

# HETA ASSET RESOLUTION

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## Company presentation

Wind-down plan pursuant to GSA 2018  
Interim distribution 2018

**Klagenfurt am Wörthersee, 15.06.2018**

## Disclaimer

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## 1. Introduction

The present information for creditors and investors represents an update of the presentation on the wind-down plan pursuant to the Federal Act for the Creation of a Wind-down Unit (GSA) (“2017 wind-down plan”) published in August 2017, and of the presentation on the financial schedule for the 2017 wind-down plan published in July 2017. With regard to the 2018 interim distribution, reference is also made to the company presentation published on 30 June 2017 on the 2017 interim distribution.

In connection with the information contained in this company presentation, the Management Board of HETA expressly refers creditors and investors to the corresponding disclaimer.

It is also noted that the company presentation may be updated or added to at any time; any such updates and additions can be downloaded from the HETA website under “Investors/Investor Information”.

## 2.1 2018 wind-down plan

### Legal framework conditions

On 25 August 2016, HETA published the first wind-down plan relating to the period from the end of May 2016 to 2020 (“Abbauplan 2016”). The wind-down plan was updated on 31 August 2017 (“Abbauplan 2017”). Pursuant to section 5 (5) GSA, the wind-down plan must be reviewed and investigated for possibly required changes by the company’s managers at the end of each calendar quarter. If the circumstances that are of material importance to the wind-down plan change, then the plan must be adjusted and submitted to the Supervisory Board for approval.

The 2018 wind-down plan (“Abbauplan 2018”) presents our assessment of HETA’s future development in the period 2018 to 2020. The plan details shown are based on the financial results for 2017 and the plans drawn up by the individual subsidiaries in Q1 2018.

The 2018 wind-down plan contains a new assessment of the expected recovery and the wind-down process. An adjustment has also been made to the speed of the wind-down process. Additionally, the 2018 wind-down plan has taken account of the impact of the actual 2017 interim distribution and planned interim distribution for 2018.

## 2.2 2018 wind-down plan

### From the 2017 wind-down plan to the 2018 wind-down plan







- **Key developments since the publication of the 2017 wind-down plan:**

August 2017	Departure of Management Board chair Schoenaich-Carolath and thus decrease in MB members to three persons
October 2017	Acceptance of the KAF (Kärntner Ausgleichszahlungs-Fonds) offer by a large proportion of creditors
December 2017	Buy-back of non-subordinate, non-disputed, eligible liabilities by HETA
April 2018	2017 financial statements published 2018 finance plan adopted by the HETA Supervisory Board
June 2018	2018 wind-down plan adopted by the HETA Supervisory Board 2018 interim distribution proposal adopted by the HETA General Meeting

- Against the background of the **buy-back of non-subordinate, non-disputed, eligible liabilities** by HETA in December 2017, **successful portfolio sales in 2017**, the **higher recovery expected** following a complete wind-down and **the planned interim distribution for 2018**, all these factors made it necessary to modify the 2017 wind-down plan in view of the changed circumstances and to draw up a new 2018 wind-down plan.
- HETA's Management Board will review the 2018 wind-down plan on a regular basis and will publish corresponding updates in the event of changes that have a significant effect on the 2018 wind-down plan.

## 2.3 2018 wind-down plan

### Comparison with previous plans

	Medium-term planning (October 2015)	Wind-down plan 2016 (August 2016)	Wind-down plan 2017 (August 2017)	Wind-down plan 2018 (June 2018)	Trend
FMA decisions (Fulfilment rate)	N/A	YES (46.02%)	YES (64.4%)	YES (64.4%)	
Interim distribution	NO	NO	YES (EUR 5.8 bn)	YES (EUR 8.2 bn)	
“Recovery amount <sup>1</sup> ” by 2020 (without deduction of interim distribution)	EUR 6.3 bn	EUR 7.7 bn	EUR 9.6 bn	EUR 10.5 bn	
Remaining portfolio end of 2020	EUR 1.4 bn	EUR 1.1 bn	EUR 0 bn	EUR 0 bn	
“Wind down rate” end of 2018 (on basis JAB 2014)	68%	78%	95%	91%	
Costs (2016-2020)	EUR 551 m	EUR 462 m	EUR 447 m	EUR 441 m	

<sup>1</sup> “Recovery amount” reflects cash resources at the end of 2020 before the interim distribution

## 2.3 2018 wind-down plan

### Group balance sheet (UGB/BWG)

HETA Group (UGB) - Balance Sheet in EURm	YE 2017	Budget 2018	BP 2019	BP 2020
<b>Cash</b>	4,984	3,612	4,030	4,157
<b>Net loans to credit institutions</b>	1,203	724	234	0
<b>Financial assets</b>	20	1	0	0
<b>Participations</b>	3	2	2	0
<b>Assets on stock</b>	181	92	26	0
<b>Other assets</b>	52	50	23	0
<b>Total Assets</b>	<b>6,444</b>	<b>4,481</b>	<b>4,315</b>	<b>4,157</b>
<b>Liabilities to credit institutions</b>	1,494	1,485	1,485	1,485
<b>Liabilities to customers</b>	630	62	56	45
<b>Liabilities evidenced by certificates</b>	1,545	268	268	268
<b>Provisions</b>	2,471	2,391	2,323	2,241
<b>Fund for general wind down risks</b>	154	176	136	115
<b>Other liabilities</b>	150	98	47	2
<b>Equity</b>	0	0	0	0
<b>Total Liabilities</b>	<b>6,444</b>	<b>4,481</b>	<b>4,315</b>	<b>4,157</b>

Note:  
Assets on Stock: sum of Repossessed Assets, Investment Properties, Bail-out Purchases



## 2.3 2018 wind-down plan

### HETA AG balance sheet (UGB/BWG)

HETA AG (UGB) - Balance Sheet in EURm	YE 2017	Budget 2018	BP 2019	BP 2020
Cash	4,984	3,612	4,030	4,157
Net loans to credit institutions	1,032	539	109	0
Financial assets	18	1	0	0
Participations	383	150	110	0
Other assets	64	34	18	0
<b>Total Assets</b>	<b>6,481</b>	<b>4,336</b>	<b>4,267</b>	<b>4,157</b>
Liabilities to credit institutions	1,485	1,485	1,485	1,485
Liabilities to customers	973	167	107	45
Liabilities evidenced by certificates	1,545	268	268	268
Provisions	2,338	2,305	2,276	2,256
Fund for general wind down risks	0	0	0	0
Other liabilities	140	111	130	102
Equity	0	0	0	0
<b>Total Liabilities</b>	<b>6,481</b>	<b>4,336</b>	<b>4,267</b>	<b>4,157</b>

## 2.3 2018 wind-down plan

### Income statement for HETA AG (UGB/BWG)

HETA AG (UGB) - P&L in EURm	YE 2017	Budget 2018	BP 2019	BP 2020
Operating income	248.9	324.3	55.8	163.1
Net interest income	15.4	9.6	-2.9	6.3
Income from securities and participations	24.0	254.8	18.2	126.9
Net commission income	-0.3	-0.3	-0.2	-0.1
Gains and losses from financial investments	86.4	0.0	0.0	0.0
Other operating income	123.5	60.1	40.6	30.1
Operating expenses	-75.8	-58.9	-39.6	-29.1
General administrative expenses	-67.8	-57.2	-38.7	-28.3
Depreciation for assets	-1.8	-1.7	-1.0	-0.7
Other expenses	-6.2	0.0	0.0	0.0
Operating result	173.1	265.4	16.2	134.1
Value adjustments	912.2	-203.7	17.2	-95.9
Result on ordinary items	1,085.2	61.7	33.4	38.2
Extraordinary result	-1,087.6	-59.2	-31.9	-37.7
Taxes	2.4	-2.5	-1.5	-0.5
P&L of the current year	0.0	0.0	0.0	0.0

## 2.4 Resolution obstacles and risks 1/4

Certain obstacles and risks need to be taken into account in the context of the portfolio wind-down. As in previous wind-down plans, these items are also reported in the 2018 wind-down plan and are the result of the following circumstances, among other factors:

- **Sales processes and EU state aid law**

As a result of the Republic of Austria's position as owner, European law on state aid has to be observed in the context of asset disposals by the HETA Group. European law on state aid specifies an auction-like bidding process for those sales procedures of the HETA Group that require the approval of the Supervisory Board; this process is associated with the corresponding planning and time requirements and may therefore lead to delays in the wind-down period.

- **Banking secrecy, data protection, group of buyers**

As a wind-down unit, HETA must still comply with the provisions of § 38 of the Austrian Banking Act (BWG) (banking secrecy) and the provisions under data protection law. These constitute a de facto restriction for the wind-down of the HETA Group's loan portfolio, since the disclosure of information that is relevant to the disposition is made more difficult without the consent of the customers or collateral providers.

- **Banking secrecy, data protection, group of buyers**

As part of the wind-down process, the HETA Group must enter into new contractual obligations. These include warranties that are typical in the market, security mechanisms or the provision of certain guarantee services until the legal position is fully transferred to the buyer. In general, efforts are made to keep contractual obligations to a minimum. Until the end of the contractual obligations, there may be delays with respect to the closure of individual HETA companies, or there is the risk that the assertion of warranty claims may lead to new legal proceedings that could also delay the prompt closure of individual companies.

## 2.4 Resolution obstacles and risks 2/4

- **Legal proceedings**

Within the HETA Group, a large number of court proceedings are pending in Austria and abroad. Because a company cannot be fully liquidated during pending court proceedings, those circumstances could lead to a situation in which a company is closed in terms of the financial aspects but must nevertheless continue to exist until the end of the legal proceedings. Furthermore, in certain circumstances, purchasers can demand that execution steps taken by a HETA company against debtors must continue to be pursued by that HETA company because, for example, a change of party is only possible with the debtor's permission or to avoid statute of limitation issues. With sale transactions, we make a point of putting a time limit on any obligations to "front" such proceedings and we ensure that appropriate termination rights are included for HETA. Nevertheless, this has implications for the time horizon for winding down the HETA company in question, as the company cannot be liquidated for as long as proceedings are pending and/or the contractual obligations assumed continue to apply.

- **Risks from the liquidation of participations**

The liquidation of HETA companies is dominated by legal and tax issues. In most jurisdictions, audits under tax law are initiated at the start of the liquidation process. It is therefore possible that such audits will lead to the imposition of charges for which no provisions have been made to date, or which may prolong the liquidation period that was planned by the Group. In some jurisdictions, companies are liquidated under the supervision of the respective regulatory authority or a liquidator appointed by the same. In such cases it is very difficult to estimate the duration of this process in advance. There is also a chance that preparations for the liquidation process are accompanied by an increase in the number of employees leaving the company, so that unplanned staff departures could also represent a wind-down risk. The legally required creditor notifications before the start of the liquidation process could lead to the assertion of previously unknown claims or new legal proceedings.

## 2.4 Resolution obstacles and risks 3/4

- **Risk of the resolution measures not being recognised, preliminary rulings**

The submissions before the European Court of Justice (ECJ) were withdrawn following the successful purchase of the HETA bonds by the KAF. This has significantly improved the wind-down environment for HETA and has greatly reduced the threat from creditors who refused to recognise the wind-down measures of the Financial Market Authority (FMA) or contested the same in the courts. It is, however, possible that courts in other member states or in countries outside of the EU may initiate new proceedings regarding the non-recognition of the wind-down measures in the future. A ruling against HETA would go against the wind-down measures ordered by the FMA. HETA will therefore not only contest any judgements against it at the first instance, in order to get clarification regarding recognition of the BaSAG; but will also use all legal means available to fight off enforcement. Legal proceedings of this nature could negatively impact on the future wind-down of HETA.

## 2.4 Resolution obstacles and risks 4/4

- **Future legislative measures**

In recent years, the South-Eastern European countries in which HETA Group's assets are located have repeatedly submitted legislative proposals and issued laws that had a negative effect on the provision of loans. In 2015, a new law went into force in Montenegro, according to which banks (and also third parties as of 2016) were obliged to convert existing CHF loans into euro in accordance with the official exchange rate that applied at the time the loan agreement was concluded. In September 2015, such a law was also approved and implemented in Croatia. In July 2017, Croatia also passed a law that declared loan agreements of non-legitimised lenders concluded in Croatia null and void with retroactive effect unless those agreements had not already been paid back in full. This also voids the collateral provided. The HETA Group is also affected by these legislative developments; and this law will have a negative impact on the efforts to turn to account the Croatian cross-border portfolio held by HETA, as it extends the period for turning the assets to account. The law makes it possible to halt ongoing enforcement proceedings until a decision has been made about the applicability of the new law, without any further review. Currently, many cases in which HETA is claiming repayment of loans granted or enforcement of collateral are being disputed or contested by referencing this new law. Further proceedings can be expected. Other Austrian banks are similarly affected and have already filed for reviews to be made of whether the law goes against the constitution or contravenes EU law. HETA, too, filed a claim of unconstitutionality in February 2018. In addition, preliminary proceedings are now pending at the ECJ to review whether this law is compatible with EU law. This law and similar legislative measures could impact negatively on future wind-down activities and render it necessary to modify planning.

## 3. Interim distribution 2018

### Criteria

Basis: Administrative decision II, HETA articles of association, HETA Management Board rules of procedure, HETA Supervisory Board rules of procedure

In summary, an early preliminary distribution based on the catalogue drawn up by HETA can take place if the following criteria are met:

- (1) **The interim distribution is compatible with liquidity planning and the existing risks for the future resulting from the wind-down of HETA.**
- (2) **Liquidity remains sufficient for HETA's business operations throughout the entire wind-down period (sufficient cash/cash equivalents to cover all wind-down expenditure including liabilities, costs and risks).**
- (3) **Taking into account the expenses for the wind-down process, HETA has surplus cash/cash equivalents.**
- (4) **After due consideration by the Managing Board it is concluded that interim distribution is possible.**
- (5) **The interim distribution does not put the wind-down objectives and the orderly wind-down of HETA at risk.**

**RESULT: It is the HETA Management Board's judgement that an interim distribution is possible in 2018.**

### 3. Interim distribution 2018

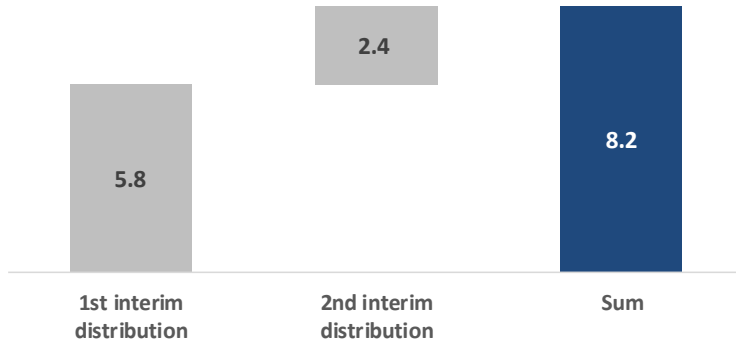
#### Criteria

- When setting the liquidity provision, the Management Board carefully balanced the interests of the creditors to receive the highest possible interim distribution in view of negative interest rate situation, and HETA's requirement to make adequate provision for all current (and future) liabilities and costs associated with winding down the portfolio that must be serviced and which may lead to (un)expected potential cash outflows.
- For the 2017 interim distribution, HETA developed a methodology for analysing risks which focussed on expected and potential (i.e. not previously provided for) payment outflows which may lead to a reduction of the current cash position in the future.
- As the wind-down of HETA may not be put at risk by an interim distribution, the ability to pay and the coverage of all liabilities (including future liabilities) associated with the portfolio wind-down must be assured over the entire wind-down period.
- To this end, HETA has identified various points of provision which will be used to determine the potential outflow of liquid funds over the wind-down horizon and, by extension, the amount of cash reserves which must be held.
- This methodology was also used for the 2018 interim distribution.



### 3. Interim distribution 2018

**Total distribution amount** in EUR bn

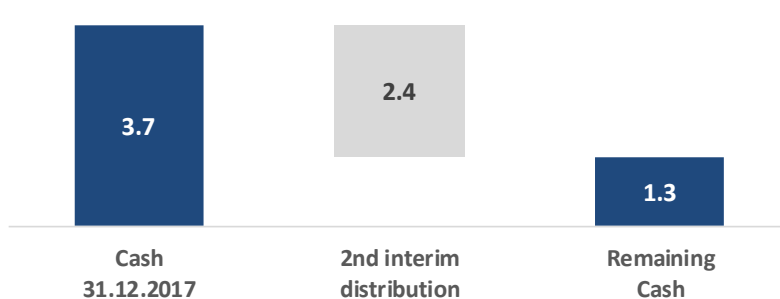


- In **July 2017**, a total of **EUR 5.8 bn** was **distributed** to creditors
- The **second interim distribution** paid out **EUR 8.2 bn** to creditors ahead of schedule
- This means that **98%** of the value of the discounted liabilities has already been **settled**

**Distribution quota** (based on the "eligible liabilities")

100%	<u>44%</u>	<u>19%</u>	<u>63%</u>
64.4%	<u>69%</u>	<u>29%</u>	<u>98%</u>

**Second interim distribution** in EUR bn



- As at **31.12.2017**, HETA has a total of **EUR 3.7 bn** in funds available for an interim distribution
- A further **EUR 2.4 bn** is to be **distributed to creditors in 2018**
- The payments will be made in **July 2018**
- The **remaining cash** comes to approx. **EUR 1.3 bn** as at year-end 2017

## Abbreviations used

The following abbreviations have been used in this presentation:

BWG	Austrian Banking Act
bn	Billion
EU	European Union
ECJ	European Court of Justice
EUR	Euro
FMA	Austrian Financial Market Authority
GSA	Austrian Federal Act for the Creation of a Wind-Down Unit
HETA	HETA ASSET RESOLUTION AG
KAF	Kärntner Ausgleichszahlungs-Fonds
m	Million
N/A	Not applicable
UGB	Austrian Corporate Code
YE	Year-end