	-182,5	-41,0	-97,8	-84,7	-56,8	-92,3	-82,8	-69,9	-58,4	-60,7
Operating result	-189,8	-235,5	-53,6	-199,4	36,1	-145,7	-105,8	-94,9	-82,4	-69,9	-71,1
Valuation result UGB	-2.686,2	-7.929,9	-85,8	-85,2	7.844,7	0,6	14,5	12,5	13,0	11,9	10,8
POA	-2.876,1	-8.165,4	-139,4	-284,6	7.880,8	-145,2	-91,3	-82,4	-69,5	-58,0	-60,3
Extraordinary result	153,0	280,2	-901,4	-825,2	-1.105,4	76,3	92,3	82,9	70,0	58,5	60,8
of which HaaSanG		788,5	-823,0	-823,0	-1.611,5	0,0	0,0	0,0	0,0	0,0	0,0
of which closing		-425,0	26,6	97,8		71,2	92,3	82,9	70,0	58,5	60,8
of which other extraordinary result		-83,3	-105,1	-100,0		5,1	0,0	0,0	0,0	0,0	0,0
Taxes	-24,7	-14,4	-1,2	-1,0	13,4	0,2	-1,0	-0,5	-0,5	-0,5	-0,5
ANNUAL RESULT AFTER TAXES	-2.747,8	-7.899,6	-1.042,0	-1.110,7	6.788,8	-68,7	-0,0	0,0	-0,0	-0,0	-0,0

4 Principal transactions and events

4.1 Adria/HGAA

4.2 Italy/HBI

4.3 BLB proceedings/Memorandum of Understanding

4 Principal transactions and events

4.1 Adria/HGAA

What is HYPO GROUP ALPE ADRIA AG, Klagenfurt (HGAA)? Who is it's shareholder?

- Hypo Group Alpe Adria AG, Klagenfurt ("**HGAA**"), is an Austrian credit institution and now the holding company for the SEE banking network of the former Hypo Alpe-Adria-Bank International AG (HBIInt, following transformation into a partially regulated wind-down unit "**HETA**").
- HGAA was established by HETA in preparation for the sale of the SEE banking network and holds a banking licence; the shares in the affiliated banking and leasing companies of HBIInt in Slovenia, Croatia, Serbia, Montenegro, Republika Srpska and Bosnia-Herzegovina were contributed to HGAA. HGAA as an Austrian credit institution and holding company for the SEE banking network was then offered for sale as required under state aid rules.
- The SEE banks and leasing companies in the SEE bank network are directly refinanced by HGAA as their holding company. HGAA is in turn refinanced via HETA (i.e. via its former parent company). From the refinancing of HGAA, HETA has receivables against HGAA in EUR and CHF arising from refinancing lines in an outstanding amount of around EUR 2.135 billion (equivalent value) as of 30.06.2015.
- At the end of October 2014, HETA transferred the shares in HGAA – and thereby the SEE banking network – to FIMBAG Finanzmarktbeteiligungs Aktiengesellschaft des Bundes ("**FIMBAG**").
- On 22 December 2014, on the basis of a power to transfer issued by FIMBAG, HETA sold the shares in HGAA – and thereby the SEE banking network – to a bidder consortium consisting of the US Private Equity Fund Advent International ("**Advent**") and the European Bank for Reconstruction and Development ("**EBRD**"). The closing of the sale took place on 17 July 2015.

4 Principal transactions and events

4.1 Adria/HGAA

Why was it necessary for the SEE bank network to be sold to a private third party in December 2014?

- The sale of the SEE banking network implemented a commitment given by the Republic of Austria to the European Commission. This commitment (in addition to other commitments) was necessary in order for a number of state aid measures provided to HBIInt by the Republic of Austria to be compatible with the European Single Market (Commission, decision of 03.09.2013, SA.32554 – Restructuring aid for Hypo Group Alpe Adria).
- Following the Commission decision, the sale of the SEE banking network had to be signed by 30 June 2015 (“signing”) and completed by 31 December 2015 (“closing”).
- If the closing of the sale of the SEE network had not taken place by 31 December 2015, the SEE network would have to have been wound down, at considerably higher cost for HETA.
- The sale to Advent/EBRD was preceded by a public auction that was started in 2012, and in which Advent/EBRD were selected as best bidder in December 2014.
- Extensive calculations carried out by HBIInt have shown that the wind-down of the SEE network would have caused significantly higher costs for HETA compared to the sale to Advent/EBRD. These calculations have been verified by valuations of reputable external wind-down experts. If the sale of the SEE banking network had not taken place by 30 June 2015 (signing)/31 December 2015 (closing), these massive costs for the wind-down of the SEE banking network would have had to be incurred by HETA. The absolute priority for the HETA Management Board was therefore to achieve a sale of the SEE banking network to a private third party on time and under ultimately much better conditions than could have arisen in any wind-down scenario.
- This has been successfully achieved with the timely sale of the SEE bank network on 22 December 2014 (signing)/17 July 2015 (closing) to Advent and EBRD.

4 Principal transactions and events

4.1 Adria/HGAA

Why was HGAA transferred to FIMBAG in October 2014 before the sale to Advent/EBRD?

- The Austrian Act on the Creation of a Wind-Down Unit (GSA) enabled HBLnt to return its full banking licence pursuant to the Austrian Banking Act (BWG) and to concentrate entirely, as a partially regulated wind-down unit, on the rapid and value-preserving wind-down of its remaining assets. From this point in time onwards, HETA also no longer had to fulfil essential regulatory conditions (such as the observance of regulatory equity ratios).
- It was a precondition for the surrender of the banking licence granted in accordance with the BWG, and thus of the transformation into a partially regulated wind-down unit, that HETA would no longer carry out any deposit business as envisaged in § 1 (1) 1 BWG and would no longer hold any qualified participation in a credit institution or securities company (§ 2 (1) GSA). As a credit institution and holding company for the SEE banking network, HGAA was a “qualified participation in a credit institution”, and therefore had to be transferred to a third party prior to the return of the banking licence (planned for the end of October 2014).
- The sale of the SEE bank network in the context of a structured auction process had not yet been completed, and in October 2014 no (private) buyer had been found for the SEE banking network. However, the aim was still to make it possible for HETA to avoid the massively expensive wind-down scenario by ensuring a more favourable sale of HGAA (and thereby of the SEE bank network) to a (private) buyer. For this reason HGAA, together with the SEE banking network, was temporarily transferred to FIMBAG, a trustee of the Republic of Austria.
- As a result, FIMBAG, as trustee of the Republic of Austria, made it possible for HETA (a) to return the full banking licence in accordance with BWG and (b) via a power to transfer granted to HETA in the course of the sale to FIMBAG, to continue to carry out the sale of HGAA (and thereby the SEE banking network).

4 Principal transactions and events

4.1 Adria/HGAA

What is a power to transfer?

A power to transfer is a legal authority to dispose of and sell property of a third party in one's own name and on one's own account. In the course of the takeover of HGAA and the SEE banking network in October 2014, FIMBAG granted HETA such a power to transfer for a limited period until the middle/end of November 2014. The power to transfer was intended to enable HETA to complete the sale of the SEE banking network and thus avoid a massively more expensive (but required under EU state aid regulations) wind-down of the SEE bank network.

The power to transfer, which was originally granted to HETA in October 2014, expired in the middle/end of November 2014. It had not been possible to sell the SEE banking network by then. In the end, the sale (with the help of the Republic of Austria and FIMBAG) came about in December 2014; FIMBAG had again granted HETA a power to transfer for the execution and completion of the share purchase agreement between HETA and Advent/EBRD.

On the basis of the power to transfer granted by FIMBAG, HETA was ultimately able, in the context of the public auction process started in 2012, to sell and transfer the SEE banking network (even after the sale of HGAA (the SEE bank network) to FIMBAG) to the best bidder (Advent and EBRD).

4 Principal transactions and events

4.1 Adria/HGAA

What is the essential content of the share purchase agreement between HETA and FIMBAG? Part 1

- **Parties:** HETA as seller and FIMBAG as buyer and trustee for the Republic of Austria
- **Subject:** Sale by HETA of all shares in HGAA to FIMBAG as trustee for the Republic of Austria
- **Background:** The transfer of HGAA and the SEE banking network in October 2014 was essential for HETA. On the one hand, the transfer permitted the transformation of HETA into a partially regulated wind-down unit (meaning that the strict regulatory equity requirements no longer had to be fulfilled and the capital requirement situation became more relaxed); on the other hand, with the granting of power to transfer FIMBAG enabled HETA to continue the sale of the SEE banking network in the context of the selling process started in 2012, and thus to avoid a massively more expensive wind-down of the SEE banking network.
- **Power to transfer:** To make the sale of HGAA and of the SEE banking network still possible, FIMBAG granted HETA the aforementioned power of disposal to sell the shares in HGAA to the best bidder in the ongoing public auction process. The power to transfer granted to HETA was extended/reissued several times by FIMBAG, so that HETA was ultimately able, with the support of FIMBAG and the Republic of Austria, to successfully sell HGAA and the SEE banking network to the best bidder Advent/EBRD in December 2014; the transaction was closed with legally valid effect in July 2015. In return for enabling the transformation of HETA into a partially regulated wind-down unit, and in particular for making the sale of HGAA and the SEE network possible by the issuing of powers to transfer on several occasions as well as by the provision of various support services which were essential for a successful sale of HGAA and the SEE network to Advent/EBRD, FIMBAG has received a profit-sharing in the amount of EUR 44 million.

4 Principal transactions and events

4.1 Adria/HGAA

What is the essential content of the share purchase agreement between HETA and FIMBAG? Part 2

- **Purchase price:** The share purchase agreement provides that in the event of the failure of the sale of HGAA to a private third party, the estimated value of the wind-down of the SEE banking network applies. In such a case, FIMBAG (the Republic of Austria) would have had to carry out the wind-down on the basis of the requirements of EU law. The wind-down would have been financed via the purchase price. On the other hand, in the event of the successful sale of HGAA by HETA on the basis of the power to transfer granted by FIMBAG, a significantly more favourable (negative) purchase price in the amount of minus EUR 248 million corresponding to the company of HGAA taking into consideration the liabilities of HETA towards the private buyer of the SEE banking network was determined by an independent expert report. However, the purchase price only becomes due after all warranty and indemnification claims of the buyer against HETA become statute-barred, i.e. in this case in 2022; all liabilities of HETA towards Advent/EBRD that materialise up to that date are to be offset against the negative purchase price. Thus, there will be no “double counting”. Irrespective of the actual materialisation of liabilities, the purchase price to be paid by HETA to FIMBAG is between EUR 0 and EUR 248 million. As of 30. June 2015, HETA has made corresponding provisions for liabilities arising from the ADRIA Share Purchase Agreement exceeding the purchase price of minus EUR 248 million agreed with FIMBAG (amounts are exclusive of provisions for the retransfer of credit risks in each case). HETA is therefore currently assuming that no further purchase price will be paid to FIMBAG in 2022.
- **Liabilities:** Customary representations have been agreed in the share purchase agreement; customary liability provisions – including, in particular, restrictions on liability – apply.

4 Principal transactions and events

4.1 Adria/HGAA

How did the process by which HGAA was sold to Advent/EBRD develop?

- In accordance with European state aid regulations, the process carried out by HETA for the sale of the SEE network was open, transparent and unconditional. The process was started in **November 2012**.
- HETA's financial adviser, Deutsche Bank, directly contacted **146 potential investors and intermediaries**; contact was made with additional possible investors and intermediaries via a **published notice of sale**.
- In December 2012 **expressions of interest** had been received from **26** admissible parties.
- Following the conduct of a first due diligence, HETA received **ten non-binding offers** in June 2013.
- Following a further due diligence and portfolio brush transaction at SEE network level in preparation for the sale, HETA finally received **six offers** in May 2014; **some of these were partially binding but most were indicative offers**.
- Intensive in-depth negotiations were carried out with **three selected bidders** over the summer of 2014. Other bidders were "parked", mainly because they had only submitted offers for (more attractive) parts of the SEE banking network and had generally shown no interest in taking over the entire network of banks. In addition, the part offers for parts of the SEE network were well below HETA's expectations.
- Advent/EBRD finally emerged as the best bidder in December 2014, after the remaining two bidders were once again invited to submit viable offers for the entire SEE bank network in December 2014.
- The European Commission was given detailed information at all times concerning the selling process, and has not identified any breaches of the principles of open, transparent and unconditional sale process in the execution of the selling process and the selection of Advent/EBRD as buyer for the SEE bank network.

4 Principal transactions and events

4.1 Adria/HGAA

What is the essential content of the share purchase agreement between HETA and Advent/EBRD?

- **Parties:** HETA as seller, and the consortium consisting of Advent (at least 80%) and EBRD (up to 20%) as buyer (the buyer company is a Luxemburg company in which Advent and EBRD hold shares).
- **Subject:** Sale of all shares in HGAA (and thereby the SEE banking network) by HETA within the framework of the power to transfer granted to it regarding the HGAA shares (granted by FIMBAG as trustee of the Republic of Austria)
- **Purchase price:** The share purchase agreement envisages a base purchase price which is to be adjusted in accordance with certain financial figures for 2014 and 2015. With the financial figures for 2014 taken into account, the provisional purchase price is EUR 59.4 million. For the final purchase price (i.e. the purchase price with the relevant financial figures for 2015 taken into account) there is a lower limit of EUR 50 million. The **minimum purchase price** (which has already been transferred to HETA in the course of completion) is therefore **EUR 50 million**.
- **Liabilities:** In the share purchase agreement, customary representations and – on the basis of the particular situation and past history of the object of sale – extensive indemnifications have been agreed. In addition, the share purchase agreement provides for customary preconditions under which claims can be asserted (liability conditions). Claims arising from representations and indemnifications are primarily to be settled by offsetting against outstanding refinancing lines of HGAA towards HETA (i.e. liquidity-neutral for HETA). If offsetting against outstanding refinancing lines is not possible (for example if all refinancing lines have been paid back by HGAA to HETA), guarantee receivables are to be settled in cash.
- **“Buyer Brush” transaction:** The buyer has the right to transfer certain assets and risk positions back to HETA at any time up to 31. March 2016 (in particular, non-performing loan and lease claims, undrawn guarantees, and also participations and repossessed assets which do not form part of the core business) in an amount of up to EUR 700 million (net balance sheet position as of 31 December 2014).

4 Principal transactions and events

4.1 Adria/HGAA

What representations and indemnifications have been agreed in the share purchase agreement with Advent/EBRD?

- **Representations:** Customary representations (i.e. representations that are demanded and received by any buyer of this kind of purchase object) have been given in relation to the shares sold, the parties to the agreement, and the companies sold. Representations become statute-barred in mid-2016. The maximum liability amount arising from claims for misrepresentation is approx. EUR 80 million.
- **Indemnifications:** Extensive indemnifications have been undertaken regarding identified risks arising in connection with the sale of the SEE banking network and identified risks in the SEE banking network. These indemnifications essentially cover risks which, if they materialise, would also have directly affected HETA even without the sale of the SEE banking network (e.g. tax payments, losses arising from brush transactions already carried out, costs and losses arising from ongoing and expected legal disputes relating to the SEE banking network). Essentially, a maximum liability amount of EUR 1.2 billion has been agreed with regard to indemnifications relating to HETA and its past history (and not directly relating to the SEE banking network), and a maximum liability amount of EUR 600 million for indemnifications that directly relate to the SEE banking network and its past history. Within the EUR 600 million liability “bucket” for indemnifications relating directly to the SEE bank network, a maximum liability amount of EUR 350 million has been agreed for the risk arising from legal disputes in the context of foreign currency loans, and within those EUR 350 million a maximum liability amount of EUR 200 million for the credit risk arising from the extensive foreign currency loan portfolio. Indemnifications become statute-barred between 2020 and 2022.
- **Background of the liability regime:** On the basis of the past history of Hypo Alpe Adria International AG and its activities in the Balkans, and the public discussion in this regard, as well as the composition and status of the SEE banking network’s loan portfolio to be sold, the extensive list of indemnifications were unavoidable in HETA’s view.

4 Principal transactions and events

4.1 Adria/HGAA

How are the claims of Advent/EBRD arising from the share purchase agreement between HETA and Advent/EBRD secured? Is the Republic of Austria also liable?

- Rightfully asserted claims arising from representations and indemnifications are primarily settled by offsetting against outstanding refinancing lines of HGAA towards HETA (i.e. for HETA this is liquidity-neutral). To the extent that offsetting against outstanding refinancing lines is not possible (for example if all refinancing lines have been paid back by HGAA to HETA), rightfully asserted guarantee claims are to be settled in cash.
- This offsetting mechanism for representations and indemnification claims is secured by way of a pledge over the refinancing lines granted by HETA to HGAA in favour of Advent/EBRD.
- Only in the event that offsetting against the outstanding refinancing line (for whatever reason) is not possible, and HETA is also not able to settle the rightfully asserted liability claims in cash, the Republic of Austria, under certain preconditions, has to settle such claims in accordance with a security instrument issued to Advent/EBRD (the issuing of a security instrument by the Republic of Austria was a condition precedent for Advent/EBRD).
- As consideration for the issuance of the security instrument by the Republic of Austria to Advent/EBRD, HETA, as the beneficiary, has to pay an appropriate liability fee to the Republic of Austria. The amount of the liability fee depends on the amount of the outstanding liability of the Republic of Austria under the security instrument (currently 1.27% p.a. of a current assessment basis of EUR 1.7 billion). In the event of any changes in the risk situation for the Republic of Austria, HETA and the Republic of Austria will, with the assistance of an independent expert, seek agreeing on a possible reduction of the liability fee. As of 30 June 2015, a full provision was made for the liability fee by applying the currently applicable conditions over the term of the security instrument (up to 2022), amounting to around EUR 148 million.

4 Principal transactions and events

4.1 Adria/HGAA

What are the main conditions of the refinancing lines provided by HETA to HGAA?

The companies of the SEE network are directly refinanced by HGAA as their holding company. HGAA is in turn refinanced via HETA. As a result of the refinancing of HGAA, HETA has receivables in EUR and CHF against HGAA from refinancing lines in an outstanding amount of around EUR 2.135 billion (equivalent value) as of 30.06.2015.

These refinancing lines remained in place also after the closing of the sale of HGAA for the purpose of refinancing the SEE banks and leasing companies by HGAA. The repayment of these refinancing lines will essentially take place by the end of 2018, with an extension option until the end of 2022 at the latest. However, from 2018 onwards, commercial incentive mechanisms aimed at accelerating repayments will apply. The conditions for the refinancing lines have been intensively negotiated with Advent/EBRD (on behalf of HGAA as borrower) and can be qualified as borrower-friendly. The refinancing lines (as has already been stated above) have been pledged to Advent/EBRD as security for the liability claims under the share purchase agreement.

HETA has agreed on the following collaterals in regard thereto with Advent/EBRD:

- Pledging of the refinancing lines of HGAA to the SEE subsidiary banks
- Pledging the SEE subsidiaries' rights under their pledges of customer receivables (Afterpfand)

HETA also has the right to appoint a member of the Supervisory Board of HGAA.

In addition, HETA has been granted a call option; in the event of imminent insolvency or default, HETA could buy back the shares in HGAA at fair value (to be calculated on the basis of an expert opinion).

4 Principal transactions and events

4.1 Adria/HGAA

Will there be any repayment of the refinancing lines granted by HETA to HGAA?

The repayment of the refinancing lines granted to HGAA depends – in addition to the general credit risk which has been partly mitigated by the security structure already referred to – mainly on the following elements: 1. Repayment conditions, 2. Liabilities under the share purchase agreement with Advent/EBRD, and 3. Scope of the “buyer brush” transaction.

Re. 1: As already mentioned, the repayment of the refinancing lines must essentially take place by the end of 2018. In certain cases, there may be an extension of the repayment date to the end of 2022 at the latest, with commercial incentive mechanisms being applied from 2018 in order to encourage repayment.

Re. 2: If and to the extent that liability claims under the share purchase agreement with Advent/EBRD materialise (in essence, these would be indemnification claims), such claims – to the extent that they rightfully exist – are primarily to be settled by offsetting against outstanding refinancing lines granted by HETA to HGAA. Rightful liability claims of Advent/EBRD against HETA under the share purchase agreement can therefore (because of the possibility of offsetting against the outstanding refinancing lines granted by HETA to HGAA) have the effect of reducing the latter. To safeguard this offsetting regime, the liability claims of Advent/EBRD against HETA have also been pledged with the refinancing lines.

Re. 3. Advent/EBRD have the right to transfer certain assets and risk positions in the amount of up to EUR 700 million back to HETA at any time up to 31. March 2016 (“buyer brush” transaction). The purchase price to be paid by HETA to HGAA will be settled by offsetting against outstanding refinancing lines granted by HETA to HGAA. Details concerning the “purchaser brush” transaction follow on the next page.

4 Principal transactions and events

4.1 Adria/HGAA

What are the main conditions for the portfolio buy-back(“purchaser brush”) transactions which have been agreed in the course of the sale of the SEE network?

- Advent/EBRD have the right to transfer back to HETA certain non-performing loan and lease receivables and other assets, as well as risk positions, in the amount of up to EUR 700 million (net balance sheet position as of 31 December 2014). The items covered are: non-performing customer receivables, corporate and public finance loans and leasing receivables, non-operative assets and the risk position under a particular legal dispute.
- These transfers will, as far as this is possible, be carried out legally and financially, or (if this is not legally possible) purely financially (synthetically). If neither is technically possible, HETA can pay a one-off compensation payment in the amount of the additional value adjustment requirement in 2015, or issue a back-to-back guarantee in which HETA will further guarantee the net book value of the specific assets as of 31. December 2014. For non-performing retail loans and risk positions under a legal dispute, only the back-to-back guarantee will be possible. Execution must be completed by March 2016 at the latest.
- As considerations under the agreed portfolio repurchases, and to secure the risk position to be transferred back to HETA, the refinancing lines granted to HGAA will be correspondingly reduced (claims will be offset against refinancing lines). This will effectively relieve the burden on the balance sheet of the affected bank in the SEE bank network and possibly also of HGAA. For HETA, therefore, this procedure is liquidity-neutral.

4 Principal transactions and events

4.1 Adria/HGAA

What liabilities may materialise regarding current developments in the context of foreign currency loans (Montenegro, Croatia)?

Currently , no claims with final specific figures have been asserted. In the share purchase agreement with Advent/EBRD, the credit risk and the legal risk in the defined foreign currency loan portfolio are in any event secured in favour of Advent/EBRD as follows: (a) Legal risk: HETA bears the risk arising from legal disputes that are already pending or will become pending in relation to the defined foreign currency loan portfolio (max. liability amount: EUR 350 million). (b) Credit risk: HETA is liable for the risk provisions that may still have to be booked by the SEE banks in respect of loans in the defined foreign currency loan portfolio (max. liability amount: EUR 200 million within the EUR 350 million liability “bucket” for the legal risk). Both of these run to the end of 2020. To cover this, HETA has booked provisions in the 2015 interim financial statements in the amount of EUR 221.9 million (IFRS).

Since the corresponding legislative activities in the referenced countries are only just in the process of being implemented, the affected banks are preparing numerous and significant defence actions against the implementation in the countries concerned (inter alia with constitutional complaints), other countries (such as Bosnia-Herzegovina) may follow the other countries, and also no tried and tested practice has been established in the application of these new/expected laws, the extent of the liability for HETA is difficult to estimate. It is therefore also not possible to determine from the present-day perspective whether the currently provisioned amount will be sufficient.

4 Principal transactions and events

4.1 Adria/HGAA

Why was a sale of HGAA more advantageous than a structured wind-down?

The HETA Management Board has carried out a comprehensive examination of the costs of a structured wind-down of the SEE banking network in the event that the sale of the SEE banking network to a private third party should fail. Under EU state aid regulations, if the sale of the SEE banking network had failed, the HETA Management Board would have been obliged to wind-down of the SEE banking network. The continuation of the SEE banking network would not have been permitted to HETA under EU state aid regulations.

The HETA Management Board therefore drew up extensive planning calculations with a view to a structured wind-down. A comparison was made between the planning calculations for an orderly resolution and the planning calculations for a sale of the SEE bank network to Advent/EBRD based on the existing share purchase agreement between HETA and Advent/EBRD; in particular, the liability risks arising from the agreed representations and indemnifications and the financial consequences of the agreed portfolio repurchase of non-performing loans were evaluated and factored in the assessment. These planning calculations were then verified reputable independent external experts.

On the basis of these planning calculations, and with due consideration given to the conclusions of the external experts, it has been established that a structured wind-down of the SEE banking network would have put a massively higher financial burdens on HETA composed to the sale to Advent/EBRD on the basis of the existing share purchase agreement with Advent/EBRD.

4 Principal transactions and events

4.1 Adria/HGAA

On the basis of the planning calculations, the conclusions set out in the expert reports and additional fairness opinions which have been obtained, the management bodies of HETA (Management Board, Supervisory Board and General Meeting) decided against a structured wind-down in favour of a sale of the SEE network to Advent/EBRD.

Is the Republic of Austria or FIMBAG a party to the share purchase agreement between HETA and Advent/EBRD?

Neither the Republic of Austrian nor FIMBAG are parties to the share purchase agreement between HETA and Advent/EBRD. The Republic of Austria is only obligated through the security instrument issued by it to the buyer. Details concerning the security instrument are set out above.

4 Principal transactions in 2015

4.1 Adria/HGAA

What effects did the sale of the SEE network have on the HETA balance sheet?

- Amounts shown in the balance sheet as of 30 June 2015 (based on UGB/BWG)

HETA AG: Balance sheet effects from SEE sale based on 30 June 2015 (separate financial statements UGB/BWG)						
Amounts in millions of €	As of 30.06.2015	Payee	Balance sheet recognition (UGB/BWG)	Provisions (liabilities)	Claim deduction (assets)	Other receivables (assets)
Effects arising from the sale agreement (hedging of loan portfolios, indemnification and lower interest effects)	-1.285	Partly HGAA; in form of claim waivers Partly only balance sheet effect (or payment to FIMBAG; max. EUR 248m)	Provision towards FIMBAG Deduction in context of claim	-248	-1.037	
Provisions for ancillary costs related to sale/administration	-11	Third parties	Provision	-11		
Liability fee – hedging instrument	-148	Republic of Austria (monthly payment)	Provision	-148		
FIMBAG profit participation	-44	FIMBAG (paid 7/2015)	Provision	-44		
Total provisions	-1.488					
Minimum purchase price	50	HETA (received 7/2015)	Assets: Other receivables			50
	-1.438			-451	-1.037	50
						-1.438

4 Principal transactions and events

4.2 Italy/HBI

What is Hypo Alpe-Adria-Bank S.p.A., Udine (HBI)?

Hypo Alpe-Adria-Bank S.p.A., Udine, (“**HBI**”), is an Italian credit institution which until autumn 2014 was a subsidiary of Hypo Alpe-Adria-Bank International AG (“**HBIInt**”). From the refinancing of HBI, HBIInt (now “**HETA**”) has receivables in EUR and CHF arising from refinancing lines in an outstanding amount as of 31.12.2014 of approx. EUR 1.6 billion and as of June 2015 around EUR 1.7 billion (equivalent value).

Due to the decision of the European Commission in the state aid proceedings for the former Hypo Alpe-Adria Group, HBI was set for “wind-down” from 2013 onwards (“Commission Decision of 3 September 2013 – State Aid SA.32554 (09/C) – Restructuring aid for Hypo Group Alpe Adria implemented by Austria (published under file reference C(2013) 5648”).

This means that HBI is subject to a prohibition of new business (only a low level of flexibility towards existing customers was defined by the European Commission in the decision) and also has an obligation to wind down its deposits on the basis of a determined wind-down timeline. HETA immediately implemented the decision of the European Commission. Subsequently, HETA attempted to demonstrate to the European Commission that a sale of HBI as a whole appeared economically reasonable and did not contradict EU competition regulations. In the end, it was not possible to convince the representatives of the case team of the European Commission that a sale of HBI as a whole would be permissible under EU law. Thus, currently, only sales of (individual) assets of HBI are permissible. This also had the consequence that it was not possible to sell HBI on the market in the short term, and it therefore had to be transferred to HBI-BH in the context of the deregulation of HETA.

4 Principal transactions and events

4.2 Italy/HBI

Why was HBI sold in September 2014?

With the Austrian Act on the Creation of a Wind-Down Unit (GSA), HETA had to surrender its banking licence issued in accordance with the Austrian Banking Act (BWG). It was a precondition for the return of the banking licence that HETA would no longer carry out any deposit business pursuant to § 1 (1) no. 1 BWG and would no longer hold any qualified participation in a credit institution or a securities firm (§ 2 (1) GSA). Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) was such a “qualified participation in a credit institution” and therefore had to be sold by HETA.

Why was HBI sold to HBI-Bundesholding AG?

Since it was not possible to achieve a sale at such short notice on the market, HBI was transferred to a company created by law by the Republic of Austria – HBI-Bundesholding (HBI-BH) – in order to create the preconditions as referred to above for the return of the BWG banking licence.

The legal basis for HBI-BH is set out in the Federal Act on the Establishment of a Wind-Down Holding Company of the Federal Government for HYPO ALPE-ADRIA-BANK S.P.A. (Bundesgesetz über die Einrichtung einer Abbau-Holdinggesellschaft des Bundes für die HYPO ALPE-ADRIA-BANK S.P.A., HBI-Bundesholdinggesetz), (Federal Law Gazette I No. 51/2014).

Pursuant to § 2 (1) HBI-Bundesholdinggesetz, the purpose of the company is the management and best possible realisation of its interest in HBI.

4 Principal transactions and events

4.2 Italy/HBI

What is the essential content of the share purchase agreement between HETA and HBI-Bundesholding AG?

By the Share Purchase Agreement of 8 September 2014 (the “**Share Purchase Agreement**”), 318,187,083 shares in HBI, representing 99.9% of the share capital of HBI, were sold to HBI-BH, which is owned by the Republic of Austria (this transaction is referred to as a “carve-out”).

With regard to the purchase price, the share Purchase agreement envisaged in a first step that the negative book value of the participation in HBI, as determined by PwC Wirtschaftsprüfung GmbH as of 30 June 2014 with an amount of EUR -2.4 million, was to be paid by HETA to HBI-BH as a negative purchase price. In addition, the Share Purchase Agreement provided that between the signing and the closing the contracting parties must agree on an auditor to determine the objective company value of HBI as of 31 October 2014 on a binding basis for both parties. The parties selected Deloitte Financial Advisory GmbH (“**Deloitte**”) for such determination of the company value. Deloitte presented its report on 25 October 2014, stating an objective company value of HBI of EUR -12.3 million as of the valuation date 31 October 2014. HETA has therefore paid to HBI-BH a negative purchase price for the sale of HBI derived from the negative objective company value.

Following receipt of supervisory approval by Banca d'Italia, the closing took place on 30 October 2014. Consequently, as of that date, HBI no longer belongs to the HETA group of companies.

The Share Purchase Agreement also provides that as of the closing HBI-BH is responsible for the maintenance of the Tier-1 minimum equity ratio of HBI as specified by Banca d'Italia.

In the context of the sale of HBI to HBI-BH, HETA has undertaken, in the event of any outflow of customer deposits, to provide HBI with an “emergency liquidity facility” of up to EUR 300 million to secure the liquidity of HBI.

4 Principal transactions and events

4.2 Italy/HBI

Why did HETA commit itself to a 300 million emergency liquidity facility, even though HBI is no longer a subsidiary since the closing?

As stated above, in the context of group financing, HETA granted HBI refinancing lines in an outstanding amount of EUR 1.6 billion as of 31 December 2014. Even though HBI ceased to be part of the group as of 31 October, HETA continues to be HBI's largest creditor via the refinancing lines.

Against the backdrop of the negative objective value of HBI, as far as HETA is concerned, the value of HBI has always been and still remains exclusively in the outstanding refinancing lines. For HETA, therefore, the main goal regarding HBI is to achieve the best possible return on the refinancing lines. Thus, HETA also has a significant interest in HBI continuing to be properly managed and put into position in which it can repay the refinancing lines in the largest possible amount.

In order for HBI to be able to service the refinancing lines, on the one hand it has to be ensured that HBI fulfils the equity requirements envisaged in supervisory regulations, because otherwise Banca d'Italia could commence supervisory proceedings against HBI. At the time of the conclusion of the Share Purchase Agreement, the Tier-1 minimum equity ratio for HBI was 11.5%. Pursuant to the planning calculation for HBI based on the Share Purchase Agreement, with a further injection of equity in the amount of EUR 56 million in 2014, HBI would have a Tier-1 equity ratio of over 13%, and in the following years 2015 to 2018, the Tier-1 equity ratio would range between 11.5% and 14.4%. Regarding the capital base, the Share Purchase Agreement provides that as of the closing HBI-BH is responsible for maintaining the Tier-1 minimum equity ratio of HBI as specified by Banca d'Italia. It was therefore envisaged that HBI-BH would provide HBI with EUR 56 million in equity.

On the other hand, however, in order for HBI to be able to service the refinancing lines it must also be ensured that HBI has sufficient liquidity at its disposal in the event of any outflow of deposits (for example, as a result of media reports concerning HETA). In the context of the sale of HBI, this financing responsibility has been taken over by HETA as HBI's largest creditor. The emergency liquidity facility is intended to enable HBI to balance out short-term liquidity outflows.

4 Principal transactions and events

4.2 Italy/HBI

Why was the Term Sheet drawn up between HBI-BH and the Republic of Austria in June 2016?

As a result of the BaSAG moratorium which came into force on 1 March 2015, HETA was no longer able to meet its contractual obligation to provide the emergency liquidity facility in the amount of EUR 300 million. In the opinion of the resolution authority, the duty to make this payment was covered by the moratorium as an eligible liability. As a result – contrary to the original intention – the liquidity outflows at HBI could not be compensated by HETA, leading to an ongoing deterioration of the liquidity situation for HBI.

HETA immediately entered into talks with HBI and the resolution authority in order to achieve a transitional solution to the provision of the urgently necessary liquidity for HBI. However, the resolution authority required that any long-term solution must depend on confirmation by external auditors that the provision of additional liquidity would be in the interest of HETA and its creditors because it would lead to an increased return on the outstanding refinancing lines.

The situation was made more difficult by the fact that – based on the HETA Asset Quality Review – a critical analysis of the assets of HBI was necessary. In fact, high additional value adjustments on financing provided were formed by HBI in its annual financial statements as of 31 December 2014 (presented in June 2015), which resulted in the minimum core capital ratio (Tier-1 equity ratio) not being achieved. Thus, HBI was also at risk of the imposition of a supervisory procedure due to non-fulfilment of equity requirements.

Although (as stated above) the Share Purchase Agreement concluded with HBI-BH envisaged that as of the closing HBI-BH would be responsible for the maintenance of the Tier-1 minimum capital ratio of HBI as specified by the supervisory authority (currently 11.5%), HBI- H nevertheless , in light of increased risk provisions on the level of, claims for misrepresentations under the Share Purchase Agreement. It was argued that if there had been knowledge of HBI's true economic situation, HBI would not have been taken over by HBI-BH, or not at that price. In addition, HBI-BH made reference to the non-fulfilment by HETA of its duty to provide the emergency liquidity facility, which also released HBI-BH from its duty to provide HBI with equity.

4 Principal transactions and events

4.2 Italy/HBI

Why was the Term Sheet drawn up between HBI-BH and the Republic of Austria in June 2016? (continued)

For HETA, therefore, the situation in May/June 2015 was as follows:

- HETA is HBI's largest creditor with around EUR 1.6 billion as of 31. December 2014, and the success of its own wind-down thus depends very significantly on the repayment on the refinancing lines.
- HBI was threatened with illiquidity due to the outflow of liquidity. In addition, it was unlikely that regulatory equity requirements would be fulfilled because of the value adjustments in HBI's annual financial statements.
- If this situation could not be rectified immediately, a supervisory procedure would probably be instituted by Banca d'Italia, which would have led to a considerable loss under the refinancing line.
- In the relationship with HBI-BH, a lengthy legal dispute was beginning to emerge; the outcome was uncertain, but in any event would come too late for any recovery of HBI to be possible.
- HBI-BH itself did not have sufficient funds, and it was not clear, in the current situation and against the backdrop of the outstanding legal issues, whether the Republic of Austria is obliged under the HBI-Bundesholdinggesetz to provide HBI-BH with the necessary funds.

For these reasons, HETA entered into settlement talks with HBI-BH in order to achieve a solution for the liquidity and equity problems of HBI.

These discussions were accompanied by a comprehensive internal and external legal and financial audit, as well as an analysis of the legal possibilities under the Share Purchase Agreement.

4 Principal transactions and events

4.2 Italy/HBI

Was there a legal assessment whether proceedings should be instituted against HBI-BH or whether the conclusion of the Term Sheet is to be recommended?

Before the conclusion of the Term Sheet, HETA retained a reputable Austrian legal firm, which, up to then, had not been concerned with the HBI matter, to examine whether, given the existing contractual situation (Share Purchase Agreement, refinancing lines) the HETA Management Board is acting in accordance with its duty of care if it concludes the agreement (which would settle the dispute) pursuant to the Term Sheet with the Republic of Austria (the Federal Government) and HBI-BH.

The expert entrusted with the matter analysed the facts in detail and subjected the existing points of dispute between HETA and HBI-BH to an independent examination. If the expert had recommended that proceedings should be commenced be asserted against HBI-BH in court, HETA would have taken these steps. The expert concluded that, given the contentious nature of the claims and the unclear and ambiguous contractual situation, the conclusion of the settlement in accordance with the Term Sheet represents a correct decision within the framework of the discretion of the HETA Management Board (and in any event, a decision which is reasonable from the entrepreneurial point of view).

What exactly were the characteristics of the contentious nature of the claims and the ambiguous contractual situation?

The starting position was that, pursuant to the Share Purchase Agreement, HETA can require HBI-BH to fulfil its duty to provide equity to HBI in the amount of EUR 56 million, and also to provide further injections of equity in the future. The question remained open as to whether these payments were to be made in an unrestricted amount or (depending on the interpretation of the agreement) only in a restricted amount. It was also questionable whether HBI-BH, in light of the suspended provision of the EUR 300 million emergency liquidity line as a result of the moratorium, has to provide any equity injections at all, or whether HBI-BH can successfully claim the step-by-step principle as envisaged in § 1052 of the Austrian Civil Code (ABGB) and does not have to fulfil its obligation.

4 Principal transactions and events

4.2 Italy/HBI

What conclusion did the expert come to regarding the disputed claims and the ambiguous contractual situation?

- The expert arrived at the view that the explicit mentioning of the planning calculation in the Share Purchase Agreement, and of the future provision of equity in the amount of EUR 56 million, allows of a joint expectation of the contracting parties that this amount would be sufficient.
- The fact that it has now emerged that a considerably higher amount is necessary leads (in the expert's view) to questions of avoidance and adjustment of the agreement is determinable (joint) error, supplementary interpretation of the agreement due to a problem case which had not been taken into account by the parties, and the avoidance of the agreement due to the basis of the transaction falling away
- In the opinion of the expert, the Share Purchase Agreement does not have the clarity that would automatically lead to the conclusion that as a result of this contractual provisions the buyer of the shares (= HBI-BH) had obligated itself to provision of equity to HBI in an unrestricted amount, even if this were to consist in a multiple of the amount of € 56 million.
- In any court proceedings, therefore, the supplementary interpretation of the agreement, or any challenge to the Share Purchase Agreement by HBI-BH based on the argument that the basis of the transaction has fallen away, could lead to the obligation of HBI-BH to provide further equity being restricted to EUR 56 million, and certainly not being without any upward limit.
- There would also be a risk that in light of the suspension of the EUR 300 million emergency liquidity facility as a result of the moratorium, HBI-BH would not be obligated to fulfil its equity provision obligation.
- In the expert's opinion, this would lead to the situation (very unsatisfactory from HETA's point of view) that any fulfilment of the obligation of HBI-BH to provide further equity is very unlikely over approximately the next eighteen months, and any enforcement of the law by legal action would also not lead to any earlier result (even in the event of a positive outcome of the proceedings).

4 Principal transactions and events

4.2 Italy/HBI

What is the essential content of the Term Sheet?

The contracting parties to the Term Sheet are HETA, HBI-BH and the Republic of Austria (the Federal Government).

The Republic of Austria (the Federal Government) pays a shareholder contribution to HBI-BH in the amount of EUR 196 million. The shareholder contribution serves to provide HBI-BH with funds so that it can (i) fulfil its remaining duty of providing further equity to HBI as set out in the Share Purchase Agreement (EUR 46 million; EUR 10 million of the planned EUR 56 million has already been paid to HBI), and (ii) discharge possible claims of HBI or HETA against HBI-BH.

HBI-BH uses the shareholder contribution to provide HBI with an amount of EUR 100 million in the form of equity and EUR 96 million in the form of a subordinate loan. The funds are to be used by HBI to repay customer deposits and to service liabilities arising from bonds issued by HBI. The loan granted by HBI-BH is subordinate to all claims of HETA against HBI.

HETA has undertaken to make available to HBI a new loan in the amount of EUR 100 million, which, however, can only be drawn by HBI following prior use of the HBI-BH funds and upon presentation of proof of a corresponding further need for liquidity to repay customer deposits and to service liabilities arising from bonds issued by HBI. If HBI draws the new HETA loan, it is to be paid back to HETA in priority over all other claims of HBI-BH or other existing financing of HETA.

It is also agreed in the Term Sheet that a structured, active and best-possible realisation of the assets of HBI is to take place, so that all liabilities of HBI (including the claims of HETA) can be discharged as quickly as possible.

With regard to the historically existing refinancing line against HBI in the amount of EUR 1.7 billion (nominal amount), HETA has undertaken to waive up to EUR 630 million in order to cover the capital requirement arising from the accelerated wind-down of HBI and to enable HBI to fulfil its equity requirements.

4 Principal transactions and events

4.2 Italy/HBI

What does the waiver of receivable consist of exactly?

HETA has undertaken to waive its receivable arising from the refinancing lines (but not to waive the newly granted loan) if and to the extent that this is necessary for HBI to fulfil the regulatory requirements on equity. This waiver is limited to a total of EUR 630 million. Sufficient provision has been made in HETA's interim financial statements to cover this waive.

What waiver of receivable has HETA issued for the annual financial statements of HBI for 2014?

On the basis of the annual financial statements for 2014 of by HBI, which have also been audited and confirmed by the local Italian auditor PricewaterhouseCoopers SpA, HETA has waived EUR 280 million of receivable against HBI to ensure that the minimum capital ratio is guaranteed pursuant to the regulations.

What waiver of receivable has HETA issued for the interim financial statements of HBI as of 30 June 2015?

On the basis of the interim financial statements for 2015 provided by HBI, which have also been subjected to review by the local Italian auditor PricewaterhouseCoopers SpA, HETA will not have to waive any claim in connection with the preparation of the interim financial statements for 2015.

Could any further receivable be waived?

The agreed waiver is initially limited to EUR 630 million. To date, a waiver in the amount of EUR 280 million has been issued. The question of the amount of any future waiver that may be necessary has not yet been decided. However, it is ultimately ensured by means of earn-out agreement (see below) that HETA will receive a repayment on the waived HBI receivable if the wind-down of HB is more successful.

4 Principal transactions and events

4.2 Italy/HBI

What has HETA received from HBI-BH in exchange for the waiver of receivable?

In exchange for the waiver of receivable promised by HETA and the new financing, HBI-BH has provided HBI with an amount of EUR 100 million in the form of equity and EUR 96 million in the form of a subordinate loan.

In addition, HBI-BH and HETA have concluded a earn-out agreement in which HBI-BH has issued an undertaking to HETA that it will surrender to HETA any financial advantage arising from or in connection with its position as shareholder and provider of equity or debt to HBI – including payments arising from the equity injection paid by HBI-BH and the loan granted – up to the amounts waived by HETA. If the wind-down of HBI leads to any surplus, therefore, HBI-BH must pay to HETA the amount of such surplus up to the amount of the waived receivable. HBI-BH would only retain any surplus after repayment of EUR 1.7 billion.

To secure the claim arising from the earn-out agreement, and to secure the repayment of the refinancing lines and the new loan granted by HETA, HBI-BH has pledged its shares in HBI and all present and future claims against HBI in favour of HETA.

4 Principal transactions and events

4.2 Italy/HBI

What economic scenarios were compared for the context of the decision to conclude the Term Sheet?

The following two decision scenarios (which were examined by an independent expert before the conclusion of the Term Sheet) arose for HETA on the basis of this situation:

Scenario 1: The performance of the existing receivable against HBI with provision of additional liquidity (i.e. with conclusion of the Term Sheet)

In this scenario it is assumed that on the basis of the measures put in place by the conclusion of the Term Sheet, in particular the provision of additional (equity) capital by HBI-BH and liquid funds by both HBI-BH and HETA, the wind-down of the portfolio by HBI can take place in a structured way, with the loan funds being repaid to HETA in parallel with this.

In addition, HETA, through the substantial capital and liquidity contributions provided by the owner of HBI (HBI-BH) after the conclusion of the Term Sheet, will overall achieve both an improvement in its economic position (increased debt coverage potential based on the subordinate status of the funds to be contributed by HBI-BH) and also, through the conclusion of a earn-out agreement based on additional rights of lien, in its legal position (control rights and rights of lien) (see also on this subject: “What is the essential content of the Term Sheet?”).

This means that on the basis of the measures effected by the conclusion of the Term Sheet, the performance value of the refinancing lines provided by HETA will improve. In this connection, a corresponding release of the risk provision was made through profit and loss in the consolidated interim financial statements for 2015, in the amount of approx. EUR 123 million, since scenario 2 (supervisory proceedings) was still assumed in the consolidated financial statements for 2014, which led to a lower valuation.

4 Principal transactions and events

4.2 Italy/HBI

Scenario 2: The performance of the existing receivable against HBI without provision of additional liquidity (i.e. without conclusion of the Term Sheet)

In this scenario, in the absence of sufficient liquidity to service the other creditors (or an unclosed equity gap), HBI would in the short term lose control of the company by its own management in Italy. In such a procedure (“commissariamento”), which is carried out under the supervision and management of the Italian authorities, the likely outcome would be the liquidation of the company without any protection of its resources, and it is therefore highly probable that the sale of the assets would take place in a disadvantageous market position resulting in significantly lower liquidation proceeds and a correspondingly higher default risk regarding HETA’s claim against HBI. In addition, because of the fact that any liquidation proceedings carried out by the supervisory authorities would under certain circumstances require the repayment to HBI of repayments already received by HETA from previous periods, the experts concluded that scenario 1 is in any event economically justified and is the preferable option. In the annual financial statements for 2014 it was assumed that supervisory proceedings would take place, and accordingly a provision was made in relation to the existing refinancing provided to HBI in order to anticipate any effects arising from such proceedings. This risk provision amounted to approx. EUR -1.2 billion in the non-consolidated financial statements.

To what extent is the EUR 100 million new loan currently drawn, and what is HBI’s liquidity situation?

The new loan is currently not utilised. As of 30. June 2015, HBI had liquid funds of approx. EUR 199 million at its disposal, as against primary funds of approx. EUR 252 million, including own issues in the amount of approx. EUR 45 million.

4 Principal transactions and events

4.2 Italy/HBI

What is the explanation for the different treatment of receivable of HETA against HBI in the annual financial statements as of 31. December 2014 and in the interim financial statements as of 30. June 2015?

In the consolidated financial statements of HETA as of 31.12.2014, corresponding risk provisions were booked in relation to the existing claims of HETA against HBI, on the assumption of a wind-down of the HBI portfolio in the course of a resolution procedure carried out by a supervisory authority (“commissariamento”). This led to the claims arising from the refinancing lines being treated as follows:

The valuation of the refinancing lines provided to HBI was undertaken by HETA on the basis of a conservative valuation of HBI’s assets which was carried out by a reputable Italian credit management company. Some information and figures were missing, including the fact that the Term Sheet had not at that time been signed, so that the resolution proceedings scenario had to be assumed, which ultimately required the booking of risk provisions of about EUR 1.2 billion.

Following conclusion of the Term Sheet between HETA, HBI-BH and the Republic of Austria (the Federal Government) and the subsequent substantial capital and liquidity injections made by HBI-BH to HBI in June 2015, the intrinsic value of the financing line granted by HETA increased considerably as of 30 June 2015. In the consolidated interim financial statements, therefore, the risk provisions were released through profit or loss in the total amount of EUR 123 million, while the waiver of receivable granted in the amount of EUR 280 million did not have any effect on the income statement for the 1st half of 2015.

On the basis of the aforementioned injection of funds from HBI-BH in the amount of EUR 196 million and the waiver of receivable by HETA in the amount of EUR 280 million, HBI’s liquidity situation and its expected ability to make repayments have improved to such an extent that it was possible to release risk provisions of approx. EUR 123 million, even though the valuation of the HBI portfolio had not changed as compared with the HETA annual financial statements for 2014.

4 Principal transactions and events

4.2 Italy/HBI

Amounts shown in the balance sheet as of 30 June 2015 (based on UGB/BWG)

HETA AG: Balance sheet effects relating to HBI based on 30 June 2015 (separate financial statements UGB/BWG)

Amounts in millions of €	As of 30.06.2015	Remarks
Nominal amount of claim (rounded)	1.710	
Waiver of claim effective in June 2015	-280	Based on Term Sheet agreement
Claim amount as of 30.06.2015	1.430	
Risk provision (SRP)	-833	
Net book value as of 30.06.2015	597	

4 Principal transactions and events

4.3 BLB proceedings/judgement of the Munich I Regional Court

What is the essential content of the judgement of the Munich I Regional Court of 8.5.2015?

The Munich I Regional Court has obligated HETA to make the following **payments**:

- EUR 1.03 billion plus interest thereon in the amount of EUR 17.5 million;
- CHF 1.29 billion plus interest thereon in the amount of CHF 15.3 million; and
- Interest on the stated capital amounts at the rate of 5 percentage points above the respective base interest rate (but not less than 5% p.a.) from 1.1.2014

In addition, the Munich I Regional Court **ruled** that:

- HETA is obligated to reimburse BLB for all further damages that have arisen or may still arise as a result of non-payment or untimely payment on the part of HETA regarding certain loan agreements; and
- BLB does not have to pay back a provision commission in the amount of EUR 6.6 million.

Moreover, the Munich I Regional Court

- dismissed the further claim of BLB arising from a debt instrument in the amount of CHF 300 million plus interest, by reason of the non-competence of the Munich I Regional Court;
- dismissed the counterclaim of HETA against BLB (total amount EUR 4,853,473,134);
- ordered HETA to pay 94% of the costs of the legal dispute; and
- pronounced the judgement as provisionally enforceable subject to provision of security in the amount of 115% of the respective enforcement amount.

4 Principal transactions and events

4.3 BLB proceedings/judgement of the Munich I Regional Court

Are the damages claimed by BLB, regarding which the Munich I Regional Court has found HETA liable, known?

BLB has not yet named any specific amounts for these damages in the proceedings. In the discussions on the Memorandum of Understanding, an initial amount of EUR 70 million was specified. This amount is made up of EUR 10 million in experts' costs and other costs regarding the EKEG proceedings and also all-inclusive court fees for the claims brought by BLB against the Republic of Austria and against Kärntner Landesholding (approx. EUR 30 million in each case).

What is the justification for the partial dismissal of the BLB claim in the amount of CHF 300 million?

This relates to claims of BLB arising from bearer bonds in the nominal amount of around CHF 300 million. On this point, the Munich I Regional Court concluded that it did not have local competence to deal with this part of BLB's claim. The relevant bond conditions envisage the non-exclusive competence of the Frankfurt Regional Court. The Munich I Regional Court therefore dismissed the claim by reason of its non-competence and did not make any deviating judgement regarding the bearer bonds.

What is the basis for the percentage of HETA's lack of success as far as the decision on costs is concerned?

The Munich I Regional Court determined the extent of the lack of success of the parties on the basis of a total amount in dispute of EUR 6,390,175,927.67. With various petitions for declaratory judgement and interest included, BLB is unsuccessful in its claim applications in the amount of EUR 379,902,126.91, i.e. approx. 6%.

4 Principal transactions and events

4.3 BLB proceedings/judgement of the Munich I Regional Court

Is the payment amount awarded by the Munich I Regional Court provisionally enforceable?

Yes, the judgement is provisionally enforceable regarding the payment claim pursuant to § 709 d of the Austrian Code of Civil Procedure (ZPO). BLB can assert the claims in question by way of enforcement. It is then for the competent execution courts to judge how the enforceable decision stands in relation to the moratorium issued in the administrative ruling of 01. March 2015. If other foreign courts reject the applicability of BaSAG, HETA would have to file appeals under execution regulations, making reference to BaSAG, in order to avoid any access by BLB to assets of HETA and to ensure the equal treatment of the creditors.

What is the precondition for an enforcement of the judgement by BLB?

It is a precondition for the enforcement that BLB provides security in the amount of 115% of the enforcement amount, for example in the form of a bank guarantee or by depositing corresponding assets. In its own interim financial statements, BLB has stated that preparations are being made for enforcement to be effected. As talks are ongoing, the judgement has not yet been enforced.

Is the declaratory claim enforceable in respect of further damages?

Any such compensation claims are not enforceable on the basis of the decision of the Munich I Regional Court. For an enforceable decision, BLB would first have to petition for performance. The declaratory judgement, however, restricts the scope of examination by a court (in the context of any subsequent petition for performance) to the question of whether the damages asserted are damages within the meaning of this declaratory judgement and whether the amount has been correctly calculated.

4 Principal transactions and events

4.3 BLB proceedings/judgement of the Munich I Regional Court

What justification did the court in Munich provide for its judgement?

➤ *No crisis within the meaning of § 2 (3) EKEG*

The loans were not granted in a crisis, neither did BLB have any knowledge of a crisis. In this connection, the court division pointed out that for a crisis as envisaged in § 2 (3) EKEG it is not absolutely necessary for there to be positive knowledge of failure to fulfil equity requirements; on the contrary, in certain circumstances the violation of duties of care may also be sufficient. However, in the present case, the court division had not been able to identify any relevant violations of the duty of care on the part of BLB.

➤ *No crisis within the meaning of § 2 (1) no. 2 EKEG*

The loans were not granted in a crisis that could be defined in terms of overindebtedness. The court division did not examine the question of whether HETA had actually been in overindebted in accounting terms in 2008 and 2009. This question could remain open, since from the perspective of that time, the prognosis for the continued existence of HETA was certainly positive. To that extent, the court division pointed out in particular that HETA had been continued for a number of years after 2009 and had also published positive annual financial statements.

➤ *HaaSanG not in accordance with the “Reorganisation Directive”*

There is no support for HaaSanG (or for HaaSanV which is based thereon) to be found in the Reorganisation Directive 2001/24/EC. In addition, HaaSanG and HaaSanV do not constitute decisions of a court or an authority. On the contrary, the measures imposed by the FMA were already required by Austrian legislation, leaving no scope for discretion.

➤ *FMA decision of 01.03.2015*

In the court division’s opinion, the FMA decision finds no support in Directive 2014/59/EU, since HETA is a wind-down unit and not a credit institution.

4 Principal transactions and events

4.3 BLB proceedings/judgement of the Munich I Regional Court

What is the current status of the EKEG proceedings:

HETA announced on 19 June 2015 that it would be filing an appeal. The appeal statement does not yet contain any appeal justification, but is merely the announcement of the appeal. The appeal justification and the appeal requests are reserved for a separate written pleading.

On 26 June, BLB also announced that it would be appealing against the part of the judgement that dismissed the claim, and has reserved its appeal justification and appeal requests for a separate written pleading.

By amicable agreement with BLB, the limited period for submission of the appeal justification has been extended (in light of the Memorandum of Understanding) until 19 November 2015. A further extension of the appeal justification period is currently being discussed (see below on this point).

Will HETA submit an appeal justification?

If no settlement can be reached between BLB and HETA in the EKEG proceedings, or if – as is currently being discussed (see below) – the Memorandum of Understanding is implemented in such a way that the EKEG proceedings are to be continued, the HETA Management Board will report to the Supervisory Board that because of the altered situation it is necessary to continue the EKEG proceedings and that an appeal justification must be submitted. Work is currently being carried out on the appeal justification.

4 Principal transactions and events

4.3 BLB proceedings/Memorandum of Understanding

What is the Memorandum of Understanding?

The Memorandum of Understanding (“MoU”) is an agreement in principle between the Republic of Austria and the Free State of Bavaria. It was signed on 7 July 2015. With the signing, the Republic of Austria and the Free State of Bavaria have instituted a process whereby (inter alia) HETA has been invited to consider and decide whether it wishes to contribute to a settlement with Bayerische Landesbank (BLB) on the basis of this Memorandum of Understanding.

Does that mean that the MoU doesn’t actually apply yet?

The MoU envisages a number of conditions that must arise in order for the MoU to be implemented with legally binding effect in an implementation agreement (“**MoU implementation agreement**”). This includes various agreements between the disputing parties in the various legal disputes, including the final and irrevocable settlement of BLB’s claims against HETA. Each party that is waiving claims must decide for itself whether it can agree to a settlement as described in the MoU. All agreements and declarations for the implementation of the MoU are in turn subject to the condition of the signing of the MoU implementation agreement.

What is the essential content of the MoU?

The MoU is intended as the basis for the settlement of any valid claims arising from or in connection with HETA between (i) BLB and HETA, (ii) BLB and the Republic of Austria, and (iii) BLB against Kärntner Landholding (KLH) and the Province of Carinthia.

As part of the MOU, the Republic of Austria issues an undertaking to the Free State of Bavaria to pay EUR 1.23 billion – designated as the “Austria compensation amount” – upon conclusion of the MoU implementation agreement. This amount represents an (at least partial) advance payment of a possible repayment by HETA. As soon as BLB receives corresponding payments from HETA, the settlement amount is to be reimbursed to the Republic of Austria by the Free State of Bavaria in several tranches in the amount of the payments received (but not more than EUR 1.23 billion).

4 Principal transactions and events

4.3 BLB proceedings/Memorandum of Understanding

What is the essential content of the MoU (continued)

If the realisation of the assets of HETA produces a proportionally higher amount, BLB retains this additional amount arising from the resolution of HETA. If the realisation of the assets produces a proportionally lower amount, the amount paid by Austria to the Free State of Bavaria remains the same (EUR 1.23 billion). In addition, it is envisaged in the MoU that

- BLB will withdraw its claim for payment against Kärntner Landesholding arising from an alleged liability of Kärntner Landesholding pursuant to § 4 K-LHG (Kärntner Landesholding-Gesetz, Carinthian State Holding Act) under a waiver of claim;
- BLB will withdraw its claim against the Republic of Austria arising from an alleged liability under the emergency nationalisation agreement under a waiver of claim;
- the Republic of Austria will withdraw its claim regarding avoidance of the emergency nationalisation agreement against BLB and HETA based on error under a waiver of claim; and
- upon conclusion of the MoU implementation agreement, any valid claims between BLB and HETA, between BLB and Austria, and of BLB against Kärntner Landesholding and the Province of Carinthia will be finally settled.

By what date should the MoU implementation agreement between the Free State of Bavaria and the Republic of Austria be signed?

In the MoU, 31 October 2015 is envisaged as the date of signing. In the interim period, the Federal Act Relating to the General Settlement with the Free State of Bavaria has been enacted in the Austrian National Council, which is intended to empower the Federal Minister of Finance (under certain preconditions) to conclude the MoU implementation agreement. Pursuant to information received, the law should come into force at the beginning of November, so that there may be a slight delay regarding the signing of the MoU implementation agreement.

4 Principal transactions and events

4.3 BLB proceedings/Memorandum of Understanding

What exactly is the proposed settlement regarding HETA?

The management bodies of HETA had to consider whether they are able to conclude a settlement as outlined in the MoU. This relates in particular to the termination of the EKEG proceedings with BLB and the termination of the action of avoidance for error brought by the Republic of Austria against BLB and HETA. According to the current status of the latter proceedings, the petition directed against HETA is not a petition for performance, but an alternative petition for the rescission of the emergency nationalisation agreement.

- In the MoU, a “settlement amount” in regard to the EKEG proceedings in the amount of EUR 2.4 billion is named. This claim is to be qualified as a *senior unsecured* claim.
- Pursuant to the proposed settlement, counterclaims of HETA against BLB no longer apply.
- With this settlement amount, BLB is to participate in a resolution of HETA (either pursuant to BaSAG or in insolvency) in the same priority and in the same way as all other non-subordinate creditors.
- The action for avoidance based on error (which is also directed against HETA) is to be withdrawn by the Republic of Austria under a waiver of claim.

What preconditions have to be fulfilled in order for the settlements set out in the MoU to become legally valid?

The settlements set out in the MoU will only become effective if the following conditions are met: (i) bilateral agreements between HETA, BLB and the Republic of Austria; (ii) agreement of the HETA Management Board and consent by the Supervisory Board and the HETA General Meeting concerning the bilateral agreements of HETA; (iii) non-prohibition by the Austrian Financial Market Authority as resolution authority concerning the bilateral agreements of HETA; (iv) agreement of the BLB Management Board and consent by the BLB Supervisory Board concerning the bilateral agreements of BLB; (v) creation of the parliamentary preconditions for Austria; and (vi) creation of the parliamentary preconditions for Bavaria.

4 Principal transactions and events

4.3 BLB proceedings/Memorandum of Understanding

What is the current status of the implementation of the settlement between BLB and HETA? There have been rumours in the media recently that there is not going to be a settlement and the proceedings between BLB and HETA will be continued.

Following independent examination, BLB and HETA have essentially decided to terminate the existing legal disputes on the basis of the MoU. It is true that it has been announced by a third party that the settlement between BLB and HETA will be legally contested, and for this reason there would be no certainty that future legal disputes would be avoided on the basis of the MoU. Even if the parties do not see any material reasons for the contesting of a settlement between BLB and HETA, the associated risks can be best addressed by the continuation of the EKEG proceedings without any restriction on the part of HETA, leading to a final and absolute decision.

The parties to the MoU firmly believe that the implementation of the MoU can nevertheless fulfil the purpose of a general settlement if the claims of BLB against HETA are finally settled at this point (including in the event of BLB being successful in the EKEG proceedings) and if regarding the EKEG proceedings certain accompanying measures (such as waiver by BLB of the enforcement of the claims) are put in place in order to make an orderly resolution of HETA possible.

At the present time, therefore – by way of deviation from the originally conceived termination by settlement of the EKEG proceedings – work is being carried out on an alternative concept whereby all other elements of the MoU would be implemented but the proceedings between BLB and HETA would be submitted for judicial clarification in the court proceedings pending in Munich.

This would mean that if the alternative solution is implemented there would be no termination by settlement of the EKEG proceedings as outlined in the MoU.

4 Principal transactions and events

4.3 BLB proceedings/Memorandum of Understanding

What would the alternative solution between BLB and HETA that is currently being worked on look like?

Subject to still outstanding decisions by the parties involved, a solution would be something like this:

- The EKEG proceedings will not be terminated by settlement, but will be continued by BLB and HETA without restriction. BLB and HETA will submit appeal justifications.
- To this end, BLB and HETA agree on a further extension of the period for submission of appeal justifications.
- As currently envisaged, the legal issues between BLB and HETA will be clarified by court decision in the EKEG proceedings.
- BLB finally and irrevocably states that even if a higher claim is awarded to it by final decision in the EKEG proceedings it will only participate in the resolution of HETA in the amount of EUR 2.4 billion plus interest at the statutory rate (NB: the treatment of interest is ultimately the responsibility of the resolution authority). This declaration of BLB is made subject to the proviso that its claim participates on an equal footing and in the same rank as the other senior creditors in a resolution of HETA pursuant to BaSAG, or in insolvency proceedings regarding the assets of HETA, or in any other form of resolution.
- BLB states that it waives the institution of measures for compulsory execution and will restrict itself to participating with its claim against HETA in the resolution of HETA, be it in the context of a resolution of HETA pursuant to BaSAG, or in insolvency proceedings in respect of the assets of HETA, or in any other form of resolution.
- Regarding HETA's claim against BLB arising from the counterclaim, no restrictions are envisaged. If HETA obtains a final and absolute decision regarding its claim, the amount in question can also be collected from BLB.
- With the exception of the claims arising from the EKEG proceedings and certain derivatives transactions between BLB and HETA, all mutual claims between BLB and HETA are settled.

4 Principal transactions and events

4.3 BLB proceedings/Memorandum of Understanding

When will it become clear whether this alternative solution will be implemented?

The decision-finding should be completed by the end of October/beginning of November.

What does the alternative solution mean as far as the decisions reached by the management bodies of HETA are concerned?

Since pursuant to current information the EKEG proceedings are not to be terminated by settlement, the decisions reached by the management bodies of HETA so far are also no longer to be implemented. The Management Board will therefore report to the Supervisory Board that because of the altered situation it is necessary to continue the EKEG proceedings.

What are the disadvantages of the alternative solution for HETA?

HETA and BLB had the aim of creating “legal peace” and avoiding the continuation of the cost-intensive EKEG proceedings. These proceedings are now being continued. This will be associated with considerable additional costs.

What if this alternative solution also fails?

In that situation, too, HETA will submit the appeal justification regarding the judgement of the Munich I Regional Court. BLB could continue to request the enforcement of the judgement in the first instance.

4 Principal transactions and events

4.3 BLB proceedings/Memorandum of Understanding

Even if an alternative solution is currently being worked on: How did the management bodies of HETA go about examining whether they can conclude a settlement as envisaged in the MoU?

The management bodies of HETA have examined and evaluated the decision to conclude the settlement with the greatest possible care.

The decision-making process has been conducted in an unbiased manner throughout. For the examination of the legal preconditions for the implementation of the MoU from HETA's point of view, the attorneys in the EKEG proceedings (the law firms of fwp and Allen & Overy) were used as advisers. For reasons of objectivity and in order to ensure the necessary care in the decision-making process, we also used legal advisers who had not previously been involved in the EKEG proceedings, namely Gleiss Lutz Frankfurt for Germany and CMS Reich-Rohrwig Hainz for Austria. In addition, a detailed assessment was undertaken by the Management Board itself with the involvement of the various specialist divisions (Group Legal, Group Accounting, Treasury and Group Financial Controlling). The accounting and financial benefits of a settlement in relation to the continuation of the proceedings, as represented by the Management Board, were also assessed by the auditors of HETA's financial statements to ensure their accuracy.

In addition, the HETA Supervisory Board took advice from Univ. Prof. Gunter Nitsche (University of Graz). At the Supervisory Board meeting on 21 September 2015, Dr. Griss (the former President of the Supreme Court in Austria) presented the Management Board and Supervisory Board of HETA with the deliberations of the Griss Commission concerning the Memorandum of Understanding and the settlement between BLB and HETA, and confirmed that the management bodies of HETA had acted in a legally unobjectionable manner in accordance with the Business Judgement Rule.

4 Principal transactions and events

4.3 BLB proceedings/Memorandum of Understanding

Even if an alternative solution is currently being worked on: A settlement is based on both sides having an advantage and both sides waiving claims. What would be the advantages and waivers of the settlement envisaged in the MoU for both sides?

We would ask you to understand that the details of the deliberations of the Management Board concerning the expediency of the settlement cannot at present be disclosed until such time as a final agreement has been reached between BLB and HETA. However, from the perspective of HETA it can be pointed out that with the settlement as described:

- enforcement by BLB regarding the assets of HETA is prevented;
- the claims of BLB against HETA are reduced from a total amount of around EUR 2.8 billion (as of 1 March 2015) to around EUR 2.4 billion;
- BLB waives further claims, i.e. the compensation claims awarded to it by the court on the merits of the case, and
- BLB undertakes – notwithstanding any legal protection that applies equally to all creditors under BaSAG – not to implement any measures that would go against an orderly resolution of HETA pursuant to BaSAG (for example by challenging the recognition of resolution measures in other Member States).

4 Principal transactions and events

4.3 BLB proceedings/Memorandum of Understanding

Even if an alternative solution is currently being worked on: Why do the management bodies of HETA believe that it suddenly makes more sense to reach a settlement with BLB than to continue the proceedings? Why did they ever even start the proceedings?

Since there is a possibility that the proceedings in Munich will be continued, HETA cannot at this time disclose any details concerning the content of the deliberations that have led to HETA's positive decision. However, the advantages of the settlement would be significant for HETA and its creditors.

Another important consideration is that these proceedings have now been pending for almost 3 years, with numerous written pleadings and opinions having been exchanged. A judgement has been reached in the first instance, on the basis of which HETA has been entirely unsuccessful. Under these conditions, the proceedings and the chances of success needed to be reassessed. That does not necessarily mean that the proceedings ought never to have been started.

Why has the settlement been negotiated by the Republic of Austria and not by HETA itself?

HETA would not have been in any position to negotiate such a settlement, because the moratorium means that HETA would not have been able to offer BLB any advance payment such as the Republic of Austria is providing. From HETA's point of view, this whole package could only be achieved because the Republic of Austria was involved.

4 Principal transactions and events

4.3 BLB proceedings/Memorandum of Understanding

Even if an alternative solution is currently being worked on: Has HETA now changed its opinion regarding the classification of the commitments given by the Republic in connection with the emergency nationalisation (whether or not subject to EKEG)? In the proceedings before the Munich I Regional Court, the view represented by HETA was always that it was in “crisis” on the relevant dates.

Commitments given by the Republic of Austria in the emergency nationalisation agreement have as of yet not been discussed in the proceedings before the Munich I Regional Court. BLB has asserted its presumed claims arising from an alleged security commitment given by the Republic of Austria in the emergency nationalisation agreement by directly filing a claim against the Republic of Austria.

Regarding the relationship between HETA and the Republic of Austria it must be noted that possible claims of HETA against the Republic of Austria are not governed by the MoU and remain unaffected.

Even if an alternative solution is currently being worked on: Please explain what effects a possible settlement with BayernLB on the basis of the MoU would have on the Heta balance sheet pursuant to UGB/BWG.

The balance sheet effects of terminating the EKEG proceedings by a settlement would arise from the advantages of the settlement for HETA as described above (i.e. a reduction in the BLB claim amount, no further compensation claims).

The question of how the alternative solution under discussion is to be accounted for in the balance sheet has still to be examined.

4 Principal transactions and events

4.3 BLB proceedings/Memorandum of Understanding

Even if an alternative solution is currently being worked on: How will HETA ensure, in dealings with the Republic of Austria (as current shareholder) and BLB (as former shareholder) that HETA will not be in breach of any obligations towards the creditors?

HETA would not be in breach of any obligations towards its creditors with the possible settlement. As stated above, the management bodies of HETA, in the context of a comprehensive review in accordance with the Business Judgement Rule, judged that the proposed settlement would be for the benefit of the company and therefore for the benefit of its creditors. The fact that the Republic of Austria is also drawing a benefit from the general adjustment does not make the settlement inadmissible as far as HETA is concerned. Possible claims of HETA against the Republic of Austria are not regulated in the settlement under discussion and remain unaffected.

Even if an alternative solution is currently being worked on: How does HETA assess the question of whether its obligations according to the settlement with BLB would be covered by the moratorium issued in the administrative ruling according to BaSAG?

Upon the conclusion of the settlement, BLB would refrain from any compulsory enforcement measures and would participate with its claim exclusively in the resolution of HETA, either as envisaged in BaSAG or in insolvency. The moratorium would therefore also apply in respect of the BLB claim amount as specified in the settlement. In the resolution of HETA, BLB's position would not be better than that of any other creditor of HETA, but neither would it be worse. Payments would only be made by HETA to BLB if payments were also being made to the other creditors.

5 Situation with regard to proceedings – presentation of legal disputes

4.1 BaSAG claims

4.2 HaaSanG proceedings

5 Situation with regard to proceedings

5.1 BaSAG claims

How many claims are pending on the basis of BaSAG?

There are currently six claims filed by creditors against HETA on the basis of the payment moratorium that have been served on HETA.

What nominal amount in terms of bonds is affected by these claims?

EUR 1.7 billion

CHF 33 million

Where are these proceedings pending?

These proceedings are all pending before the Frankfurt Regional Court. Further claims have already been announced in the media or have been filed, but have not yet been served on HETA.

What are the claimants asking for in these proceedings?

The claimants are asking for the payments on their bonds, and are disputing the applicability of the payment moratorium.

5 Situation with regard to proceedings

5.1 BaSAG claims

Why is HETA conducting these proceedings? Why does it not simply acknowledge the claims?

HETA is bound by the FMA ruling and the payment moratorium imposed therein. It cannot treat the claims of individual creditors differently from the claims of other creditors that are also affected by the moratorium.

Is it possible that the Frankfurt Regional Court, like the Munich Regional Court in the EKEG proceedings, will deny the applicability of BaSAG to claims filed under German law before a German court?

Yes, of course this possibility exists. If such a judgement were to be pronounced and if it were provisionally enforceable, then Heta would have to appeal against the attachment of its assets, making reference to the moratorium pursuant to BaSAG. The resolution authority, within the scope of application of BaSAG, could request the suspension of judicial measures (§ 59 (2) BaSAG).

5 Situation with regard to proceedings

5.2 HaaSanG proceedings

How many claims are currently pending against HETA on the basis of HaaSanG?

A total of 34 claims have been filed by creditors that are holders of bonds and debentures which are affected by the Federal Act on Restructuring Measures for HYPO ALPE ADRIA BANK INTERNATIONAL AG (Bundesgesetz über Sanierungsmaßnahmen für die HYPO ALPE ADRIA BANK INTERNATIONAL AG, **HaaSanG**).

What is the value in dispute in these proceedings?

The value in dispute in these proceedings is around EUR 684 million.

Where are these claims pending?

These claims are all pending in Austria, some at the Klagenfurt Regional Court and some at the Vienna Commercial Court.

5 Situation with regard to proceedings

5.2 HaaSanG proceedings

What are the claimants asking for in these proceedings? After all, HaaSanG has now been repealed.

The Federal Act on Restructuring Measures for HYPO ALPE ADRIA BANK INTERNATIONAL AG (HaaSanG) came into force on 1 August 2014 and appointed the FMA as the competent authority to decide on the execution of the restructuring measures envisaged in HaaSanG. With the announcement of the FMA ordinance (HaaSanV) on 7 August 2014, the cancellation or suspension of the liabilities of Heta as listed in the FMA ordinance was implemented by law, i.e. any repayment amount owed by the company plus interest and other ancillary fees, to the extent applicable, were automatically reduced to zero. For certain “contentious liabilities”, the payment date was deferred under HaaSanG to at least 30 June 2019. A volume of around EUR 1.6 billion was covered by the extinguishing of the liabilities, including EUR 0.8 billion in subordinate liabilities held by third-party investors and EUR 0.8 billion in liabilities towards Bayerische Landesbank (BayernLB).

Originally, the claimants in these proceedings demanded a declaratory judgement concerning the validity of their claims and payment of those claims. In most cases, the proceedings were then suspended and submission requests were presented to the Constitutional Court. After the Constitutional Court, on 3 July 2015 (published on 28 July 2015), repealed HaaSanG (and HaaSanV which was based thereon) in its entirety and without stating any repair period, the liabilities which were treated as extinguished in 2014 and derecognised through profit or loss were reinstated in the balance sheet as of 30 June 2015. With the repeal of HaaSanG, the proceedings are now continuing, partly upon the motion of the authorities, and partly at the claimants' request.

5 Situation with regard to proceedings

5.2 HaaSanG proceedings

Does the repeal of HaaSanG mean that HETA will be unsuccessful in these proceedings?

On the basis of the repeal of the provisions of HaaSanG and HaaSanV by the Constitutional Court on 03.07.2015, the claims now come under the payment moratorium envisaged in BaSAG until 31.05.2016. In these proceedings, HETA will take the position that none of the liabilities is currently due for payment.

Is it possible that in the further course of the proceedings a new submission will be made to the Constitutional Court?

Yes, that is very probable. Even in the course of the first submission requests to the Constitutional Court, one claimant requested that a constitutional review of the applicability of BaSAG to HETA be performed. This submission request was not considered by the Constitutional Court before HaaSanG was repealed. However, the request could be considered in future, and it must be assumed that other claimants will make similar requests, or that the court will order the matter to be considered.

Why is HETA conducting these proceedings? Why does it not simply acknowledge the claims?

HETA is bound by the FMA ruling and the payment moratorium imposed therein. It cannot treat the claims of individual creditors differently from the claims of other creditors that are also affected by the moratorium. In addition, some of the claimants have inadmissibly declared all of their HETA claims due for payment.

5 Situation with regard to proceedings

5.2 HaaSanG proceedings

As far as the creditors are concerned, are these proceedings simply giving rise to costs and not altering the fact that it is not possible for the liabilities to be serviced?

In principle, that is the situation. It is understandable that the creditors affected by HaaSanG have filed petitions under civil law. Certainly, the direction given by the Constitutional Court to those creditors that initially submitted individual complaints based on the alleged non-constitutionality of the law was that they should pursue their cause via the civil courts. The creditors thus had to bring action against HETA. In addition, it was also not clear with what effect the Constitutional Court would possibly repeal the law. It was by no means certain that the law would be repealed for all creditors. In HETA's view, however, the creditors should now acknowledge the effect of the FMA decision and await the expiry of the moratorium.