

HETA ASSET RESOLUTION

Company presentation

Wind-down plan pursuant to GSA

Klagenfurt am Wörthersee, 25.08.2016

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1. Introduction (1/2)

On 1 March 2015, the Austrian Financial Market Authority (FMA) as resolution authority issued a decision regarding resolution measures pursuant to the Austrian Federal Act on the Recovery and Resolution of Banks (Bundesgesetz über die Sanierung und Abwicklung von Banken, BaSAG) (administrative decision I).

In this decision, the FMA ordered, inter alia, that the maturity of all eligible liabilities covered by administrative decision I, and the payment dates for the interest accruing thereon, were to be deferred with immediate effect to the end of 31 May 2016.

With the administrative decision issued on 10 April 2016 (administrative decision II), the non-subordinated liabilities of HETA were reduced to 46.02% of the nominal amount of the eligible liabilities per 1 March 2015 including the interest accrued up to 28 February 2015, and interest claims from 1 March 2015 were set at zero. All subordinated liabilities plus interest claims were reduced to zero. In addition to the bail-in tool, the rights of the Republic of Austria in HETA which were associated with the shares and titles of ownership were also cancelled under administrative decision II, and it was ordered that control and the exercise of the management rights associated with the shares and titles of ownership would be assumed by the FMA as resolution authority.

With the aim of creating additional transparency and promoting the dialogue with investors and creditors in regard to the questions arising from the FMA measures, HETA set up a separate platform under holding@heta-asset-resolution.com to deal with questions raised by these specialist groups in August 2015, and published a collection of corresponding questions and answers in October 2015. This presentation was updated in December 2015 and in April 2016. In addition, a collection of answers to investors' questions was published in August 2016.

1. Introduction (2/2)

The present information for creditors and investors represents a further update on the presentations previously published in 2015 and 2016. In particular, it presents the key points of the wind-down plan which has now been drawn up by the Management Board pursuant to GSA (Austrian Federal Act for the Creation of a Wind-Down Unit) and the implementation of the administrative decision issued by the FMA on 10 April 2016 (administrative decision II) in the half-year financial statements for HETA. The wind-down plan which is presented in its key points in this presentation was drawn up by the Management Board on 17 August 2016 and was approved by the Supervisory Board on 25 August 2016.

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 pointed out 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. Legal framework conditions

Legal requirements for the wind-down plan 1/2

Pursuant to § 3 (1) GSA, HETA, in its capacity as wind-down unit, has the task of managing its assets with the aim of ensuring an orderly, active and best possible realisation of its assets (portfolio wind-down). The portfolio wind-down must take place pursuant to the wind-down plan as stipulated by § 5 GSA and is to be achieved as quickly as possible within the framework of the wind-down objectives.

The wind-down plan pursuant to § 3 GSA must be drawn up by the Management Board and approved by the Supervisory Board. The approved wind-down plan is to be submitted to the FMA, the Federal Minister for Finance, and the Federal Chancellor.

According to GSA, the wind-down plan must contain the following:

- Presentation of the transactions and realisation measures that are planned for the portfolio wind-down,
- Timetable for complete realisation of the assets,
- Periodic statements concerning the assets, financial position and income, including statements of cash flows, planned balance sheets, planned income statements and liquidity plans, and
- Information concerning risk management, taking account of the wind-down objectives.

The objective of the wind-down plan is to present the business and realisation strategies of HETA and to show their effects on the future liquidity situation in a transparent way. In addition, the planned operational business, liquidity and risk management strategies, as well as essential external influencing factors, are explained and their influence on the financial planning data (insofar as this can be quantified) are presented.

2. Legal framework conditions

Legal requirements for the wind-down plan

The Management Board is committed to the wind-down plan; if there is any change in the circumstances that are relevant to the wind-down plan, the plan must be adjusted and resubmitted to the Supervisory Board for approval. The Supervisory Board can also demand adjustments to the wind-down plan on its own initiative. This duty of ongoing supervision – the wind-down plan must be reviewed by the managers on an ongoing basis, and in any event quarterly, in order to identify any need for change (§ 5 (5) GSA) – shows that the wind-down plan is not regarded as a static legislative document. Rather, the legislation has always been clear that the portfolio wind-down may be subject to change.

The HETA Management Board will review the wind-down plan on a regular basis. In the event of any change in the circumstances relevant to the plan, the Board will publish a corresponding updated version of the company presentation on the wind-down plan.

2. Legal framework conditions

Wind-down plan – why now?

As a result of the ordering of the resolution of HETA in accordance with BaSAG, as set out in administrative decision I (which left open the question of what further action would be taken by the FMA in regard to the period after 31 May 2016), HETA had to await clarification as to how the FMA would proceed before completing the wind-down plan according to GSA.

Specifically, as far as the drafting of the wind-down plan was concerned it was legally necessary to await clarification as to whether (and if so in what form) the FMA, through the ordering of resolution measures, would create the preconditions for an orderly portfolio wind-down. For this reason, no official wind-down plan could be approved initially. With the issuing of administrative decision II and the resolution measures specified therein, the necessary preconditions for the finalisation of the wind-down planning have been fulfilled.

In the period prior to the clarification of the further action to be taken by the FMA, HETA did have a plan which met the legal requirements regarding portfolio wind-down as discussed in detail in this presentation. This plan was referred to as “medium-term planning” and was also published in the context of the company presentations of October and December 2015 and April 2016.

The wind-down plan which has now been decided on represents our estimation regarding the future development of HETA as of the end of May for the period 2016 to 2020, and is based on the 2015 annual financial statements together with the main findings up to the end of May 2016.

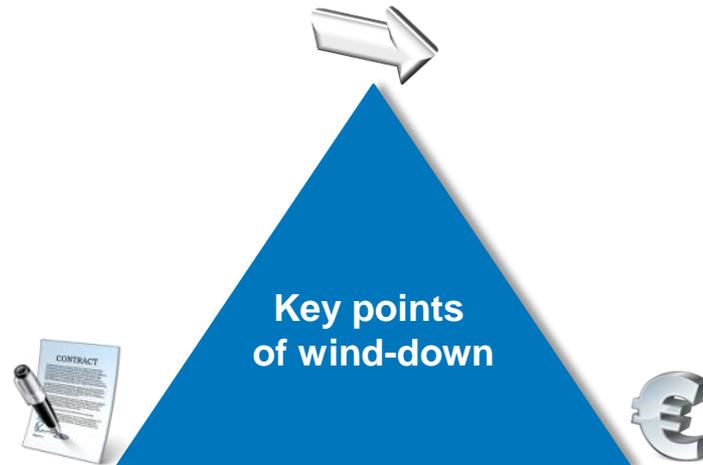
3. General wind-down assumptions

Strategic guidelines

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

Wind-down rate

- 80% by the end of 2018 (based on the end of 2014 as starting point)



Accounting

- Documentation
- “4-eyes” principle
- Compliance

Value preservation

- Book value as “zero line”
- Cost-efficiency

3. General wind-down assumptions

Wind-down horizon

- Wind-down of assets by 2020

- In accordance with the legal requirements pursuant to § 3 (1) GSA, HETA must wind down its assets in a structured, active and efficient manner, at the same time ensuring best possible realisation. The question of how quickly the wind-down is to take place needs to be carefully decided by the executive bodies of HETA, and must in particular be based on the objectives as set out in GSA. A more rapid wind-down than the maximum period allowed in administrative decision II is permissible.
- In accordance with the legal requirements, it was already decided before the moratorium and administrative decision II that the **assets of HETA** should be wound down **by 2020**, since the assets are unlikely to recover their value for the following reasons:
 - Constantly falling prices in the property markets of the SEE countries
 - Generally low level of investor interest in the Balkan region
 - Many properties and collateral items of HETA are located in unattractive peripheral areas
 - Steady deterioration of the condition of the collateral items as a result of neglect on the part of the borrowers
 - Steady deterioration in the condition of some properties because further development/restoration is not permissible under restrictive EU requirements
 - Continuing negative reporting in the media
- HETA aims to wind down around 80% of its assets by the end of 2018 (based on the end of 2014 as a starting point).
- However, a complete wind-down of all assets is not likely to be completed by the end of the planning horizon in 2020. A residual portfolio in the amount of approx. EUR 1.1 billion remains on the balance sheet in the wind-down plan at the end of 2020.

3. General wind-down assumptions

Further planning assumptions

- Taking account of the FMA administrative decision of 10 April 2016 (on the liabilities side)
 - **100% bail-in:** Registered, participation and supplementary capital and subordinated liabilities
 - **53.98% bail-in:** “eligible” liabilities
 - **No interest payments** on eligible and subordinated liabilities from 1 March 2015
 - **Maturity** of eligible liabilities arises with the dissolution resolution as envisaged in § 84 (9) BaSAG, and no later than **31 December 2023**
- In the wind-down plan, the investment of the cash position with the OeNB until the end of the planning period is assumed.
- No premature disbursements are envisaged in the wind-down plan.

4. Wind-down plan

Summary

- **Changes in the balance sheet for the HETA Group:**
 - Reduction of the total assets **by EUR 2.3 billion** in the **2016 budget** (excl. cash)
 - Wind-down of assets (excl. cash) by **78% by 2018** and by **89% by 2020** (based on end of 2014 as starting point)
 - **Remaining total assets** (excl. cash) per end of 2020: **EUR 1.1 billion**
- **Cash-In in the course of realisation:**
 - It is envisaged that the cash position will rise by EUR 1.3 billion to **EUR 5.6 billion** in the **2016 budget**.
 - Per the **end of 2020**, the expected cash position will be **EUR 7.7 billion** and will thus increase as planned by EUR 5.3 billion over the entire planning horizon (2015 to 2020).
- **Income statement for HETA AG (UGB/BWG):**
 - **Positive result** envisaged in the 2016 budget in the amount of **EUR +7.5 billion** as a result of effects arising from administrative decision II.

4. Wind-down plan

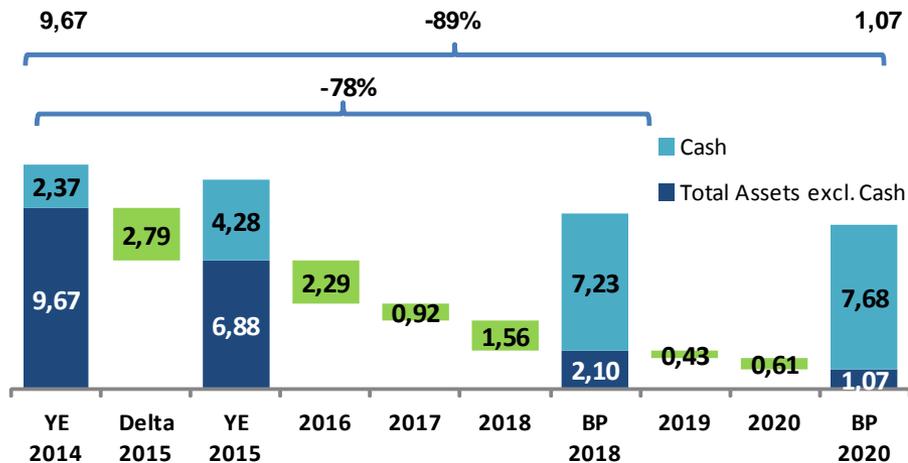
Comparison with medium-term planning

	Wind-down plan (GSA) (published in August 2016)	Medium-term planning (published in October 2015)	Trend
FMA administrative decision taken into account?	YES	NO	
Cash position per end of 2020	EUR 7.7 billion	EUR 6.3 billion	
Residual portfolio per end of 2020	EUR 1.1 billion	EUR 1.4 billion	
Wind-down rate per end of 2018 (Basis: end of 2014)	78%	68%	
Staff costs for wind-down	EUR 215 million	EUR 274 million	

4. Wind-down plan

Changes in assets

Wind-down of total assets for HETA Group (IFRS):



2016 budget

- In 2016, reduction of total assets by EUR -2.3 billion (excl. cash), with (inter alia) wind-down of derivatives and cash collaterals included
- Reduction in net receivables from credit institutions in the amount of EUR -0.7 billion
- Wind-down of net customer receivables by EUR -0.5 billion
- Wind-down of financial assets in the amount of EUR -0.65 billion
- Other assets in the amount of EUR -0.4 billion → sale of Centrice, etc.
- Increase in cash position by EUR 1.3 billion to EUR 5.6 billion by the end of 2016.

Plan for 2017–2018

- **By the end of 2018, wind-down of 78% of total assets (excl. cash).**
- Total assets at the end of 2018: EUR 2.1 billion (excl. cash).
- Increase in cash to EUR 7.2 billion

Plan for 2019–2020

- **At the end of 2020, remaining total assets in the amount of EUR 1.1 billion (excl. cash), reflecting a wind-down of 89%.**
- At the end of 2020, a cash position of around EUR 7.7 billion is planned.

4. Wind-down plan

Planned balance sheet for the HETA Group (consolidated according to IFRS)

<i>HETA Group (IFRS)</i> <i>in EURm</i>	YE 2015	Budget 2016	Plan 2017	Plan 2018	Plan 2019	Plan 2020
Total Assets	11.154	10.160	9.648	9.328	9.130	8.750
Cash	4.278	5.578	5.983	7.226	7.453	7.680
Net receivables to credit inst. and customers	4.579	3.376	2.842	1.690	1.463	1.068
Assets on Stock	512	433	269	123	33	0
Derivatives	596	192	138	98	68	0
Financial Assets (FVO)	205	161	93	79	47	0
Financial Assets (AFS, at equity)	400	200	144	0	0	0
Other assets	584	219	179	111	66	2
Liabilities to credit institutions	3.400	1.476	1.477	1.479	1.472	1.460
Liabilities to customers	1.551	764	710	698	691	685
Liabilities evidenced by certificates	8.772	3.764	3.784	3.794	3.799	3.804
Derivatives	480	135	96	68	47	0
Provisions	463	2.493	2.550	2.571	2.604	2.518
Other liabilities	174	346	277	248	293	215
Subordinated capital	2.034	0	0	0	0	0
Equity	-5.721	1.182	754	470	223	69

4. Wind-down plan

Planned balance sheet for HETA AG (UGB)

<i>HETA AG (UGB) in EUR Mio.</i>	YE 2015	Budget 2016	BP 2017	BP 2018	BP 2019	BP 2020
ASSETS						
Cash	4.273	5.576	5.983	7.226	7.453	7.680
Net receivables from credit inst. and cust.	4.550	2.763	2.483	1.419	1.225	942
Securities	383	196	143	0	0	0
Participations	85	72	58	46	35	0
Other assets	263	256	195	124	73	0
Total assets	9.556	8.864	8.862	8.815	8.786	8.622
LIABILITIES after loss allocation and haircut						
Liabilities to credit institutions	3.519	1.560	1.528	1.504	1.484	1.460
Liabilities to customers	1.520	663	663	663	663	663
Liabilities evidenced by certificates	8.848	3.804	3.804	3.804	3.804	3.804
Other Liabilities	326	207	224	222	206	191
Accrued items	6	10	5	0	0	0
Provisions	845	2.619	2.637	2.622	2.629	2.504
<i>o/w provisions for uncertain liabilities in connection to liabilities</i>	<i>0</i>	<i>2.147</i>	<i>2.299</i>	<i>2.395</i>	<i>2.491</i>	<i>2.501</i>
Subordinated liabilities	1.970	0	0	0	0	0
Sum equity	-7.479	0	0	0	0	0
Total assets	9.556	8.864	8.862	8.815	8.786	8.622

4. Wind-down plan

Planned income statement for HETA AG (UGB)

Profit & Loss Account (UGB) in Mio.	YE 2015	Budget 2016	BP 2017	BP 2018	BP 2019	BP 2020
Net interest income	-151,5	-52,6	24,4	19,1	29,5	36,9
Dividends	1,0	0,0	0,0	0,0	0,0	0,0
Provision income	1,8	1,4	1,2	1,1	0,8	0,6
Provision expense	93,1	-13,5	0,0	0,0	0,0	0,0
Income/expenses from trading business	56,4	25,0	0,0	0,0	0,0	0,0
Other operating income	28,5	4,2	2,9	2,2	1,7	1,5
Operating income	-157,0	-35,5	28,5	22,4	32,1	39,0
Administrative expenses	-126,7	-95,7	-62,2	-51,4	-37,2	-36,7
Depreciation	-3,1	-2,1	-1,7	-1,6	-1,4	-1,0
Other operative expenses	-0,0	-0,1	0,0	0,0	0,0	0,0
Operating expenses	-129,8	-97,9	-63,9	-53,1	-38,6	-37,7
Operating result	-286,8	-133,4	-35,5	-30,7	-6,5	1,3
Valuation result UGB	461,8	390,7	126,1	76,3	66,5	-27,1
Operating result after valuation	175,0	257,2	90,7	45,6	60,0	-25,7
Extraordinary result	-655,6	7.222,6	-90,1	-45,1	-59,4	26,2
Taxes	-11,0	-1,0	-0,5	-0,5	-0,5	-0,5
Result after taxes	-491,6	7.478,8	0,0	0,0	0,0	0,0

5. Resolution obstacles and risks 1/2

Naturally, certain obstacles and risks need to be taken into account in the context of the portfolio wind-down. These are represented in detail in the wind-down plan and arise, inter alia, from the following circumstances:

- **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. In all sales processes requiring the consent of the Supervisory Board, therefore, the HETA Group must carry out an auction-type bidding procedure. By its nature, this kind of procedure is associated with corresponding planning costs, and the sales process is also more time-consuming, which may cause the resolution period to be delayed.

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

Even as a wind-down entity, HETA must continue to observe the provisions of § 38 BWG/banking secrecy. Banking secrecy and the regulations on data protection represent a de facto restriction in the context of the wind-down of the loan portfolio of the HETA Group. If the consent of the customer or the collateral providers is not obtained, this will make the disclosure of sale-relevant information more difficult.

- **Court proceedings**

Within the HETA Group, there are a large number of court proceedings pending in Austria and abroad. A company cannot be completely liquidated while court proceedings are ongoing. Particularly for the defendant in court proceedings, a change of party is only possible with the consent of the opposite party, which is often not forthcoming. This may lead to a situation in which a HETA group company is financially closed but legally has to continue until after the end of a legal dispute, possibly resulting in delays in the closure of individual HETA companies.

5. Resolution obstacles and risks 2/2

- **Risk of the resolution measures not being recognised**

If the resolution measures ordered by the resolution authority are not recognised by courts in other Member States of the EU or in non-EU states, this may result in individual creditors possibly gaining access to HETA assets by way of individual enforcement measures, representing a risk factor which could put the orderly resolution of HETA at risk.

- **Preliminary rulings before the Court of Justice of the European Union (CJEU)**

On the basis of submissions of the Frankfurt Regional Court as well as the Vienna Commercial Court and the Austrian Federal Administrative Court, the CJEU has instituted “preliminary ruling procedures” on various issues concerning the applicability of the European Directive on the Resolution and Recovery of Banks (BRRD) and the “haircut” to HETA, and concerning the recognition of these measures in other Member States.

Depending on the outcome of these preliminary ruling procedures, the possibility cannot be ruled out that the orderly resolution of HETA may be disrupted or put at risk.

List of abbreviations

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

AFS	Available for Sale
AktG	Austrian Stock Corporation Act
BaSAG	Austrian Federal Act on the Recovery and Resolution of Banks
BRRD	Directive establishing a framework for the recovery and resolution of credit institutions and investment firms
BWG	Austrian Banking Act
CJEU	Court of Justice of the European Union
EUR	Euro
FMA	Austrian Financial Market Authority
FVO	Fair Value Option
GSA	Austrian Federal Act for the Creation of a Wind-Down Unit
HGAA	Hypo Group Alpe Adria (now Addiko Bank AG)
HBI	Hypo Alpe-Adria-Bank S.p.A (Italy)
Heta	HETA ASSET RESOLUTION AG
OeNB	Oesterreichische Nationalbank
SEE	South-Eastern Europe
UGB	Austrian Corporate Code