

## **Annual Financial Report 2015**

In accordance with section 82(4)  
Stock Exchange Act (BörseG)  
of HETA ASSET RESOLUTION AG

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### Please note

In light of the company's particular circumstances, the Executive Board considers the financial statements of Heta Asset Resolution AG under UGB/BWG (separate financial statements) to be a more relevant representation of a true and fair view of the assets, liabilities, financial position and profit or loss for the creditors. For this reason, the financial statements appear in this annual financial report before the consolidated financial statements.

# Report according to UGB/BWG

## HETA ASSET RESOLUTION AG

# Management Report 2015 Heta Asset Resolution AG

By way of introduction, the reader is advised that effective 31 October 2014, the company operating as “HYPO ALPE-ADRIA-BANK INTERNATIONAL AG” was renamed “HETA ASSET RESOLUTION AG” (“Heta” in short). It continues to function as the parent company of the Heta Group (formerly “Hypo Alpe Adria”).

The consolidated financial statements published for the financial year that ended on 31 December 2015 are based on the International Financial Reporting Standards (IFRS) as they apply in the EU. The separate financial statements of Heta Asset Resolution AG (individual financial statements) were prepared according to Austrian law (Austrian Commercial Code (UGB)/Austrian Banking Act (BWG)). Both documents are also published on the internet under ([www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) → Investor Relations → Publications → Publications 2016)

## 1. Overview of Heta Asset Resolution AG

The current Heta was founded in 1896 as a Landes- und Hypothekenanstalt and remained a typical Carinthian regional bank for almost 100 years. The strategic focus of the bank's business was centred on public-sector financing activities. In the 1990s, the former Hypo Alpe Adria began its gradual expansion into the Alps-to-Adriatic region and developed from a regional bank into an international finance group. In 2004, the domestic operations in Austria were deconsolidated and the remaining unit was implemented as the management holding company Hypo Alpe-Adria-Bank International AG, which was responsible for the group's funding activities. These activities consisted of the placement of liabilities in the market, most of which came with a guarantee from the State of Carinthia.

During the course of the global financial crisis, Hypo Alpe Adria encountered serious difficulties and finally had to be nationalised at the end of 2009 (emergency nationalisation). In December 2009, the Republic of Austria became the bank's sole owner.

The banking license awarded to the former Hypo Alpe-Adria-Bank International AG by the Financial Markets Authority (FMA) pursuant to the Austrian Banking Act (BWG) was terminated with a decision by the Financial Markets Authority (FMA) from 30 October 2014. Since then, the company is continued as a partially-regulated wind-down unit in accordance with the Federal Act on the Creation of a Wind-down Entity (Federal Law Gazette I 2014/51, Federal Act on the Creation of a Wind-down Entity (GSA)). The business mandate of Heta is the full wind down of its assets. According to section 3 (1) GSA, the wind-down unit must “ensure orderly, active and best possible exploitation (portfolio wind-down)”. The company must subsequently be liquidated. Within this context, it is also authorised, on the basis of the legal concession under the Federal Act on the Creation of a Wind-down Entity (GSA), to continue to enter into banking or leasing transactions that serve this purpose. According to

section 3 (4) GSA, Heta is subject to some of the provisions of the Austrian Banking Act (BWG) and accordingly has assumed certain reporting and notification duties vis-a-vis the Austrian National Bank (OeNB) and the Financial Markets Authority (FMA). The Financial Markets Authority (FMA) continues to be the regulatory authority in charge, which pursuant to section 8 GSA is obliged to verify compliance with the applicable provisions of the Austrian Banking Act (BWG).

The Federal Act on the Recovery and Resolution of Banks (BaSAG) went into force on 1 January 2015. According to section 162 (6) BaSAG, the authorisations and instruments set out in the fourth part of the law may be applied to Heta.

During the conversion process into a wind-down unit according to the Federal Act on the Creation of a Wind-down Entity (GSA), the company conducted a group-wide Asset Quality Review (AQR), which must reflect the requirements for the fastest possible portfolio wind-down process. Following the announcement on 27 February 2015 of an asset coverage shortfall of between EUR -4.0 billion and EUR -7.6 billion, which was identified during the course of the Asset Quality Review (AQR), the Republic of Austria informed Heta that it would no longer receive any capital or liquidity support. In view of the circumstances, the Financial Markets Authority (FMA) in its capacity as the resolution authority, announced a decision on 1 March 2015 pursuant Federal Act on the Recovery and Resolution of Banks (BaSAG). As part of this decision, a moratorium was placed on all of Heta's “eligible liabilities” until 31 May 2016 in preparation for the application of the instrument involving the participation of creditors. The resolution authority (FMA), in exercise of its sole decision-making powers according to Federal Act on the Recovery and Resolution of Banks (BaSAG), will define the possible participation of creditors and the amount and date on which the affected liabilities are paid. With regard to additional information, we refer to the decision of the Financial Markets Authority (FMA) dated 1 March 2015, which is published on the Financial Markets Authority (FMA) homepage ([www.fma.gv.at](http://www.fma.gv.at)) and also on Heta's home page [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Press → Austrian Banking Restructuring and Resolution Act (BaSAG)).

As at 31 December 2015, Heta is comprised through its subsidiaries in Austria, Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Bulgaria, Germany and Hungary. At the end of 2015, the group had 1,329 active employees (FTE).

In its financial statements as at 31 December 2015 according to Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) (separate financial statements) Heta reported negative equity of EUR -7.5 billion, total assets of EUR 9.5 billion and liabilities of EUR 17.0 billion.

## 2. General economic

The year 2015 was one of considerable upheavals with global impacts ranging from collapsing oil prices to the capital market crisis in China, not to mention other serious challenges (various stabilisation efforts in Greece, refugee flows that put a burden on government budgets, low inflation rates) for Europe and the Eurozone, which offered very little room for substantial growth opportunities. During the year 2015, the Gross Domestic Product (GDP) of the Eurozone grew by approximately 1.6 %. The inflation rate closed the year 2015 with 0.1 %, with expectations of lower inflation rates in the future. Similarly, the willingness to consume or invest, alongside the provision of loans and the development of the money supply remained rather weak despite the massive stimulus measures employed by the European Central Bank (ECB).

In the countries that are key to Heta's activities, primarily Austria, Croatia, Slovenia and Italy, but also Serbia and Bosnia-Herzegovina, there were several significant developments in 2015 which also had an effect on Heta's activities in the various countries.

The Austrian Gross Domestic Product (GDP) is expected to grow by 0.7 % in 2015. This persistently weak growth rate continues to reflect the cautious approach adopted by companies and consumers, and is the result of both local policy and budget policy uncertainties. For example, the national debt ratio increased to 85.7 % of the Gross Domestic Product (GDP). Another problem in terms of 2015 developments was the situation in the labour market with an unemployment rate of 5.8 %.

Following 2015 growth forecasts that were in the range of 0.5 % for Croatia, this figure was subsequently revised to a 1.8 % increase in the Gross Domestic Product (GDP) after the first half of 2015. This development is due to improved exports, private consumption and the tourism industry. The unemployment rate also declined slightly during 2015. The risks for the Croatian economy include political uncertainty after the elections in November 2015, and the difficulties in the bank sector - especially those related to Croatian legislation regarding the compulsory conversion of Swiss Franc (CHF) loans. Such measures weaken the ability of banks to provide important momentum for another potential upturn by providing business financing.

In 2015, Slovenia continued to grow at an above-average rate (compared to the Eurozone) of 2.6 %. Increased exports and improved competitiveness were contributors in this regard, as were private consumption and investment expenditures. Lower-trending unemployment rates and the resulting increase in incomes available to households lent additional support to these developments. The country's economy benefited from improved corporate productivity and profitability, as well as investments from EU resources. Risk factors include government debt levels and the lack of reform efforts with regard to restructuring and imminent

privatisation measures, and the required restructuring measures in the banking sector.

With a growth rate of only 0.9 % in 2015, Italy is among the countries with decidedly below-average developments, although the rate for 2015 is also indicative of a slight upward trend, which is also manifested in the positive trend of confidence indices at the corporate and consumer level. While economic growth in Italy is hampered by political imponderables regarding the progress of fiscal, structural and administration reforms, the economic burden of non-performing loans (NPL) and the situation on export markets, there are also other factors that support an upward trend. They include a slight decrease in the unemployment rate and lower oil prices - all of which have a positive effect on private consumption.

Serbia registered positive growth of 0.7 % in 2015 - a marked upturn that is due to industrial production and various retail revenues at the end of the year. National policies with a programme to consolidate the government budget, along with the financing approved by the International Monetary Fund (IMF) at the end of 2015, contributed to an improved economic environment. Nevertheless, the Serbian economy still faces a number of significant challenges in view of the critical situation in the labour market (17.7 % unemployment), currency volatilities and significant restructuring requirements at nationalised companies.

Bosnia and Herzegovina also offer a positive growth rate of 2.1 % in 2015, although this result is again due to the one-time effect of the reconstruction activities after the 2014 floods and various basic investments into infrastructure (e.g. highways), as was the case last year. Several positive aspects, such as the trade balance deficit, which did not deteriorate, and a positive outlook for the country's important export markets, could provide some hope regarding sustained economic stability. But in fact, the catch-up requirements of this decentralised-governed country are still considerable, as evidenced by the reform requirements of the International Monetary Fund (IMF), which led to more liberal labour market legislation in 2015, for example.

(Sources: OECD, OeNB, eurostat, EU Commission)

## 3. Legal information and important events in 2015

### 3.1. Decision of EU Commission from 3 September 2013

On 3 September 2013, the Commission of the European Union (EU-Commission) reached a final decision in the state aid investigation that had been under way since 2009.

The decision provided for the division of the company into marketable, reprivatisable units of the South-East European Network (SEE network) and the wind-down unit. A reprivatisation process was stipulated for the banks of the SEE network in Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro; it had to be completed by the end of

2015 (Closing). Furthermore, the former Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A. had to be allocated to the wind-down segment during the second half of 2013. The wind-down unit is subject to new business restrictions and in particular the requirement that assets must be wound down in a manner that preserves assets and values.

Compliance with the restructuring plan and the imposed requirements is monitored by an independent trustee appointed by the European Commission, the "Monitoring Trustee".

### 3.2. Hypo Alpe Adria Restructuring Act (HaaSanG)

The Hypo Alpe Adria Restructuring Act (HaaSanG) went into force on 1 August 2014, and designated the Financial Market Authority (FMA) as the authority responsible for implementation of the restructuring measures provided for in the law.

With the announcement of the Financial Markets Authority (FMA) Ordinance (HaaSanV) on 7 August 2014, the termination and deferment of Heta's liabilities listed in the Financial Markets Authority (FMA) regulation took effect, which means that repayment sums, interest or other ancillary fees owed by the company, where applicable, were automatically reduced to zero. The payment date for certain "disputed liabilities" was postponed to 30 June 2019 at the earliest, according to the Hypo Alpe Adria Restructuring Act (HaaSanG). In accordance with section 3 of the Hypo Alpe Adria Restructuring Act (HaaSanG), the subordinated liabilities as well as all collaterals including guarantees for such liabilities expired.

The expiration of liabilities comprised a total volume of around EUR 1.6 billion, of which subordinated liabilities of third-party investors accounted for EUR 0.8 billion and liabilities to the Bayerische Landesbank (BayernLB) accounted for EUR 0.8 billion. All of the liabilities covered under Hypo Alpe Adria Restructuring Act (HaaSanG) and the Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV) in the amount of EUR 1.6 billion were derecognised on 7 August 2014.

On 3 July 2015, the Constitutional Court of Austria (VfGH) repealed the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Ordinance issued by the Financial Market Authority (FMA) on the Hypo Alpe Adria Restructuring Act (HaaSanV) on this legal basis, without mention of a repair period. This meant that the liabilities that were derecognised in 2014 now had to be recognised again for accounting purposes in 2015. For additional information, please refer to item (5.1) Repeal of HaaSanG by the Constitutional Court of Austria (VfGH) and resulting lawsuits.

### 3.3. Federal Act on the Creation of a Wind-down Entity (GSA)

The license granted to the former Hypo Alpe-Adria-Bank International AG by the Austrian Financial Market Authority (FMA) to conduct banking activities according to the Austrian Banking Act (BWG) was terminated by the resolution of

the Austrian Financial Market Authority (FMA) of 30 October 2014. Preconditions were that Heta no longer undertakes any deposit transactions and no longer holds any qualified participations – within the meaning of the Capital Requirements Regulation (CRR) – in credit institutions or financial securities firms. These preconditions were met following the restructuring.

As a wind-down unit pursuant to section 3 GSA, Heta continues to possess a legal concession to undertake banking operations. On the basis of the legal concession and pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA), certain banking operations continue to be implemented during the course of the wind-down activities.

Heta's responsibility as a wind-down unit consists of winding down its assets, which it must liquidate in a manner that is orderly, active and to the best possible advantage. The wind-down unit may only undertake transactions that are suited to winding down the portfolio. In addition, the wind-down unit may render certain transition services to former group companies. Pursuant to section 3 (4) GSA, Heta is subject to a limited extent to the provisions of the Austrian Banking Act (BWG) but not the minimum capital regulations. The Financial Market Authority (FMA) continues to be the responsible regulatory authority and is obligated, pursuant to section 8 GSA, to assess compliance with the applicable provisions of the Austrian Banking Act (BWG).

Following the resolution of the general shareholders' meeting on 29 October 2014, the company's statutes were amended in view of the transformation into a wind-down unit; the name of the parent company was also amended, from "HYPO ALPE-ADRIA-BANK INTERNATIONAL AG" to "HETA ASSET RESOLUTION AG". The company's business purpose was restricted to - with the exception of those specified in Federal Act on the Creation of a Wind-down Entity (GSA) - transactions that are required to fulfil the company's mandate (complete reduction of the portfolio as quickly as possible).

Article 2.4 of the amended statutes provides that a resolution on dissolution is passed as soon as the portfolio is completely wound down. This amendment was entered in the commercial register on 31 October 2014 and is effective as of that date. As this amendment relates exclusively to the name of the company and not the re-establishment of the company, this does not affect the legal person of the company itself or any of its contractual obligations.

### 3.4. Application of the Federal Act on the Recovery and Resolution of Banks (BaSAG)

In order to fulfil the statutory requirements under section 3 (1) of the Federal Act on the Creation of a Wind-down Entity (GSA), Heta conducted a group-wide review of the assets relevant to the portfolio wind-down, a so-called "Asset Quality Review" (AQR), in the first quarter of 2015. The objective of the Asset Quality Review (AQR) was to subject all Heta

assets that are relevant to the portfolio wind-down to a valuation taking into account the wind-down objectives.

While at the time of the initial interim results from the Asset Quality Review (AQR) on 27 February 2015, the company was still able to pay its debts and liabilities as they came due, the Executive Board saw objective and concrete indications pursuant to section 51 (1) (3) Federal Act on the Recovery and Resolution of Banks (BaSAG) that the company would no longer be able to pay its debts and liabilities on time in the near future. As a result, Heta's Executive Board immediately notified the Supervisory Board of the asset coverage shortfall in the range of EUR -4.0 billion to EUR -7.6 billion (special report according to the Federal Act on the Creation of a Wind-down Entity (GSA)). The Executive Board subsequently informed its sole shareholder, the Republic of Austria, of the shortfall, and inquired whether the government, against the background of this new information and the validity of the Federal Act on the Recovery and Resolution of Banks (BaSAG), would be prepared to compensate the existing asset coverage shortfall and the liquidity gaps expected in 2016 and 2017 with the appropriate measures. On the same day, the company also submitted a precautionary notice according to Federal Act on the Recovery and Resolution of Banks (BaSAG) to the resolution authority in charge pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG), the Financial Markets Authority (FMA), and asked to have a corresponding decision issued if the company's owner should fail to make a binding statement about suitable measures. Subsequently, the Austrian Minister of Finance notified Financial Markets Authority (FMA) and the company on 1 March 2015 that no further measures will be implemented for Heta under the Financial Market Stability Act (FinStaG).

On the same day, the wind-down authority issued a resolution on the arrangement of wind-down measures in accordance with Federal Act on the Recovery and Resolution of Banks (BaSAG). As part of this decision, a moratorium was placed on all "eligible liabilities" of Heta until 31 May 2016 according to section 58 (1) (10) BaSAG, in preparation for the application of the instrument involving the participation of creditors. For additional information, please refer to the ordinance of the Financial Market Authority (FMA) from 1 March 2015, which was published on the Financial Markets Authority (FMA) homepage ([www.fma.gv.at](http://www.fma.gv.at)) The ordinance can also be found on Heta's homepage at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Press → Austrian Banking Restructuring and Resolution Act (BaSAG)).

An appeal against the decision from the resolution authority could be submitted within three months after it was released (1 March 2015), but this is without suspensory effect. Affected investors have announced that they will take their own legal steps against Heta. The ordinance is based on the Federal Act on the Recovery and Resolution of Banks (BaSAG), which was used to implement the European directive on bank restructuring in Austria. For this reason,

Heta believes that the ordinance should also be recognised in another EU member state. It is noted that a request to hear a complaint is currently pending at the Constitutional Court of Austria (VfGH) regarding a review of the constitutionality of the Federal Act on the Recovery and Resolution of Banks (BaSAG). According to a statement by the President of the Constitutional Court of Austria (VfGH) in March 2016, it is expected that the court will issue a decision on this issue during its fall session at the latest.

The resolution authority, in exercise of its sole decision-making powers according to Federal Act on the Recovery and Resolution of Banks (BaSAG), will define the possible participation of creditors and in particular the amount and date on which the affected liabilities will be serviced in the future. Details regarding the form of the haircut are not known at this time. It can however be expected that such a participation of creditors, in accordance with the rank of the respective liabilities under insolvency law, will lead to a reduction in nominal values and the attributable interest claims.

An accounting consideration of such a reduction follows immediately after the effective date of a decision issued by the resolution authority to be announced by 31 May, and will therefore have the corresponding effects on the consolidated balance sheet and income statement for the 2016 financial year.

### 3.5. Changes to the Executive Board and the Governance structure

The Financial Market Authority (FMA) is the resolution authority for Austria pursuant to section 3 (1) Federal Act on the Recovery and Resolution of Banks (BaSAG). The resolution authority must consider the wind-down objectives during the application of the wind-down instruments and the exercise of its wind-down powers. In line with its powers, the resolution authority can also dismiss or replace the executive bodies of the wind-down institutes and take direct control of the institutes. In the case of Heta, the authority has decided that the business activities will continue to be carried out by the company's executive bodies.

At the organisational level, the Executive Board of the parent company was replaced completely, whereby the new members of the Executive Board were appointed in February and September 2015. The Heta Executive Board consists of Wirt.-Ing. Sebastian Prinz von Schoenaich-Carolath (Chairman) and the members Mag. Martin Handrich, Mag. Alexander Tscherteu and Mag. Arnold Schiefer.

The resolution authority is entitled to extensive supervisory, controlling and reporting rights, some of which were implemented through a separate governance structure. The new governance structure of Heta was developed during the first six months of 2015 together with the authority. Subsequently, the required changes were implemented in Heta's statutes and the internal rules of procedure for the Supervisory Board and the Executive Board.

The amended statutes were adopted at the general shareholders' meeting of Heta on 29 June 2015. The resolution authority has the right to have its representatives attend the committee meetings of the company's executive bodies. In addition, a series of major transactions and decisions are subject to the non-prohibition of the resolution authority, before they can be implemented. An advisory board consisting of external experts which were appointed by the resolution authority was also established. It provides recommendations to the resolution authority. The advisory board is a committee of the resolution authority and not an executive body of the company. The authority is also entitled to an escalation right, pursuant to which the treatment of all decisions, including those that must in principle not be submitted to the authority pursuant to the provisions of the internal rules of procedure, can be deleted by the authority.

At the same time, the forensic investigation of the past as an express business purpose of Heta was deleted from the statutes. However, it was agreed with the authority that the investigation of forensic cases that have so far not been finalised in line with the forensic investigation of the past will be continued taking into account efficiency and practical aspects.

### 3.6. Agreements relating to the former majority owner BayernLB

At the end of 2012, BayernLB sought a declaratory judgement from the Munich I regional court in relation to the financing lines that in the company's view are subject to the Austrian Equity Substituting Capital Act (EKEG), and may therefore neither be serviced by interest payments nor repaid. The company submitted a comprehensive statement of defence against the application and contested the order sought in its entirety; it also challenged, in the form of counterclaims, the repayments made by Heta to BayernLB until the time the suit was filed. In a hearing on 8 May 2015, the Munich I regional court verbally announced a judgement of the court of first instance and accepted virtually the entire order sought by BayernLB (for details, please see note (40.3.2) Judgement of the Munich I regional court regarding equity substitution loans from Bayerische Landesbank). Heta was ordered to pay, and the requested claims for recovery of the credit lines which had in the meantime been repaid to BayernLB were dismissed in their entirety. Because of the imminent action by BayernLB, the liabilities to BayernLB (nominal EUR 0.8 billion), which are covered by the Hypo Alpe Adria Restructuring Act (HaaSanG) and hence were included in the retirement from the balance sheet in 2014, were allocated to a provision in the amount of EUR 0.9 billion in the 2014 financial statements.

The Memorandum of Understanding (MoU) signed by the Republic of Austria and the Free State of Bavaria, according to which Heta and BayernLB were invited to review whether they wished to end the legal dispute between the two parties

on the basis of the Memorandum of Understanding (MoU), was announced in July 2015.

It remained up to Heta's executive bodies to decide whether to approve a settlement regarding the pending Austrian Equity Substituting Capital Act (EKEG) proceedings and the "action for misrepresentation" (Irrtumsklage) in view of the conditions and impacts on Heta. On 21 September 2015, Heta announced its willingness to conclude the settlement with BayernLB as per the Memorandum of Understanding (MoU). BayernLB decided against a comprehensive settlement with Heta. Therefore the proceedings are continued by Heta without any restrictions, and are to be completed with a legally binding decision by the German courts with jurisdiction. To this end, Heta submitted timely its grounds of appeal to the Munich upper regional court (OLG) on 1 February 2016.

However, BayernLB also declared its willingness, in the form of a unilateral settlement declaration, to make certain concessions to Heta regarding its claims in the Austrian Equity Substituting Capital Act (EKEG) proceedings. These include the waiver of pursuing the executive enforcement of the judgement of the court of first instance and limiting the participation of BayernLB in the wind-down of Heta (under certain conditions, such as BayernLB attaining the status of senior creditor etc.) to just EUR 2.4 billion plus interest (regardless of a possibly higher amount awarded in favour of BayernLB). Heta's claims against BayernLB from the counterclaim were not restricted, and continue to be pursued by Heta in the courts. With the exception of the claims from the Austrian Equity Substituting Capital Act (EKEG) proceedings and certain derivative transactions between BayernLB and Heta, all mutual claims between BayernLB and Heta have been cleared up.

The Memorandum of Understanding (MoU) does not include Heta's possible claims against the Republic of Austria. These are not affected by the agreements that have been entered into.

During the course of the action for misrepresentation (Irrtumsklage), the Republic of Austria requested, during the last quarter of the 2014 financial year, an adjustment to the share purchase agreement (emergency nationalisation agreement) and the related term sheet which was concluded between the Republic of Austria and BayernLB. These proceedings ended in line with the Memorandum of Understanding (MoU) between the Republic of Austria and BayernLB and Heta, which was implemented on 11 November 2015, and the Republic of Austria withdrew its action with a release of claims. For further information, please refer to note (40.3) Information regarding BayernLB.

In the financial statements for 31 December 2015, the liabilities to BayernLB are entered at approximately EUR 2.8 billion (nominal amount plus interest claims) on the basis of the original credit agreements and taking into account the judgement of the court of first instance by the Munich I regional court, while the settlement value resulting from the



Memorandum of Understanding (MoU) would be approximately EUR 2.5 billion (nominal amount EUR 2.4 billion plus interest of at least 5 % as of 1 March 2015).

### 3.7. Development of the credit engagement vis-a-vis the former Italian subsidiary Hypo-Alpe-Adria-Bank S.p.A.

In meeting the statutory requirements of the Federal Act on the Creation of a Wind-down Entity (GSA) and the HBI-Bundesholdinggesetz, Heta had to transfer all its shares in Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) to HBI-Bundesholding AG (HBI-BH) on the basis of the share purchase agreement from 8 September 2014. In addition to temporarily maintaining the existing financing for Heta in favour of (HBI) in the amount of approximately EUR 1.7 billion (nominal amount of the refinancing lines), Heta also committed, in line with the carve-out process, to provide an emergency liquidity facility of up to EUR 300.0 million in the event of the outflow of HBI deposits.

As a result of the Federal Act on the Recovery and Resolution of Banks (BaSAG) moratorium that went into force on 1 March 2015, Heta was no longer able to meet its obligation to provide an emergency liquidity facility, which resulted in the steady deterioration of HBI's liquidity situation, since it was not able to compensate the continued outflow of deposits without external support. In addition, HBI, in its local annual financial statements for 31 December 2014, which were submitted in June 2015, has made significant additional impairments with regard to our extended loans, which caused the company to fall below the minimum tier 1 capital ratio. The share purchase agreement concluded with HBI-BH included a provision that HBI-BH would be responsible for maintaining the tier 1 minimum capital ratio for HBI (currently 11.5 %) as required by the regulatory authority as of the closing of the agreement; however, in view of the increased risk provisions at HBI, HBI-BH asserted warranty claims from the share purchase agreement against Heta. In addition, it also referred to the failure to meet the obligation to provide the "Emergency Liquidity Facility".

The fact that HBI-BH itself does not have sufficient funds and no conclusive assessment could be made whether and at which amount the owner of HBI-BH - the Republic of Austria - would institute capital measures to provide HBI-BH with the corresponding resources created a situation in which the Banca d'Italia was likely to commence regulatory proceedings because of the failure to comply with the equity capital requirements and liquidity provisions.

In order to avoid additional damages to Heta as a result of the official measures in Italy, the Republic of Austria, HBI-BH and Heta concluded a term sheet regarding the financing and equity capitalisation of HBI on 29 June 2015. According to this agreement, HBI-BH provided HBI with EUR 196.0 million in liquidity in 2015, including EUR 100.0 million in the form of equity capital and EUR 96.0 million in the form of subordinated loans. In turn,

Heta agreed to provide a new loan of EUR 100.0 million for the possible financing of outflows of customer deposits, and to waive up to EUR 630.0 million in existing receivables, of which a waiver for a partial amount of EUR 280.0 million was already implemented during the first six months of 2015. In return, HBI-BH promised to deliver to Heta each financial benefit from its relationships with HBI up to the amount of the proclaimed waiver, in line with a recovery agreement. To secure Heta's claims, HBI-BH committed to pledge its shares in HBI in favour of Heta. For additional details, please refer to note (42.1) Agreement with the Austrian government and HBI-Bundesholding AG regarding the capitalisation of and liquidity for Hypo Alpe-Adria S.p.A.

During the second half of 2015, HBI repaid receivables of approximately EUR 140.0 million to Heta, and a revised wind-down plan for HBI was submitted by HBI-BH in December. The revised wind-down plan identified additional capital requirements for the time until the end of 2017 in order to comply with Italian capital provisions, which leads to the requirement of additional waivers of receivables in the amount of EUR 96.0 million on the part of HBI-BH, and up to EUR 350.0 million on the part of Heta. The purpose of the waivers provided by Heta is to ensure compliance with the capital ratios prescribed for HBI by Banca d'Italia, and were authorised by the resolution authority on 23 December 2015 with a non-prohibition.

The assessment of the recoverability of the refinancing lines approved by Heta in the past, which was carried out on 31 December 2015, is mainly based on the wind-down plan for HBI as submitted by HBI-BH. A large portion of the risk provisions created for 31 December 2014 was reversed in 2015 as a result of the stabilisation of HBI.

### 3.8. Completion of the sale of the SEE network

On 17 July 2015, Heta and the consortium of bidders, consisting of the US fund Advent International (Advent) and the European Bank for Reconstruction and Development (EBRD), completed the closing for the share purchase agreement from 22 December 2014 regarding the sale of all shares in Hypo Group Alpe Adria AG (HGAA AG or "SEE Network") (Closing). The closing was preceded by a "pre-closing" on 30 June 2015, where the parties confirmed the existence and compliance with all of the major closing conditions that had been agreed. The remaining conditions precedent were confirmed during the closing on 17 July 2015. In line with the pre-closing, the resolution authority also approved the implementation of the closing by way of a non-prohibition.

A number of amendments to the transaction and financing documents were agreed to by buyer before the closing. These changes also related to commercial aspects, including the reduction of the maximum total volume of possible portfolio adjustment transactions after the closing ("Buyer Brush"), during the course of which Heta was required to assume corporate and public sector loans, along with assets not essential to the banking business, from Hypo Group Alpe

Adria AG (HGAA) by the end of March 2016 at the historic net carrying amounts as at 31 December 2014. This total volume was reduced from EUR 800.0 million to EUR 600.0 million. In turn, a hedge for defaults in relation to a non-performing EUR 100.0 million (net exposure) retail portfolio of Hypo Group Alpe Adria AG (HGAA) was arranged for an amount of up to EUR 75.0 million. For the purpose of protecting the buyer's warranty, exemption and other claims from the share purchase agreement from 22 December 2014, which was required as a condition for the closing, the Republic of Austria had to provide the buyer with guarantees of EUR 1.7 billion in line with a "hedging instrument". The fee that was agreed for this purpose, and which must be paid by Heta, is 1.27 % of the assessment basis of EUR 1.7 billion as at 31 December 2015.

In the share purchase agreement, Heta provided the buyer with a number of different warranties and exemptions from certain risks. As a result of the statutory compulsory conversion of CHF loans in Croatia and Montenegro, the buyer, drawing on the exemption claims in the share purchase agreement, demanded that Heta compensate the corresponding conversion damages at the end of 2015. In addition, on 31 December 2015, the buyer of Hypo Group Alpe Adria AG (HGAA) also took HETA to task for additional claims under contractual warranties and other contractual exemption obligations for risks from legal disputes with customers and other legacies.

In March 2016, Heta and the buyer came to an agreement regarding a comprehensive settlement to clean up all contractual CHF exemption claims (credit and legal risks) and other outstanding items in connection with the share purchase agreement.

As a result of the settlement, the contractual liability limits that apply to the relevant warranties and exemptions, and the maximum liability of the Republic of Austria under the hedging instrument with the buyer (and thus also the fee that Heta must pay to the Republic of Austria) were reduced. For the purpose of the settlement, the buyer must also ensure that Hypo Group Alpe Adria AG (HGAA) returns to Heta an amount of EUR 150.0 million (CHF denominated) as an early partial repayment of the credit lines provided by Heta as early as March 2016. In addition, the settlement also included an agreement regarding another reduction in the portfolio adjustment transactions that were agreed with the buyer ("Buyer Brush") to EUR 500.0 million (not taking into account the aforementioned hedging of defaults in relation to a non-performing retail portfolio), and the portfolio adjustments transactions that were agreed as a condition for the settlement were also implemented in March 2016. In turn, Heta waived credit lines (CHF denominated) of EUR 325.0 million vis-a-vis Hypo Group Alpe Adria AG (HGAA). The buyer's claims under the settlement were also secured by extending the already existing lien to the credit lines provided by Heta to Hypo Group Alpe Adria AG (HGAA). With regard to possible incidental costs, which are Heta's respon-

sibility, the company provided the corresponding collateral. In the financial statements for 31 December 2015, the appropriate provisions were created both for the exemption and warranty risks resulting from the share purchase agreement, and the credit risks in connection with the "Buyer Brush".

## 4. Heta wind-down plan

### 4.1. Wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG)

According to section 5 GSA, the wind-down of the portfolio is to be conducted according to a wind-down plan drawn up by the Executive Board and approved by the Supervisory Board. Pursuant to the legal opinion of the resolution authority, Heta is no longer required to prepare a strict Federal Act on the Creation of a Wind-down Entity (GSA) wind-down plan as part of the Federal Act on the Recovery and Resolution of Banks (BaSAG) regime. Rather, the resolution authority will conduct its own fair, cautious and realistic assessment of the assets and liabilities of Heta, which will also form the basis for the application of wind-down instruments. It is only on this basis that - as per the legal opinion held by the resolution authority - the company must prepare a wind-down plan according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) provisions ("BaSAG wind-down plan").

In order to define a clear disposal perspective for the assets of Heta in the Federal Act on the Creation of a Wind-down Entity (GSA), recognised directives for the measurement of assets were approved with the support of external advisors and auditors, which address the intended disposition objectives and the current market conditions that must be taken into account in this context. The assets of Heta were re-measured on the basis of these directives ("AQR, Asset Quality Review"). The results of the Asset Quality Review (AQR) were already taken into account in the financial statements for 2014, which were prepared in June 2015. During the course of the preparation of the financial statements for 31 December 2015, the Asset Quality Review (AQR) measurement guidelines were adjusted to current conditions, and Heta's assets were assessed accordingly on this basis.

Heta has completed its activities for planning the portfolio wind-down on the basis of the Federal Act on the Creation of a Wind-down Entity (GSA) objectives, and published the results of these activities, in an effort to create transparency for creditors and investors, as part of a company presentation on 20 October 2015 on the specially created platform ([www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Investor information 2015)). Another update was provided on 15 December 2015, which was also published on Heta's homepage.

Because of the legal situation described above, these statements may however not be viewed as the Federal Act on the Creation of a Wind-down Entity (GSA) wind-down plan or Federal Act on the Recovery and Resolution of Banks (BaSAG) wind-down plan, but rather as the (preliminary) medium-term plan for 2016-2020. The medium-term plan 2016-2020 was developed in accordance with the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG), and refers to the holding company.

On 1 March 2015, the Financial Market Authority (FMA) initially ordered that the maturities of the debt instruments issued by Heta and the liabilities, along with the dates on which the applicable interest payments must be made, would be deferred until 31 May 2016. By that time, the resolution authority is supposed to have made a decision regarding the participation of creditors and any other instruments that may be applied in this respect. Such a participation of creditors in the form of a haircut would have far-reaching implications for the medium-term plan 2016-2020. The resolution authority notified Heta that no assumptions regarding the selection and effects of possible wind-down measures taken by the Financial Market Authority (FMA) may be included in the medium-term plan 2016-2020. Therefore, the following simplified and non-binding (i.e. purely planning-related) assumptions were made for the purpose of preparing the 2016-2020 medium-term plan:

- It is assumed that eligible liabilities in the Financial Market Authority (FMA) ordinance will not be serviced until 2020, and that the entire amount will be left at the status that existed on 1 March 2015 (the beginning of the moratorium). Interest expenses attributable to these liabilities will be recognised (accrued) analogous to the current payment days, but will not be paid. Default interest is not taken into account.
- The planned return flows from the reduction in Heta's financial and non-financial assets increase the cash liquidity position, since they are not used to pay the eligible liabilities. The cash liquidity is currently invested at the Austrian National Bank (OeNB).
- A steady reduction in assets (excluding cash liquidity) of approximately 80 % by the end of 2018 remains the intended wind-down objective. To achieve the targets, receivables and real estate are to be sold to investors mainly through individual transactions supported by portfolio transactions and the sale of entire companies.
- The planning assumptions relating to the receivables from Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) and Hypo Group Alpe Adria AG (HGAA) were examined separately, since these are still expected to remain in place after 2020 for term-related reasons. Similarly, some performing residential subsidy loans also have terms that go beyond the planning period. A decision

as to how these transactions will be taken into account will be reviewed in the current financial planning for the years 2016 to 2020. Performing loans and securities with short residual terms (until 2020) are to be recovered through regular repayments and those with longer terms are to be liquidated in the medium term by being placed on the market.

Heta reached these planning-related assumptions independently for the 2016-2020 medium-term plan.

The resolution authority will conduct its own assessment pursuant to section 54 et seq. BaSAG, and to this end will draw on its own independent expert. In this context, deviations from the medium-term plan for 2016-2020, which was prepared by Heta, cannot be excluded, but rather can be expected. The resolution authority is continuously informed of the current status of the medium-term plan.

#### 4.2. Development of results 2015 (compared to the medium-term plan 2016-2020)

Heta's wind-down performance in the 2015 financial year (reduction of assets) was EUR 569.8 million better than planned when compared to the 2016 budget. The performance corresponds to a 28.9 % or EUR 2.8 billion reduction in total assets (without cash reserve) compared to the 2014 financial year.

The significant reduction of EUR 2.8 billion at Heta during 2015 is primarily due to the accelerated wind down of loans and advances to customers. The gross portfolio (before provisions) decreased by EUR 1.2 billion. This accelerated wind-down of loans and advances to customers surpassed the 2015 budget by EUR 633.4 million (gross), compared to the 2014 financial year. Heta's own credit portfolio (exclusive of internal group refinancing) was reduced by EUR 309.8 million. The reduction in loans and advances to customers (gross) also surpassed the 2015 budget in the case of the HAR subsidiaries as compared to the 2014 financial year, particularly in Slovenia (EUR 118.8 million), Croatia (EUR 94.1 million) and Serbia (EUR 24.7 million). Compared to the 2014 financial year, Heta's risk provisions outperformed the 2015 budget by EUR 573.3 million. This is mainly due to the value development and the reduction in the portfolio at Heta, and in Slovenia, Croatia and Germany.

Financial assets (available for sale and fair value items) of Heta also fell by EUR 1.0 billion compared to 2014. In this context, the 2015 budget was surpassed by EUR 93.1 million compared to the 2015 financial year. The reduction was almost exclusively due to the expiry and earlier termination of the bonds, and the earlier disposal of financial assets due to the closure of the equity holding HBInt Credit Management Limited and Investment Ltd.

Derivatives at Heta were reduced by EUR 360.1 million compared to 2014, mainly due to the scheduled expiry of numerous positions and the active reduction of derivative positions (which resulted in significant profits). Compared to

the 2014 financial year, the 2015 budget was exceeded by EUR 216.6 million.

Assets on stock in line with investment properties and repossessed assets were reduced by EUR 100.2 million, which was above the expectations for the 2015 budget. The main factor that contributed to the reduction in terms of value were air planes and real estate. The largest reduction volumes that were over the budget occurred in Slovenia and Croatia, but were compensated by new additions of repossessed assets - particularly in Slovenia, Croatia and Italy. The reduction of EUR 422.0 million reported in the balance sheet is mainly due to the transfer of assets from a large real estate company and its subsidiaries (as at 31 December 2015) to Other Assets (IFRS 5, Assets held for Sale).

Loans and advances to credit institutions in the Heta Group fell by EUR 1.2 billion (gross) compared to 2014; this development is mainly due to the repayment of credit lines of a large customer, the closure of CHF syndicated accounts and a reduction in payment transaction accounts. The risk provision for credit institutions fell by EUR 346.5 million, mainly as a result of the revaluation of the Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) credit lines, and is below the expectations for the 2015 budget.

The reduction in other assets is mainly due to the sale of the Grand Hotel LAV and TERME SPA ROGASKA d.d. The sale of the "Skipper" holding was postponed to the year 2016. The transfer of the investment properties of Centrice Real Estate GmbH and its subsidiaries as at 31 December 2015 increased the portfolio of assets held for sale.

The on-going reduction on the assets side had the effect of increasing cash reserves by approximately EUR 1.9 billion to EUR 4.3 billion during the 2015 financial year - a figure that, in comparison to the year 2014, significantly surpasses the target value in the 2015 budget.

The largest portion of proceeds (cash-in) came from the sale of securities (EUR 477.0 million). Heta also received EUR 200.0 million from the repayment of a large cash loan.

The reduction in the loans and advances business at Heta generated proceeds (cash-in) of EUR 444.0 million. The largest cash-in amount, EUR 250.0 million, came from the sale of customer credit disposals, followed by the reduction in Treasury Loans (EUR 101.0 million) and the disposals from the wind-down participations (EUR 93.0 million from the sale of Grand Hotel LAV).

The HAR subsidiaries (Brush and Leasings) were able to transfer to Heta EUR 390.0 million from the proceeds (cash-in) from the wind-down of loans and assets, and financing lines.

Heta also received EUR 278.0 million in cash as a result of the closure of the investment companies Norica Investment Ltd. and HBInt Credit Management Limited.

Heta's total costs amount to EUR 206.3 million, and are EUR 21.0 million higher than expected in the 2015 budget. This is mainly due to higher expenses in the parent company, although the HAR subsidiaries (Brush and Leasings) incurred lower costs, particularly in Croatia, Serbia and Bulgaria.

The reduction in total costs for 2015 compared to the 2014 financial year amounts to EUR 56.4 million, and is primarily due to lower legal and consulting expenses at Heta during the 2015 financial year.

## 5. Other events

### 5.1. Repeal of the Hypo Alpe Adria Restructuring Act (HaaSanG) by the Constitutional Court of Austria (VfGH) and resulting lawsuits

To date, Heta has been served with 34 claims in which creditors challenge the constitutional legitimacy of the Hypo Alpe Adria Restructuring Act (HaaSanG) and have sued for a declaration of the receivables and for payment. In many of these civil lawsuits, the proceedings were interrupted due to appeals to the Constitutional Court of Austria (VfGH) requesting a review of the constitutionality of the law. With the findings from 3 July 2015, the Constitutional Court of Austria (VfGH) repealed both the Hypo Alpe Adria Restructuring Act (HaaSanG) as well as the underlying ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV) regarding the implementation of restructuring measures, as unconstitutional. As a result, the liabilities which had been treated as expired in 2014 and that were derecognised through profit and loss were again recognised in the statement of financial position, and the provisions of EUR 0.9 billion, which were created in the 2014 financial statements in connection with the judgement of the court of first instance (Munich I regional court) (BayernLB (Austrian Equity Substituting Capital Act (EKEG)) procedure) from 8 May 2015 were reversed through profit and loss.

This resulted in an overall negative effect on the income statement and hence also on equity of EUR -0.8 billion (nominal) plus interest claims, which were mainly due to the re-recognition of liabilities to subordinated creditors. The renewed recognition of liabilities to BayernLB did not have a major effect on the financial statements for 31 December 2015 due to the provisions that were created in 2014.

Following the decision of the Constitutional Court of Austria (VfGH), some of the proceedings that were previously disrupted were restarted again either officially or at the request of the plaintiffs. Plaintiffs and defendants also submitted additional briefs. With the decision of the Constitutional Court of Austria (VfGH), which repealed the act and the Ordinance issued under the act, the disputed issue in the proceedings has been restricted to the applicability of the payment moratorium for the affected liabilities, which has been in place since 1 March 2015. In these proceedings, Heta takes the position that the affected liabilities are included in the moratorium issued by the Financial Market Authority (FMA).

At present, the proceedings appear to be characterised by cautious waiting, since most of the plaintiffs want to wait for the next decisions of the Austrian Financial Market Au-

thority (FMA). Accordingly, the parties could agree on simply suspending many of the proceedings.

## 5.2. Claims in connection with the moratorium imposed according to the Federal Act on the Recovery and Resolution of Banks (BaSAG)

Eleven lawsuits have been filed against Heta in Germany by investors for payment of bonds and applicable interests, which was not paid on the original payment day as a result of the moratorium issued on 1 March 2015. All of these lawsuits are pending at the Regional Court of Frankfurt. The lawsuits comprise bonds with a nominal value of EUR 2.2 billion and CHF 33.0 million.

With these claims, the plaintiffs dispute the recognition of the Financial Market Authority (FMA) measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG), and request payment - despite the deferral ordered in the ordinance. According to German law, judgements of the court of first instance may against collateral be declared temporarily enforceable (section 709 Code of Civil Procedure (ZPO)), which leads to the risk that plaintiffs apply for an enforcement on the basis of a judgement of the court of first instance. A judgement ordering Heta to pay the liabilities affected by the relevant legal disputes and a possible compulsory enforcement in favour of various creditors would run counter to the wind-down measures ordered by the Financial Market Authority (FMA) with its decision from 1 March 2015. For this reason, Heta will not only fight the potential judgements of the court of first instance, in order to settle the recognition of the Federal Act on the Recovery and Resolution of Banks (BaSAG) in all EU member states, but will also initiate legal remedies to defend against enforcement measures. Such a treatment of individual creditors would oppose the principle of equal treatment of creditors under the Federal Act on the Recovery and Resolution of Banks (BaSAG), the principle of the (balanced) assumption of losses by the creditors and the principle of ensuring that creditors are not put in a worse position as compared to liquidation measures taken in the course of an insolvency. As a result, on 16 March 2016 the resolution authority submitted an application to the Frankfurt regional court in charge requesting the suspension of the pending court proceedings pursuant to section 59 (1) BaSAG and alternatively requested the suspension of enforcement measures. In this context, the resolution authority is reviewing other possible legal steps designed to secure an orderly wind-down process. Finally, with regard to enforcement measures initiated by individual creditors, there is also the risk that the resolution authority applies for the commencement of insolvency proceedings to secure the equal treatment of creditors.

Insolvency proceedings would lead to additional losses for creditors because a far more rapid liquidation of assets (using the liquidation processes that apply in the respective countries with regard to insolvency proceedings) would

have to be used as a basis for measurement instead of an orderly wind-down process over a period of five years (using the sales procedures commonly used for the respective assets). If such "insolvency or break-up values" are used, it would result in significantly higher losses or significantly lower proceeds.

Three legal proceedings were initiated against Heta by the State of Carinthia and the Kärntner Landesholding (KLH) in relation to legal proceedings initiated by investors against the State of Carinthia and the Kärntner Landesholding (KLH) on the basis of the deficiency guarantees ordered by state law in connection with the bonds affected by the moratorium. Heta has joined these proceedings on the side of the state and the Kärntner Landesholding (KLH) as an intervenor. Two proceedings resulted in a judgement of the first instance against the plaintiff. The plaintiff has appealed these decisions.

Two of the three submitted Federal Act on the Recovery and Resolution of Banks (BaSAG)-related submissions to the Constitutional Court of Austria (VfGH) for a review of the constitutionality of the law and the admissibility of including Heta under this law were dismissed by the Constitutional Court of Austria (VfGH) in the fall of 2015. According to a statement by the President of the Austrian Constitutional Court (VfGH) in March 2016, it is expected that the court will issue a decision on this issue during its fall session at the latest.

It is noted that in the judgement of the court of first instance by the Regional Court of Munich I in the legal proceeding regarding Austrian Equity Substituting Capital Act (EKEG) between Heta and BayernLB, the court noted that the measures taken by Austrian legislators and the supervisory authorities in connection with the wind-down of Heta would not be recognised in Germany, and it did not take into account the deferral ordered by the decision of the resolution authority pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) on the basis of mainly formal arguments. This point of view, which Heta believes to be incorrect, was disputed in the grounds of appeal.

## 5.3. Company presentation for creditors

Heta issues on a regular basis company presentations to provide information about the developments of its business activities and about important events in ad-hoc notifications and financial reports. With regard to the design of its information activities, the company presentation corresponds to the requirements under Federal Act on the Recovery and Resolution of Banks (BaSAG) - specifically section 120 and 121 - and the requirements of the resolution authority.

The ordinance issued on 1 March 2015 by the Financial Markets Authority (FMA) as the resolution authority, which orders a moratorium ending on 31 May 2016 with regard to the eligible liabilities of Heta, created additional information requirements on the part of the creditors and investors affected by the moratorium. For this reason, the Executive

Board implemented a separate information platform specifically directed at creditors and investors in order to provide additional transparency and facilitate the dialogue with this group within the limits of what is permitted by law.

This platform created by Heta is available at [holding@heta-asset-resolution.com](mailto:holding@heta-asset-resolution.com) and is now available to both creditors and their representatives for submitting specific questions of general interest for this group (creditors and investors) in writing. To this end, individuals must provide proper evidence of their creditor status or confirmation of representation.

It is Heta's responsibility to make decisions regarding the date, form and contents of responses in compliance with Federal Act on the Recovery and Resolution of Banks (BaSAG) and the requirements of the resolution authority. No claim exists or is established with respect to the provision of information to creditors or investors outside of statutory (or possibly) obligations.

In an effort to provide additional transparency, Heta began to publish responses to questions submitted through the platform at [holding@heta-asset-resolution.com](mailto:holding@heta-asset-resolution.com) in the fall of 2015. The first "Information for creditors and investors" item was published on Heta's website on 20 October 2015. In addition to questions and answers ("Q&A") from the aforementioned investor dialogue, this piece also contained extensive and additional information about Heta's semi-annual report for 30 June 2015, the main items of the medium-term plan 2016-2020 for Heta as well as legal disputes and key transactions that had been or were still to be completed in the 2015 financial year.

This information was updated on 15 December 2015. In addition to other responses, this "Q&A Update" also included a copy of the interim statements of Heta in accordance with the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) (separate financial statements) as at 1 March 2015.

Heta is required to provide a number of references in connection with the aforementioned update as well as future updates or additional information for creditors and investors. In addition to the exclusion of liability, which is mentioned several times in the Q&A Updates, it is also important to note that the form in which the information is provided (as noted here) may be modified or discontinued at any time. In addition, Heta also advises investors and creditors that the Financial Markets Authority (FMA) also provides relevant information about Federal Act on the Recovery and Resolution of Banks (BaSAG) and the application of the law in its capacity as the resolution authority, and that it is the best contact point for many questions.

#### 5.4. Repurchase offer from the State of Carinthia

On the basis of the statutory authorisation pursuant to section 2a of the Federal Act on Financial Market Stability (FinStaG), the Kärntner Ausgleichszahlungs-Fonds (K-AF) on 20 January 2016 submitted offers for those Heta debt instruments for which the State of Carinthia and also the

Kärntner Landes- und Hypothekenbank - Holding (KLH) have assumed a guarantee. The repurchase offer from the K-AF regarding the purchase of all debt instruments that were issued by Heta and that are subject to the legally prescribed deficiency guarantees of the State of Carinthia and the Kärntner Landes- und Hypothekenbank - Holding (KLH), were submitted on 20 January 2016 and announced publicly on the following day. The offers include a payment for 75.0 % for non-subordinated debt instruments ("senior debt instruments") and 30.0 % for subordinated debt instruments. The offers expired on 11 March 2016, and required the approval of at least two-thirds of the affected creditors of non-subordinated and subordinated debt instruments.

On 14 March 2016, the Kärntner Landes- und Hypothekenbank - Holding (K-AF) announced that the offers from the creditors of the debt titles were not accepted by the required threshold that would be required under section 2a (4) FinStaG for the purchase of the debt instruments covered under the offers. Therefore the conditions for the purpose of the debt instruments covered by the offers, which were identified as conditions for the transaction in the offer document, have not been met. The Kärntner Ausgleichszahlungs-Fonds (K-AF) also notified that it was not interested in purchasing any of the debt instruments under the offers.

The repurchase offer of the Kärntner Ausgleichszahlungs-Fonds (K-AF) and their non-acceptance do not have any direct effect on Heta's financial statements for 31 December 2015, since they only pertain to the level between Heta's creditors and the Kärntner Ausgleichszahlungs-Fonds (K-AF) and thus are outside of Heta's sphere.

#### 5.5. Guarantee agreement with the Republic of Austria

On 28 December 2010, a guarantee agreement was concluded between the Republic of Austria and Heta, in which the liability of the Republic of Austria as deficiency guarantor in accordance with section 1356 of the Austrian Civil Code (ABGB) was agreed. The Republic of Austria's guarantee relates to a precisely specified portion of receivables of Heta's portfolio, and is limited to EUR 200.0 million ("maximum guarantee amount"). In return for the assumption of this guarantee by the Republic of Austria, a commission of 10,0 % p.a., calculated on the basis of the nominal amount of the guaranteed partial amount of the receivable, was agreed. The agreement was supplemented and amended with the first addendum from April 2011 and the second addendum from August 2013. In this context, the guarantee (now pursuant to section 1346 ABGB) was extended to 30 June 2017, and certain collateralised receivables were replaced with other already existing receivables of the bank, while the maximum guarantee amount was left unchanged at EUR 200.0 million. Furthermore, the drawdown process was adapted, and in particular the process for verifying the drawdown preconditions was revised. As part of the exten-

sion of the guarantee, the ability to assert claims was modified to the effect that this only became possible as of May 2014.

Guarantee commission payments were suspended on 1 March 2015 due to the moratorium.

The guarantee was utilised by 31 December 2015 for a total volume of EUR 60.7 million. In December 2015, the Republic of Austria for the first time acknowledged the existence of the drawdown preconditions for one case, and submitted a payment of EUR 11.2 million during the same month. In Heta's view, this means that the Austrian government is of the opinion that the ordinance and the associated deferral of the obligation to pay the commission did not have the effect of changing the general validity and continued existence of the guarantee. Therefore payments for the already drawn instances and possible future utilisation instances should only depend on the existence of the defined drawdown preconditions. The guarantee may now be viewed as valid since an acknowledgement of the guarantee can be assumed on the basis of the situation that has been described - regardless of the moratorium.

Therefore the impairments created in connection with the receivables "subject to the guarantee" will be reversed in the amount that is secured by the guarantee, and a recoverable cash flow will be assumed when calculating the risk provisions for those loan cases that are secured with the guarantee. In addition, the fee that is expected to be incurred until 2017 was also allocated to a provision for the full amount.

## 5.6. Winding down investment companies and portfolio sales

### 5.6.1. Sales activities

Additional progress was already made during the 2015 financial year during the wind-down of investment holdings. In addition to the winding down of investment companies and portfolios, Heta also focused on the reduction of assets (primarily real estate).

For the purpose of achieving the best and quickest possible process for the wind-down and liquidation of the properties, "Fit for Sale" activities and priorities were set, and the relevant tasks were also transferred to the countries. These are used to prepare the sales-relevant documentation, and to warrant the evaluation and implementation of value retention measures for real estate. The relevant group guidelines were developed and rolled out across the group with the objective of standardising the process. These measures are also designed to significantly accelerate the process required for the wind-down procedure.

For the purpose of ensuring the accelerated reduction of Heta assets in the future, a project team was set up at the beginning of 2014, which focuses on the structured preparation of planned portfolio sales, with the objective of preparing non-performing loans (NPL) portfolios and offering them

on the market. The project involved the development of a standardised "Data Tape" and the definition of minimum requirements for a data room, with the final objective of recommending possible portfolios that are subsequently subjected to a structured sale process.

In this context, there are several projects in the preparation stage, or for which a marketing process has already been initiated. They include the "DRAVA" project, which consists of a virtually unsecured non-performing loans (NPL) portfolio from the countries Croatia, Bosnia, Montenegro, Serbia, Slovenia and Austria. The "PATHFINDER" project consists of a non-performing loans (NPL) - but secured - portfolio to Croatian borrowers. Industry-specific portfolios, such as the financing of photovoltaic facilities in Germany, are also set to be sold in the near future.

### 5.6.2. Disposal of participations and assets

The wind-down of the investment portfolio was continued during the 2015 financial year, with the result that the level of complexity at Heta was reduced accordingly.

In addition to a large number of individual transactions, the following key participations or assets were also sold in 2015:

- Sale of Slovenian Terme Spa ROGASKA d.d. to the best bidder following the wholesale transfer of all supplier contracts and employees, and registration in the land register in March 2015,
- Transfer of Croatian Grand Hotel LAV d.o.o., including Grand Marina Lav d.o.o., after a preparation period of more than two years, on 14 October 2015,
- The sale agreements for the Macedonian group leasing company Heta Asset Resolution Leasing DOOEL Skopje were signed in December 2015 (signing), the closing is expected to be completed in the first half of 2016.

The sales procedures for a large tourism project could not be completed, despite efforts that have spanned several years. Following the completion of technical and financial due diligence carried out by the interested parties, several binding offers have been submitted, which are currently being negotiated. The Heta Executive Board expects that the transaction will be completed by mid-2016.

The sale of the wholly-owned subsidiary Centrice Real Estate GmbH (Centrice) and its subsidiaries was publicly tendered in August 2015. A well-known investment bank was engaged to assist with this project as an M&A advisor, in order to support the sales process and secure a global search for investors. Centrice has already been prepared for this sale project over the course of the last two years. During the course of this process, 31 performing real estate properties in Slovenia, Croatia, Serbia, Bosnia-Herzegovina and Macedonia were combined in this management holding company.

The public tender has elicited the corresponding investor interest, and the sales process is proceeding very satisfactorily. Following a number of expressions of interest, the commercially best offers were selected from the available non-binding offers in 2015. The data room for the final due diligence phase was opened in mid-November 2015. Following the receipt of binding offers at the beginning of March 2016, additional discussions and negotiations will be commenced following an in-depth review. The sales process should be completed quickly, but in all cases within the next six months.

### 5.6.3. Closure of securities investment companies (minority companies)

Norica Investment Ltd., domiciled in Jersey (Channel Islands), was established in 2008 together with a 49.0 % co-investor (as a minority shareholder). The purpose of the company was to buy, sell, lend and hold certain financial investments (securities).

HBInt Credit Management Limited and its downstream subsidiary units Carinthia Ltd. and Carinthia II Ltd. are also domiciled in Jersey (Channel Islands) and were established in 2005 together with a 49.0 % co-investor (as the minority shareholder). The business purpose of the two companies concerned the purchase, sale and holding of certain investments.

Due to the fact that Heta is no longer subject to the equity capital requirements as a result of the deregulation, a key business purpose of Norica Investment Ltd. and HBInt Credit Management Limited no longer applies, and it was agreed with the respective co-investor that the companies would be wound down. With the involvement of the resolution authority and the co-investor, the liquidation resolutions of the shareholders for Norica Investment Ltd. and HBInt Credit Management Limited were adopted on 26 November 2015 and 15 December 2015 respectively. The liquidation process was commissioned and at this time it is expected that it will be completed at the latest in the third quarter of the next financial year (2016). The corresponding shareholder resolutions and the Shareholding Structure Termination Deed, along with the shareholder agreement regarding the sale of the existing investments form the primary legal basis for the dissolution of the companies.

### 5.7. Legal Quality Review

A group-wide review of relevant and pending passive proceedings was held as part of the Legal Quality Review (LQR) project.

The focus of this project was to identify the chances of success and, in the same vein, to determine the need to create or increase/reverse risk provisions. Another objective of the Legal Quality Review (LQR) was to investigate the proceedings with regard to the strategic direction, and to obtain an independent recommendation for future process steps and adjustments to the legal strategy. Approximately 850 passive court proceedings are pending in the jurisdictions of

Austria, Bosnia, Bulgaria, Croatia, Germany, Hungary, Italy, Serbia, Montenegro and Slovenia.

The result of the Legal Quality Review also provides important information for the development of a strategy for the efficient and advantageous completion of these proceedings - a strategy that will be required during the wind-down process for Heta.

### 5.8. Organisational changes at Heta Asset Resolution AG, transformation into a wind-down unit pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA)

The decision of the European Commission, which foresees the reprivatization of the SEE network and the implementation of the statutory requirements for the wind-down of Heta according to the Federal Act on the Creation of a Wind-down Entity (GSA), led to an urgent need for restructuring at the level of the parent company. The transformation process for restructuring the former bank structures into a wind-down unit is proceeding as planned during the 2015 financial year.

The Target Operating Model (TOM) of Heta reflects the reorganisation of the company into a sales organisation in compliance with all statutory requirements in order to achieve the best possible sale result in line with the portfolio wind-down process implemented by the wind-down company, with the goal of continuously reducing the portfolio and implementing these activities at the operating level. The concept for the model has been developed and the implementation process has gotten off to a successful start - during the course of which the required adaptation of sale processes was completed. As a result, portfolios have already been placed for sale in the market; specifically, one real estate package is at an advanced stage in the sales process, and the preparations for additional portfolios are almost complete. The infrastructure that is required for the sale has also been established. The relevant IT systems and tools have been adapted to ensure the optimum and quickest possible implementation of the disposals on a technical level. Other useful measures were also installed in view of warranting the required data quality.

Another focus area in addition to the sales process was the redefinition and standardisation of processes by eliminating typical bank structures and streamlining the underlying rules and regulations. This optimisation is also reflected in the newly created organisational structure.

Moreover, the responsibilities for the management of the various group companies in the countries were also restructured. The newly-introduced allocation of duties for management guarantees a clear focus on the wind-down and sales process. Accordingly, a concept to measure the wind-down progress was developed, and the reporting environment was optimised and gradually integrated into daily work routines. As part of the Legal Entity Optimization (LEO) project, the linkages between the companies were analysed with the goal of simplifying or reducing the structures, in



order to ensure an optimum legal and management wind-down strategy that is complementary to the business wind-down strategy.

### 5.9. Forensic investigation of the past

Since its implementation into Heta's line organisation, the Forensics division has been concerned with examining past activities and in particular with determining the causes for the losses in value that occurred before the emergency nationalisation. Following the amalgamation of the Forensics and Compliance units into Group Compliance & Fraud Management - under new management - most of the activities during the 2015 financial year centred on the restructuring of the portfolio and the definition of clear priorities in terms of working through the process. Additional activities included the prioritisation of cases with a high probability of generating cash flows, the installation of a group-wide controlling system and the establishment of clear communication activities and an interface for courts and federal authorities, along with the integration of Fraud Management and Compliance into the sale process, in order to warrant the fraud-free wind-down of assets and compliance with Federal Act on the Recovery and Resolution of Banks (BaSAG).

The pending court proceedings were divided with the internal Group Legal department with regard to responsibility and further processing. All capital-related issues, such as preferred shares and the situation surrounding BayernLB, were allocated to Group Legal. Loan-related cases are processed by Group Compliance & Fraud Management.

By December 2015, a total of 125 cases (180 individual cases) were prepared and reported to the relevant public prosecutors in Austria and abroad. In addition, four civil proceedings against former decision-makers and third parties are currently pending at civil courts in Austria for a total value in dispute of approximately EUR 4.0 million. The insights gained during the forensic investigation of past activities and the cases derived from the same have so far resulted in 13 convictions, including six binding convictions with multi-year prison terms.

### 5.10. Parliamentary Commission of Inquiry

On 16 June 2015, and on behalf of the President of the National Council as the Chairperson of the Commission of Inquiry to investigate the political responsibility for the events surrounding Hypo Group Alpe Adria (Hypo Commission of Inquiry), the Parliament Directorate (Parlamenttsdirektion) submitted a request to Heta for voluntary submission of certain files and documents.

In principle, Heta is not legally obliged to forward documents and information to the parliamentary commission of inquiry. In the interest of complete transparency, the executive bodies of Heta have signalled their willingness to respond to this request, whereby documents are forwarded in protection of the justified interests of the company (particularly those regarding on-going court and disposition pro-

ceedings) and its employees (data protection), and in adherence to bank secrecy. Because of the large volume of documents that has requested, the documents are submitted in parts. The largest part of requested documents, insofar as it can be provided in accordance with the aforementioned restrictions, has already been forwarded to the commission of inquiry. The contents of the documents were prepared in compliance with the aforementioned restrictions (such as data protection, bank secrecy, on-going proceedings), and were forwarded in redacted form.

As part of the already completed questioning of persons with information, Heta issued, at the request of the affected persons, declarations to release them from the confidentiality obligation that applies to former and active employees/advisors. In general, Heta cannot issue declarations releasing persons from absolute bank secrecy, since it is still subject to the relevant statutory restrictions. Accordingly, Heta is obliged to advise of these stringent restrictions when it provides releases to persons with information. Heta may release persons from the obligation to keep operating and trade secrets in confidence. Also excluded from the releases that have been issued so far are on-going court and disposition proceedings, so as not to negatively affect Heta's position in these proceedings.

### 5.11. Audit procedure and error detection by the Austrian Financial Market Authority (FMA)

The audit procedure carried out by the Austrian Financial Reporting Enforcement Panel (OePR/AFREP) since 2013 was completed on 10 April 2015 with the announcement of the audit results.

With regard to the consolidated financial statements for 31 December 2013, it was noted that the risk provisions on loans and advances were understated by at least EUR 8.1 million. With regard to the semi-annual financial report published on 30 June 2014, the Austrian Financial Reporting Enforcement Panel (OePR/AFREP) found that the risk provisions on loans and advances were understated by at least EUR -3.8 million. It furthermore noted that the provisions entered in connection with the transfer of the SEE bank network on 30 June 2014 and the corresponding effect on results was overstated by EUR 1.2 billion, since the criteria for entering a provision for the expected loss on disposal were not in place on 30 June 2014. Instead, and to the extent permitted by the relevant IFRS standards, the assets side of the group would have had to be re-assessed with regard to the assets of the SEE network.

Since Heta did not agree with the Austrian Financial Reporting Enforcement Panel's (OePR/AFREP) findings regarding the recognition of this provision, the procedure was continued by the Financial Market Authority (FMA). The following errors were noted in the decision from 19 November 2015:

- The consolidated semi-annual financial statements for 30 June 2014 report EUR 7.4 million in receivables from a group of affiliated customers. Notwithstanding the existence of objective information indicating a reduction in the value of the underlying receivables on 30 June 2014, an impairment test was not carried out, and an impairment was not applied. This constitutes a breach of IAS 39.58 in connection with IAS 39.63, which specifies an obligation to determine possible information that would indicate a reduction in the value of financial assets or groups of the same for each closing date, and further that in such cases a value adjustment in the amount of the difference between the carrying amount of the assets and the present value of the expected future cash flows must be recognised.
- The consolidated interim semi-annual financial statements for 30 June 2014 report EUR 16.1 million in loans and advances to another group of affiliated customers. The loans and advances are collateralised with shares in a listed company, for which current price quotations could be observed. As part of the receivables valuation process, the collateral was taken into account at the proportionate carrying amount of the equity capital less a lump-sum discount. This constitutes a breach of IAS 39.AG84 in connection with IAS 39.IG.E.4.8, according to which the measurement of a financial asset whose value has been reduced must take into account the fair value of the collateral.
- Because of that, the total "Risk provisions on loans and advances to customers" item in the semi-annual financial statements for 30 June 2014 is understated by at least EUR -3.8 million.
- Hypo SEE Holding AG was included in the financial statements of Heta by way of full consolidation. The related assets and debt, income and expenses are reported together with those of the parent company and the other companies that belong to the group. This constitutes a breach of IFRS 5, according to which special disclosure provisions in the statement of comprehensive income (IFRS 5.33 to 36A) and in the balance sheet (IFRS 5.38 to 40) as well as special information obligation in the notes (IFRS 5.41 to 42) apply to discontinued operations and groups of dispositions, which are classified as held for sale.

In addition, Heta notes that the errors that were identified relate to the semi-annual financial report for 30 June 2014. According to the relevant provisions of the International Financial Reporting Standards (IAS 8.44), there is no requirement to retroactively correct the affected interim consolidated financial statements. The incorrect reporting period is not included in future consolidated financial statements, neither as a reference period nor in the form of opening balances, and must therefore not be adjusted during the current reporting period.

The error report pursuant to section 5 (2) Accounting Control Act (RL-KG) can be found on Heta's home page at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) ( → Investoren → Veröffentlichungen → Veröffentlichungen 2015).

## 5.12. Rating

In November 2011, the former Hypo Alpe-Adria-Bank International AG resigned its institutional rating. All state and federally guaranteed bonds as well as the covered bond ratings remain unaffected by this step and will continue to be rated.

Information on the individual bond ratings and all associated Moody's publications is published on Heta's home page at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) ( → Investor Relations → Rating).

## 6. Business development in Heta

### 6.1. Development of the balance sheet<sup>1</sup>

During the 2015 financial year, the total assets of Heta, which exercises the main refinancing function as the group's central holding, did not change over the previous year, and stand unchanged at EUR 9.6 billion. This situation is primarily due to the payment moratorium imposed by the Financial Markets Authority (FMA) on 1 March 2015, according to which virtually all of Heta's liabilities may no longer be serviced. This leads to the de facto "freezing" of the assets side and hence total assets, while on the assets side short-, medium- and long-term loans and investments have been shifted to cash and cash equivalents.

#### Total assets in EUR bn

22.7	2011
21.1	2012
17.6	2013
9.6	2014
9.6	2015

Credit balances at central banks increased by EUR 1.9 billion during the 2015 financial year to EUR 4.3 billion. This increase was mainly due to four factors: the active collection of loans, the exploitation of loans and advances to customers, loan collateral and real estate, the wind-down of securities investments, as well as transfers from the expanded liquidity holdings (loans to credit institutions) to short-term investments at the Austrian National Bank (OeNB). These investments are subject to negative interest rates that ranged from -0.2% to -0.3% during the 2015 financial year.

<sup>1</sup> Due to required conversion to a gone-concern measurement as at 31 December 2014, comparisons with previous year figures are only possible to a minor extent.

Public debt instruments, along with bonds and other fixed-income securities are entirely attributed to current assets, and fell by EUR -0.2 billion from EUR 0.6 billion to EUR 0.4 billion. As a result of the dissolution of subsidiaries that had their own securities portfolios, Heta was required to transfer those positions into its own books that were not immediately disposed of. This had the effect of increasing the securities holdings by EUR 0.1 billion, although this figure was over-compensated by the repayments and disposals during the 2015 financial year in the amount of EUR -0.3 million.

Loans and advances to credit institutions declined during the 2015 financial year from EUR 2.5 billion to EUR 2.1 billion, which corresponds to a reduction of EUR -0.5 billion or -18.5 %. The decrease was primarily due to regrouping activities within the liquidity portfolio, as liquid assets invested at other credit institutions in Euro and foreign currencies were transferred to the cash reserve account at the Austrian National Bank (OeNB).

Loans and advances to credit institutions also include the loans to the former group company Hypo Alpe-Adria-Bank S.p.A. Udine (HBI). While the risk provisions created for these lines as at 31 December 2014 anticipated government-led settlement proceedings, the relevant risk provisions could be reduced in 2015 due to the stabilisation of HBI that was achieved by the owner. Overall, net receivables increased by EUR 0.2 billion. The risk provision that remains as at 31 December 2015 following the commitment to write off EUR 0.3 billion is EUR -0.7 billion (2014: EUR -1.2 billion).

The financing provided to the bank network in south-eastern Europe (SEE), which formerly belonged to the group, amounted to EUR 2.1 billion as at 31 December 2015. The measurement of this receivable also takes into account potential utilisation from warranties and exemptions, which were submitted to the buyer by way of contract during the course of the sale. No material changes occurred during the 2015 financial year with respect to the resulting net receivable.

With a figure of EUR 2.5 billion, loans and advances to customers, which also include internal group financing lines to subsidiaries, were EUR -0.7 billion or -22.9% below the previous year's reference value (2014: EUR 3.2 billion). While in the case of third-party customers, collection and liquidation measures were compensated with positive measurement effects, significant return flows from internal group refinancing lines as well as additional provisions that had to be taken into account in connection with the planned disposals of subsidiaries, resulted in a significant decline from EUR 7.0 billion to EUR 3.1 billion.

During the year under review, shares in affiliated companies decreased from EUR 0.5 billion to EUR 0.1 billion. The majority of this change is due to the wind-down of two secu-

rities investment companies in Jersey. However, the reduction in carrying amounts only affected Heta's liquidity situation to a certain extent, since excess liquid assets of the two companies were already invested at Heta, and because securities holdings were also transferred directly to Heta. The carrying amount for investments as reported on 31 December 2015 in the amount of 0.1 billion is mainly attributable to participations that must be wound down.

Other assets decreased from EUR 0.3 billion (2014) to EUR 0.2 billion.

Liabilities to credit institutions at EUR 3.5 billion were above the reference value of the previous year (EUR 2.9 billion). Liabilities to BayernLB had to be recognised again for accounting purposes as a result of the repeal of the Hypo Alpe Adria Restructuring Act (HaaSanG) and the associated regulation HaaSanV by the Constitutional Court of Austria (VfGH) on 3 July 2015.

As at 31 December 2015, liabilities to customers as well as liabilities evidenced by certificates totalled EUR 9.1 billion (2014: EUR 10.3 billion). The decrease of EUR -1.2 billion is primarily due to the fact that the liabilities hitherto included in this item at EUR 1.2 billion, which were issued through Pfandbriefbank (Österreich) AG, are now reported in a separate balance sheet item.

During the year under review, provisions declined by EUR -1.3 billion to a total of EUR 0.8 billion. This decrease is mainly due to the reversal of provisions in connection with the judgement of the court of first instance by the Munich I regional court (EUR 0.9 billion) and the adjustment of provisions for settlement costs (EUR 0.2 billion). The contractual claims in connection with the SEE sale to FIMBAG, which were recognised as a provision of EUR 0.2 billion on 31 December 2014, were no longer required due to the exemption claims that occurred in the meantime. Instead, the exemption and warranty risks resulting from the sale agreement are directly deducted from the value of the loans to HGAA. In the context of the hedging instrument granted by the Republic of Austria to the buyer of the SEE network, Heta also created a provision for the future applicable fee of EUR 0.1 billion.

Subordinated liabilities increased by EUR 1.1 billion (2014) to EUR 2.0 billion. The increase is mainly due to the repeal of the HaaSanG and HaaSanV by the Constitutional Court of Austria (VfGH), as a result of which EUR 0.8 billion (nominal) in subordinated liabilities once again had to be recognised in the balance sheet.

The equity position of EUR -7.5 billion (2014: EUR -7.0 billion) indicates that the group is significantly over-indebted in terms of capital. Overall, assets of EUR 9.6 billion are accompanied by liabilities and provisions of EUR 17.1 billion.

EUR m

Assets	2015	2014	2013	2012	2011
Loans and advances to credit institutions	2,054	2,520	4,251	4,465	9,081
Loans and advances to customers	2,504	3,246	8,971	10,432	8,989
Fixed income securities, shares and investment funds	375	645	1,271	1,059	1,365
Shares in associated and affiliated companies	85	505	1,181	2,473	2,634
Other assets	4,538	2,693	1,913	2,629	601
<b>Total assets</b>	<b>9,556</b>	<b>9,609</b>	<b>17,587</b>	<b>21,058</b>	<b>22,670</b>

EUR m

Equity and Liabilities	2015	2014	2013	2012	2011
Equity	-7,479	-6,987	162	1,160	891
Funds for general banking risks	0	0	0	153	0
Liabilities to credit institutions	3,519	2,929	3,788	3,905	4,264
Liabilities to customers	1,481	1,668	1,630	1,681	1,768
Liabilities to Pfandbriefbank	1,245	0	0	0	0
Liabilities evidenced by certificates and subordinated capital	9,612	9,712	11,663	13,876	15,419
Other liabilities (incl. Provisions)	1,178	2,287	344	283	328
<b>Total equity and liabilities</b>	<b>9,556</b>	<b>9,609</b>	<b>17,587</b>	<b>21,058</b>	<b>22,670</b>

## 6.2. Development of results

The development of results at Heta during the 2015 financial year was driven mainly by the repeal of the Hypo Reorganisation Act (HaaSanG) and the associated regulation (HaaSanV) by the Constitutional Court of Austria (VfGH), which led to the renewed recognition of liabilities and thus to a corresponding charge on the result in the amount of EUR -0.8 billion. The over-indebtedness of the balance sheet, along with the necessity to maximise cash reserves, resulted in an immediate negative impact on the company's earnings position. Therefore total liabilities (of which the majority is subject to interest) of EUR 17.1 billion are accompanied by assets of EUR 9.6 billion, of which EUR 4.3 billion are held in the form of balances at the central bank to which negative interest is applied. Without additional measures, this situation will lead to the steady deterioration of the earnings position and thus to a continuous increase in negative equity.

The combination of a steady decline in interest-bearing loans or credits (the return flows of which are used to shore up cash reserves) and increased liabilities due to the repeal of HaaSanG and HaaSanV leads to a significant deterioration in net interest income. It declined by EUR -98.1 million to EUR -151.5 million (2014: EUR -53.4 million). As a result, interest expenses exceeded interest income.

Income from securities and participations declined by EUR -2.2 million year over the past year to EUR +1.0 million (2014: EUR +3.4 million), which was predominantly due to the very small number of subsidiaries that paid out dividends to the parent company in 2015.

Net fee and commission income, as the net result between fee and commission income (EUR +1.8 million) and expenses (EUR -93.1 million), amounted to EUR -91.3 million (2014:

EUR -68.0 million) in 2015, a decrease of EUR -23.3 million), mainly due to accruals for still to be paid guarantee fees.

The net income from trading activities amounted to EUR 56.3 million (2014: EUR 6.0 million), and was influenced mainly by the foreign currency results.

Other operating income of EUR 28.5 million was -30.5 million below the value of the previous year, which was 59.0 million. This income is mainly due to the cost transfer of services centrally provided for the group companies, and the reversal of provisions created in previous years.

Operating income declined during the 2015 financial year from EUR -53.0 million to EUR -157.0 million, which represents a decrease of EUR -104.0 million. Essentially this is a result of the negative Net interest income.

Personnel expenses at Heta fell over the previous year's value (2014: EUR -56.2 million) to EUR -41.3 million. This decline was mainly due to the transfer of employees to HGAA, which took place during the first six months of 2015. This led to a significant reduction in the workforce from 535 (2014 annual average) to 441 (2015 annual average). The status on the 31 December 2015 balance sheet date was 410.

At EUR -85.4 million (2014: EUR -88.1 million), other administrative expenses are very high, and are mainly due to the necessity to create provisions for the cost of lawyers and costs for litigation and legal proceedings.

Other operating expenses during the financial year amounted to EUR 0.0 million (2014: EUR -30.4 million).

In total, the bank's operating result, as the balance of operating income (EUR -157.0 million) and operating expenses (EUR -129.8 million), increased to EUR -286.8 million (2014: EUR -235.5 million).

The result from the measurement and disposal of receivables and securities held as current assets came to EUR 3,580.0 million in the 2015 financial year (2014: EUR -5,574.8 million), and thus was decidedly positive.

EUR 2,864.2 million (2014: allocation of EUR -2,737.0 million) resulted from the allocation of provisions for refinancing lines to current and former subsidiaries. The credit risk provisions to third parties decreased considerably during the financial year, which resulted in a net reversal of EUR 555.4 million (2014: net allocation of EUR allocation of -2,297.8 million). In addition to positive measurement effects from the adjustment of collateral values, the full consideration of a credit guarantee also led to the corresponding reversal of previously created specific provisions.

Another positive effect in 2015 was the partial reversal of the pending loss provision that was created for the derivative business in the previous year. The total income that was generated in this context was EUR +64.7 million (2014: expense from allocation EUR -229.1 million).

In the 2015 financial year, the result from the securities portfolio was negative and amounted to approximately EUR -29.4 million (2014: EUR -38.9 million). This development was mainly due to the write-down of not very liquid securities due to rating issues.

The result from the measurement and disposal of financial assets, participations and investments in affiliated companies came to EUR -3,118.2 million (2014: EUR -2,355.2 million). With regard to most of the injections of new equity capital, individual risk provisions were created as at 31 December 2014 for the internal group refinancing lines. Following the implementation in 2015, the recoverable part of the respective capital measure was recognised as a write-down in the carrying amount of the investment. In addition, the corresponding specific provision was reversed through profit or loss (see above).

Taking into account all the above-mentioned effects, the result from ordinary activities was positive at EUR 175.0 million (2014: EUR -8,165.4 million).

The extraordinary result amounts to EUR -655.6 million (2014: EUR 280.2 million) and includes EUR +11.1 million (2014: EUR +18.1 million) income from the reversal from provisions and from settlement payments received, which were paid in line with the activities to investigate Heta's past activities.

This item also includes income of EUR 163.0 million from the reversal of the settlement cost provision that was created in 2014. The reversal was the result of the adjustment to the medium-term plan 2016-2020 and the costs included in the plan, and also from the reversal of the provision that was created to cover the costs incurred in 2015.

Extraordinary income includes EUR 902.3 million in reversed provisions, which had to be created in 2014 in connection with the judgement issued by the court of first instance on 8 May 2015 with regard to the Austrian Equity Substituting Capital Act (EKEG) proceedings. Accordingly,

the liabilities to BayernLB and creditors of subordinated debt instruments in the amount of EUR -1,709.1 million (including interest claims) also had to be recognised as expenses in connection with the repeal of the Hypo Reorganisation Act (HaaSanG) and the associated regulation (HaaSanV) on 3 July 2015 on the grounds of being unconstitutional.

This item also includes provisions of EUR -30.0 million in connection with a statutory cost recourse right.

The corporate tax expenses for the financial year amounted to EUR -8.9 million (2014: EUR -19.4 million), and are mainly due to the tax apportionment of the domestic tax group and to foreign withholding taxes.

After taking into account other taxes in the amount of EUR -2.2 million, the loss for the 2015 financial year was EUR -491.6 million (2014: EUR -7,899.6 million).

## 7. Analysis of non-financial key performance indicators - Human Resources

The headcount at Heta decreased during the 2015 financial year to 410 employees as at 31 December 2015 from 548 employees as at 31 December 2014; this development was due to the transfer of employees to HGAA (transfer of 159 employees in 2015) as well as to the necessary capacity adjustments.

### Employees

Figures from 2011 to 2015



## 8. Public Corporate Governance Kodex

The Austrian Federal Public Corporate Governance Code (B-PCGK) contains measures and provisions that define a high degree of corporate governance at state-owned and state-oriented companies. Heta considers this code as an important reference guide; accordingly, it has implemented compliance with the provisions of the Austrian Federal Public Corporate Governance Code (B-PCGK) into its statutes via a resolution by the general shareholders' meeting in July 2013.

Concrete measures include the adaptation of the internal rules and procedures of the Supervisory Board and Executive Board to the strict provisions of the Austrian Federal Public Corporate Governance Code (B-PCGK), which now serve as the basis for the business practices of these executive bodies. On this basis, the provisions of the Austrian Federal Public Corporate Governance Code have been gradu-

ally adopted as they are implemented in the respective statute-related documents of the various group companies.

As an additional consequence, Heta has also committed to report on compliance with the code on an annual basis.

Compliance with its provisions is supposed to be audited by an external specialist every five years. This audit will be performed for the first time in 2016, for the 2015 financial year.

## 9. Risk report

Heta has been a partially-regulated wind-down unit since the end of October 2014, and is subject to the Federal Act on the Creation of a Wind-down Entity (GSA). Its goal is to ensure the orderly and active exploitation of its assets to the best possible advantage (portfolio wind-down). Only transactions that serve to fulfil the wind-down objectives are conducted. According to the GSA, “proprietary transactions involving financial instruments are permitted at the wind-down unit for the purpose of controlling interest risk, currency risk, credit risk and liquidity risk within the scope of wind-down activities”. In addition, the wind-down plan according to the GSA (see item (4.1) Wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG)) must also include “details on risk management that takes the wind-down objectives into account” (see item (3.3) Federal Act on the Creation of a Wind-down Entity (GSA))

The regulatory provisions applicable to a bank under the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR) are no longer applicable, and the regulations of the Austrian Banking Act (BWG) are only relevant to a limited extent. Risk management is geared towards supporting the execution of the wind-down plan in the best possible manner, and managing the resulting risks.

The Federal Act on the Recovery and Resolution of Banks (BaSAG) went into force on 1 January 2015. According to section 162 (6) BaSAG, the authorisations and instruments set out in the fourth part of the law may be applied to Heta. In the case of Heta, the authority has decided that the business activities will continue to be carried out by the company's executive bodies. However, the authority is entitled to extensive supervisory, controlling and reporting rights, some of which were implemented through a separate governance structure (see item (3.3) Federal Act on the Creation of a Wind-down Entity (GSA)). The reporting obligation vis-a-vis the resolution authority is adhered to on an on-going basis.

The Austrian Federal Public Corporate Governance Code (B-PCGK) forms the framework for risk management activities. It contains provisions and measures regarding risk management, which are essentially adhered to (see item (8) Public Corporate Governance Code)

Within the scope of its holding function, Heta Asset Resolution AG primarily performs Group controlling tasks. For this reason, most of the measures initiated at the holding level are cascaded down into responsibilities or projects within its participations.

Risk management activities focus mainly on risk controlling and also on measuring and monitoring the success of the wind-down activities. Because of Heta's special situation (debt moratorium and possible measures related to the participation of creditors), the ability to measure some risks

such as liquidity, interest change and market price risks, as well as active risk management, is restricted due to limited market access and the restrictions from the GSA and BaSAG. This situation led to the re-classification of most hedging transactions as stand-alone derivatives, and management's decision to unwind most of these transactions.

### 9.1. Risk strategy, control and monitoring

Heta controls and monitors its risks across all business segments with the aim of ensuring an orderly, active and best possible exploitation. In this vein, Heta influences the business and risk policy of associated companies through its representation in the executive bodies. In the case of investment companies, group-wide and uniform risk strategies, control processes and methods are implemented.

The following central principles apply to the overall controlling process at Heta:

- Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants can be aligned.
- Active wind-down units and the back office are functionally separate in order to avoid conflicts of interest.
- Appropriate and mutually compatible procedures are used in the group for the purpose of identifying, analysing, measuring, aggregating, managing and monitoring the different risk types.

The primary risk types are controlled by limits and are supposed to be reduced through the active wind-down of assets.

### 9.2. Risk organisation and Group Audit (Internal Audit)

Chief Financial & Risk Officer” (CFRO), who is a member of the Heta Executive Board, is responsible for ensuring an adequate organisational structure. In compliance with the Austrian Federal Public Corporate Governance Code (B-PCGK) and taking into account the minimum standards for the credit business, and with the assistance of the appropriate internal management activities, he acts independently of the market and trading units.

The core task of risk management is to ensure the “orderly, active and best possible exploitation of assets (portfolio wind-down)”. His core tasks also include the measurement, monitoring and management of the portfolio wind-down process, individual risk management of counterparty risks; monitoring the credit-granting process and risk controlling and monitoring of counterparty, market, liquidity and operational risks as well as other risks at the portfolio level.

On the basis of Heta's Group Risk Governance Rules, risk management consists of three pillars. The list below illustrates the three-pillar concept of risk management at Heta:

The Group Portfolio Steering & Risk Controlling (GPS&RC) pillar includes the following main functions:

- the identification of risks,
- the definition of risk policy guidelines and limits,
- the measurement and monitoring of the portfolio wind-down process,
- the development and coordination of the planning process for the credit portfolio,
- the provision of risk methods and modelling,
- the implementation of risk analyses, risk limitation and monitoring, and risk reporting.

The Exit Supervision pillar includes the following main functions:

- maintenance of the principle of dual control in the portfolio wind-down process,
- the back office function for performing and non-performing loans,
- balance sheet analysis and the implementation of ratings,
- credit monitoring,
- credit support.

The Case Operations pillar includes the following main functions:

- the administration of loans and collateral,
- the measurement of credit collateral and properties,
- the establishment, monitoring and administration of collateral,
- the preparation of sale agreements,
- carrying out back office activities,
- compilation of a group of borrowers,
- transaction banking.

Monitoring of compliance with the regulatory capital requirements is no longer required since the termination of the banking license.

The Group Audit division is a permanent function that audits Heta's business operations. In terms of organisation, it is subordinated to the Chairman of the Executive Board and reports directly to the entire Executive Board and the Supervisory Board. Auditing activities are based on a risk-oriented audit approach, and cover all activities and processes at Heta. Group Audit carries out its work independent of the tasks, processes and functions to be audited, taking into account the applicable requirements.

### 9.3. Internal policies and guidelines for risk management

Heta defines its standard risk management guidelines in the form of risk guidelines to ensure that risks are dealt with in a standardised manner. These guidelines are promptly ad-

justed to reflect organisational changes as well as changes to parts of the regulations, such as those related to processes, methods and procedures. The existing regulations are assessed at least once a year with regard to the need for updating.

Heta has defined clear responsibilities for each of these risk guidelines, which range from the preparation, review and update to the roll-out of the guidelines in the various subsidiaries. Compliance with these guidelines is ensured by departments directly involved in the risk management process. Process-independent responsibility is carried by Group Audit.

### 9.4. Key changes pertaining to risk management

Various wind-down measures and a changed environment in the 2015 financial year resulted in key changes to the risk management area.

#### 9.4.1. Transformation from a retail bank to a wind-down unit – Target Operating Model (TOM) project

The Target Operating Model (TOM) of Heta reflects the reorganisation of the company into a wind-down and hence a sales organisation in compliance with all statutory requirements in order to achieve the best possible sale result in line with the portfolio wind-down process, with the objective of a continuous reduction in the portfolio and the implementation of the same at the operating level (see item (5.8) Organisational changes at Heta Asset Resolution AG, transformation into a wind-down unit pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA).

As part of the TOM, changes related to process organisation were implemented in the risk management area, and the transformation process in the direction of the wind-down unit was completed on schedule.

#### 9.4.2. Heta Individual Assessment Tranche (HIAT)

During the course of the HIAT project, those assets that were measured in the previous year on the basis of the AQR (Asset Quality Review) were subjected to a subsequent review. The methodology concept did not change from the previous year, and reflects Heta's mission to achieve the quickest and best possible liquidation of its assets.

In order to obtain an even more precise description of Heta's asset position, management decided to reduce the lower limit as of which an asset is subjected to an individual review.

A standardised measurement tool was developed and applied in the group to warrant a uniform measurement process.

All HIAT results were validated in the committees in charge, and were approved in accordance with the various authorisations.

The disposal values calculated in HIAT are reflected in the risk provision for non-performing loans (NPL).



## Methodology:

The new guidelines for the measurement of loans and real estate, which were developed last year with the involvement of an auditing company as an independent expert, were adjusted to the current situation in 2015. The measurement parameters were defined on the basis of sound expert estimates. These parameters formed the basis for the subsequent measurement of loans and real estate by Heta.

A so-called "Realisable Sales Value" (RSV) was calculated for the measurement of loans. This value represents the best possible estimate of the sales value of assets in saturated markets as at 31 December 2015, which can be achieved by proper and professional sales procedures during a limited timeframe.

A short- to medium-term disposal continues to be assumed for loans, with the choice of two measurement approaches:

- Loan Cash Flow Valuation Approach
- Collateral Valuation Approach

Using a defined decision making tree, the first step involved a decision as to whether the respective loan must be measured using the Loan Cash Flow Valuation or the Collateral Valuation. To this end, the guideline for the measurement was divided into individual work steps, and the measurement requirements and parameters were adopted into a measurement model.

When using the Loan Cash Flow Valuation, future cash flows are calculated on the basis of the interest and repayment plans. In the context, the investors' required rate of return was derived and discounted accordingly on the basis of the measurement guidelines, broken down by credit quality, amount of collateral and country risk. The resulting value (after the deduction of specified transaction costs) corresponds to the RSV that is calculated using the Loan Cash Flow Valuation.

Where the Collateral Valuation was used according to the decision making tree, the loan collateral (mainly real estate) was also measured.

Discounts for the sales/liquidation strategy, legal and real estate risks, legal enforceability and investor rate of return, along with other (transaction) costs were deducted from the resulting values, and a present value was calculated from the value of the collateral in consideration of the expected period for the legal transfer of collateral. If additional cash flows were identified in addition to the disposal of collateral, these were also taken into account as present value. The resulting present value corresponds to the RSV that is calculated using the Collateral Valuation. With respect to cancelled/default loans, the RSV was discounted using the original effective interest rate.

The results of the measurement performed at the individual loan level also led to an adjustment of the parameters

on which the portfolio adjustments pursuant to IAS 39 for already incurred but not yet reported impairments to the credit portfolio are based. The parameter in the loss estimate affected by the adjustment is the amount of the loss after deduction of the expected return flows (Loss Given at Default, LGD) and was replaced by an average expected realisable sales value, which was assessed differently based on the individual case reviews in HIAT and in accordance with portfolio characteristics (country of risk position, main collateral form or customer segment).

In the case of real estate, the Market Value Under Special Assumptions, the market value in terms of the short-term wind-down aspects of a wind-down company pursuant to the Federal Law on the Creation of a Wind-Down Entity (GSA), was calculated in consideration of the current market situation (on the basis of annually updated macro-economic market data) and the sustained recession and illiquidity of SEE markets with a short-term disposition of assets. The measurement did not assume a market recovery, and thus assumed the current market conditions and restrictions. In addition, legal real estate risks and risks from the contamination of properties, missing documentation, restricted access in terms of fact finding and the aforementioned specific wind-down aspects (short-term disposal of large numbers of properties and volumes in illiquid markets) were also taken into account as impairments using standardised lumps-sum deductions.

### 9.4.3. Open currency position

In 2015, Heta had only very limited market access to FX swaps. This led to temporary excess liquidity in CHF at a British retail bank. After considering the legal and foreign currency risks, the temporary CHF excess liquidity was converted into EUR in July 2015 and was subsequently transferred to the Austrian National Bank. This had the effect of increasing the liability overhang in the open currency position by CHF 1.2 billion.

### 9.4.4. Unwinding of stand-alone derivatives

At the end of the 2014 financial year, most of the derivatives in hedging relationships were declared as stand-alone derivatives, since a hedging relationship could no longer be proven. During the 2015 financial year, an application was made to the resolution authority regarding a non-prohibition for the unwinding of these stand-alone derivatives. The unwinding of the stand-alone derivatives was commenced once the non-prohibition was obtained in December 2015. Most of the stand-alone derivatives were unwinded by January 2016. The market values of the stand-alone derivatives remaining on the reporting day are taken into account in the consolidated financial statements.

### 9.4.5. Purchaser Brush Option

The Purchaser Brush Option set out in the sale agreement between Heta and AI Lake includes the option to re-transfer

assets of HGAA to Heta subsidiaries by 31 March 2016 under certain conditions. The relevant provisions were created for the resulting measurement risks. It is expected that the Purchaser Brush Option will be utilised by 31 March 2016. A measurement process that is similar to the AQR will be performed with regard to the assets transferred via a True Sale. For assets that cannot be transferred via a True Sale, losses are compensated via a Profit and Loss Settlement (see item (3.8) Completion of the sale of the SEE network).

### 9.5. Ongoing evaluation of real estate and other collaterals

The management and evaluation of all collateral is the responsibility of the "Group Case Operations" department, and is set out in group-wide standards that are based on international standards such as RICS (Royal Institution of Chartered Surveyors), IVS (International Valuation Standards), TEGoVA (The European Group of Valuers' Association) and BelWertV (Beleihungswertermittlungsverordnung).

The appraisals on which the market values are based are updated continuously and are developed using individual measurements as well as measurement tools and statistical methods. The appraisals are developed both internally and externally.

The evaluation of real estate takes into account Heta-specific risks with regard to the market and sale strategy as well as the real estate risk, in order to obtain a realistic market value (sale price) that is required for the wind-down of the portfolio and assets. These standardised risk discounts differ according to the country and the asset class, and result in a Market Value Under Special Assumption (MVusa).

Parallel to the evaluation process, the properties are subjected to a market and property rating, which are taken into account in the individual liquidation strategies.

### 9.6. Risk reporting

Prompt, independent and risk-adequate reporting exists for all relevant risk types. The ad-hoc reporting requirements are adhered to at all times.

In 2015, risk reporting was continuously adapted to Heta's position as a wind-down unit.

### 9.7. Credit risk (counterparty default risk)

The material credit risk (Net Exposure) was continuously reduced in the 2015 financial year through the reduction in assets.

The "Purchaser Brush" option agreed as part of the agreement to sell HGAA represents an additional measurement risk. The relevant Brush Portfolio that is measured at HGAA in accordance with the going concern principle, and which may be re-transferred to Heta under certain conditions, also harbours the risk of additional rating migrations. Heta has created the relevant provisions for the risks from the Brush Portfolio on the basis of the new measurement

guidelines (see item (3.8) Completion of the sale of the SEE network).

#### 9.7.1. Definition

In terms of scope, credit risk is the most significant risk at Heta Asset Resolution AG (across the group). This risk results primarily from the credit business. Credit risk (or counterparty risk) occurs when transactions result in claims against debtors, issuers of collaterals or counterparties. If these parties do not meet their obligations, losses result in the amount of non-received benefits less utilised collaterals, reduced by the recovery rate from the unsecured portion. This definition includes debtor risks from credit transactions as well as issuer, replacement and fulfilment risks from trading transactions.

Counterparty default risks also include the risk types country and investment risks.

#### 9.7.2. General requirements

The credit risk strategy provides concrete specifications for the organisational structure of the company in winding down its credit portfolio as well as for the risk control methods, and is supplemented by further policies as well as specific directives.

In line with an instruction on authority levels as defined by the Executive and Supervisory Boards, credit decisions necessary as part of the portfolio wind-down process are made by the Supervisory Board, Executive Board and Credit Committee, as well as by key staff in the front office and the analysis units of risk management. In addition, the resolution authority is also entitled to extensive supervisory, controlling and reporting rights.

The credit committees are a permanent institution at Heta Asset Resolution AG. The most senior credit committee and most senior decision-making body is the Supervisory Board and the resolution authority (FMA).

A decision by the Executive Board is required for all methodological matters relating to credit risk.

#### 9.7.3. Risk measurement

Heta uses its own rating methods to individually analyse and assess the creditworthiness of its debtors. The allocation of debtors to rating classes is carried out on the basis of default probabilities as part of a 25-level master rating scale.

#### 9.7.4. Risk limitation

The control of total group-wide commitments with an individual client or a group of affiliated clients depends on the respective customer segment.

In the banking division, limits are allocated and monitored by an independent unit in GPS&RC. Limit breaches are immediately reported to the CFRO and the Executive Board.

In all segments, limit control is carried out through a group-wide ruling on authorisation levels ("Pouvoir-Ordnung").

Another important instrument in limiting risk at Heta is the collection and crediting of generally accepted collateral. Processing and measurement activities are set out in group-wide standards (see item (9.5) Ongoing evaluation of real estate and other collaterals). Framework contracts for netting out mutual risks (close-out netting) are usually agreed on for the derivatives business. There are collateral agreements in place for certain business partners, which limit the default risk with individual counterparties to an agreed maximum amount and provide an entitlement to request additional collateral if the amount is exceeded.

#### 9.7.5. Portfolio overview - Credit risk

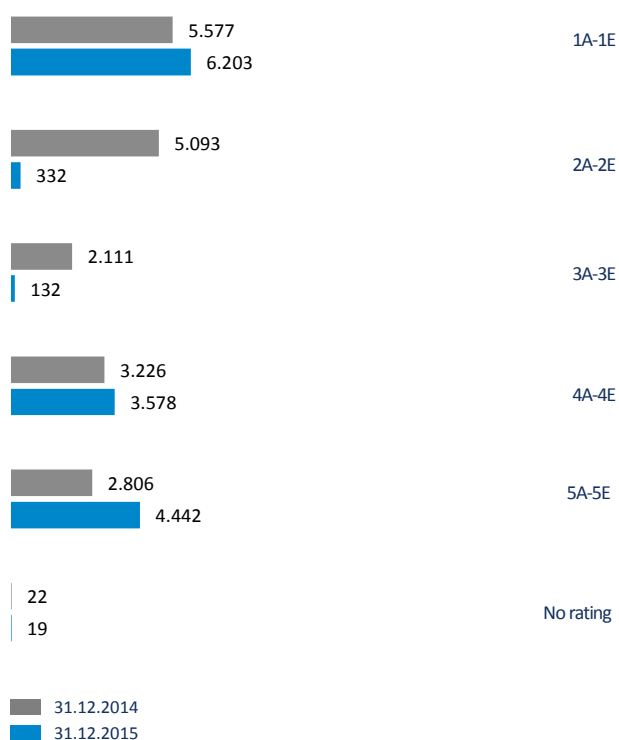
The figures presented in the credit risk report reflect gross exposure, which consists of the on-balance-sheet and off-balance-sheet components and does not take into account hedging relationships and netting agreements.

#### Gross exposure by rating class within Heta

Roughly 44 % of gross exposure (57 % in previous year) have a rating ranging from 1A to 2E (best to moderate creditworthiness). This exposure relates mainly to receivables from banks and public institutions. The downgrade of the rating for the State of Carinthia, Hypo Alpe-Adria-Bank S.p.A. and HGAA led to a shift in exposure from rating class 2A-2E to rating class 4A-4E, and from 2A-2E to 5A-5E (non-performing) for Hypo Alpe-Adria-Bank S.p.A.

#### Exposure by rating class

in EUR m

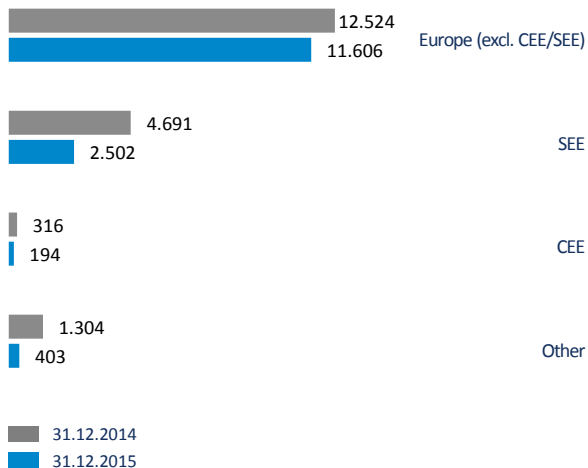


**Gross exposure by region at Heta Asset Resolution AG**

The country portfolio of Heta is concentrated in the EU and SEE regions. In general, gross exposure declined in each country and region in 2015.

**Exposure by region**

in EUR m

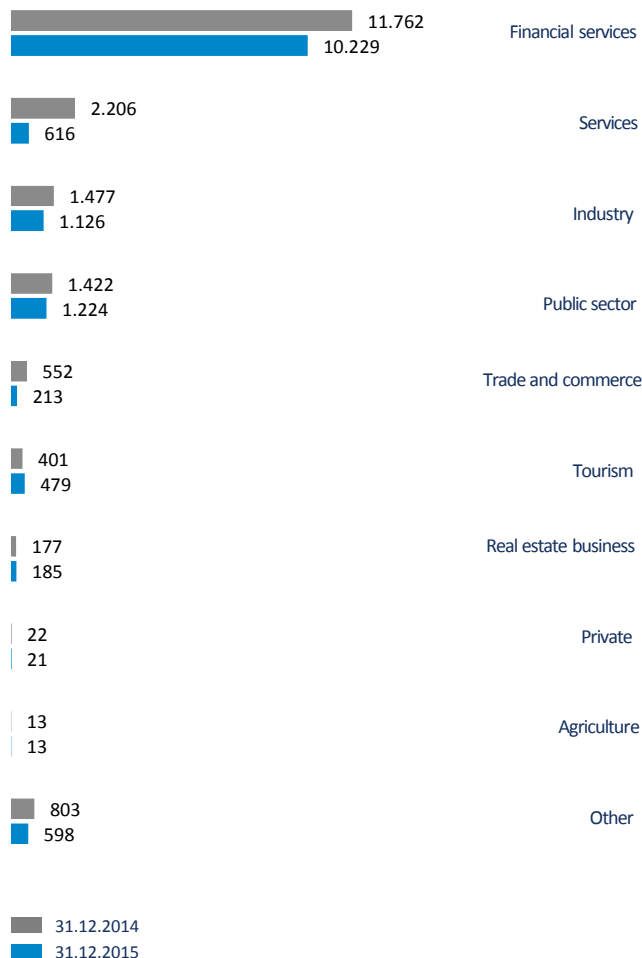


**Gross exposure by business sector at Heta Asset Resolution AG**

Heta uses a uniform and standardised classification code (NACE Code 2.0) to present gross exposure by sector. This code is mapped into ten industry sectors for reporting purposes. The industry groups credit institutions and public sector account for the largest portion with approximately 78 % (70 % in the previous year).

**Exposure by business sector**

in EUR m



### Gross exposure by size category of the transactions

The Heta portfolio contains an increased concentration risk, which is also reflected in the breakdown of exposure by size category. Specifically, 95 % of exposure is contained in size categories greater than EUR 10 million (96 % in the previous year).

The largest share of the EUR 14.0 billion figure in the range > EUR 10 million exposure (EUR 18.0 billion in the previous year) is attributable to banks and the public sector. These transactions are necessary for securing liquidity, long-term investments and hedge transactions. They also result from the refinancing obligations of the former subsidiaries HGAA and Hypo Alpe-Adria-Bank S.p.A.

The presentation is based on the group of affiliated clients:

Size classes	EUR m	
	31.12.2015	31.12.2014
< 500,000	16	16
500,000-1,000,000	15	20
1,000,000-2,500,000	118	132
2,500,000-5,000,000	154	225
5,000,000-10,000,000	379	399
10,000,000-25,000,000	690	790
25,000,000-50,000,000	839	1,204
50,000,000-100,000,000	796	855
100,000,000-500,000,000	2,119	3,378
> 500,000,000	9,580	11,815
<b>Total</b>	<b>14,705</b>	<b>18,835</b>

### 9.7.6. Presentation of financial assets by level of impairment

Financial assets which are not overdue and not impaired:

Rating class	EUR m			
	31.12.2015		31.12.2014	
	Exposure	Collateral	Exposure	Collateral
1A-1E	6,195	0	5,577	743
2A-2E	328	56	2,701	206
3A-3E	132	82	491	297
4A-4B	2,902	13	24	6
5A-5E	71	11	42	18
No rating	19	0	22	0
<b>Total</b>	<b>9,647</b>	<b>161</b>	<b>8,858</b>	<b>1,270</b>

Financial assets which are overdue but not impaired:

Classes of loans and advances	EUR m		EUR m	
	Exposure	Collateral	Exposure	Collateral
<b>Financial investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
– overdue to 30 days	0	0	0	0
<b>Loans and advances to credit institutions</b>	<b>8</b>	<b>0</b>	<b>176</b>	<b>0</b>
– overdue to 30 days	0	0	175	0
– overdue 31 to 60 days	0	0	0	0
– overdue 61 to 90 days	0	0	0	0
– overdue 91 to 180 days	0	0	0	0
– overdue 181 to 365 days	8	0	0	0
– overdue over 1 year	0	0	1	0
<b>Loans and advances to customers</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>9</b>
– overdue to 30 days	0	2	0	5
– overdue 31 to 60 days	0	0	0	0
– overdue 61 to 90 days	0	0	0	0
– overdue 91 to 180 days	3	0	1	4
– overdue 181 to 365 days	0	0	1	1
– overdue over 1 year	3	2	0	0
<b>Total</b>	<b>14</b>	<b>4</b>	<b>178</b>	<b>9</b>

Financial assets that are impaired:

	EUR m			EUR m		
	Exposure	Collateral	Provisions	Exposure	Collateral	Provisions
Financial investments	0	0	0	0	0	0
Loans and advances to credit institutions	1,377	719	658	1,909	674	1,235
Loans and advances to customers	3,667	1,272	2,395	7,890	2,212	5,678
<b>Total</b>	<b>5,044</b>	<b>1,991</b>	<b>3,053</b>	<b>9,799</b>	<b>2,886</b>	<b>6,913</b>

## 9.8. Participation risk

In addition to counterparty risks from the credit business, equity risks from equity investments may also be incurred (shareholder risks). These include potential losses from provided equity capital, liability risks (e.g. letters of comfort) or profit/loss transfer agreements (loss absorption).

Prior to 2009, Heta (either directly or a subsidiary) had invested in companies that either served to expand its business spectrum, provided services for the bank or functioned as purely financial holdings to achieve its business objectives. The year 2015 was characterised by the ongoing restructuring measures at Heta leading to portfolio rationalisation and to disposals in individual cases (see item (5.6) Winding down investment companies and portfolio sales).

The treatment of participation risks is set out in the "Group Participation Policy". Heta influences the business and risk policy of its investment companies through its representation on shareholder and supervisory committees. In addition, all participations are subject to continuous results and risk monitoring. In the course of its business activities, which now consist of the value-preserving winding down of assets, Heta is systematically reducing any still existing participation risks.

## 9.9. Country risk

Country risk is the risk that a business partner in a given country, or the government of the country itself, fails to meet its obligations in a timely manner or does not meet them at all due to governmental directives or economic/political problems.

For example, country risks may arise from a possible deterioration in national economic conditions, a political or social collapse, nationalisation or expropriation of assets, non-recognition of cross-border liabilities on the part of the government,

exchange controls, payment or delivery prohibitions, moratoria, embargoes, wars, revolutions or coups in the respective countries.

In Heta's portfolio, the country risk is made especially evident by the fact that most of the assets to be wound down are financially attributable to countries in south-eastern Europe.

#### 9.10. Concentration risk

Concentration risks within a loan portfolio result from the uneven distribution of loans and advances to individual borrowers and/or borrower units. These also include concentrations of loans in individual industry sectors, geographic regions and concentrations from an uneven distribution of collateral providers.

As a result, Heta analyses and measures the following concentration risks:

- Counterparty default concentrations,
- Concentrations in industry sectors,
- Geographic concentrations,
- Collateral concentrations.

In Heta's portfolio, the concentration risk is made especially evident by the fact that most of the assets to be wound down are financially attributable to countries in south-eastern Europe.

#### 9.11. Market price risk

Market price risks at Heta originate from loan and securities portfolios that must be wound down in different currencies; the derivative portfolio originally used to hedge against interest rate and currency risks; the equity portfolio, which predominantly originates from the liquidation of collaterals in loan transactions; and the asset and liability management of the wind-down unit.

The previously mentioned "Key changes pertaining to risk management" must be noted with regard to the effects on the market risk - particularly the unwinding of stand-alone derivatives, the winding down of individual investment companies and the open currency position. Heta's special situation (debt moratorium and possible changes following the end of the moratorium), which was noted at the beginning, makes it more difficult to measure the interest change and market price risks, as well as active risk management, in light of the limited market access.

##### 9.11.1. Definition

Market price risks comprise potential losses from changes in market prices. Heta classifies market price risks according to the risk factors into interest change, credit spread, currency, volatility and share price risks, as well as risks from alternative investments. Heta pays particular attention to identifying, measuring, analysing and managing market risk; the organisational division Group Portfolio Steering & Risk Controlling is responsible for all market risks.

Market liquidity risks result from illiquid securities in the portfolio.

##### 9.11.2. Risk measurement

Heta calculates its market risks as part of the daily monitoring process with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99 %. The main instrument used in this process is the Monte Carlo simulation with exponentially weighted volatilities and correlations derived from a history of 250 days.

The models calculate potential losses taking into account historic market fluctuations (volatilities) and the market context (correlations). The corresponding back-testing of the applied methods and models is implemented for defined market risk factors and portfolios at the group level.

##### 9.11.3. Risk limitation

The limits at Heta for market risk are closely adapted in line with the risks currently in the portfolio, so that these limits correspond to the purpose of a wind-down unit. In addition, the corresponding wind-down volumes are planned (control), which enable a target/actual comparison (monitoring) and document the progress of the wind-down process at Heta.

##### 9.11.4. Risk controlling and monitoring

As part of the risk controlling activities, daily and quarterly reports are prepared and the current utilisation of limits is compared to the actual limits. Limit breaches trigger escalation processes. The ability to actively control market risks is very restricted due to the low number of available market partners.

### 9.11.5. Overview – market risk

The main risks in terms of the market risk are

- the interest rate risk,
- the foreign currency risk,
- the credit spread risk.

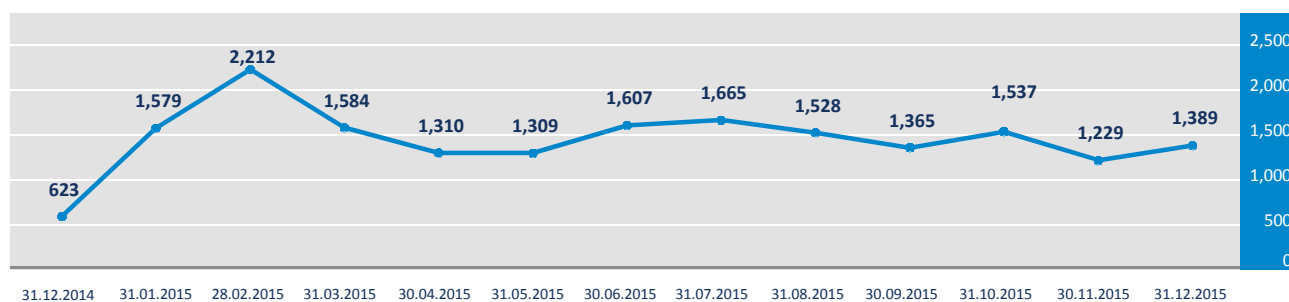
#### 9.11.5.1. Interest rate risk

The interest rate risk from Heta's banking book contains all interest-rate-relevant on- and off-balance sheet items with their next interest rate fixing date and/or their replicated interest sensitivity. Value at risk (VaR) serves as the calculation basis for the interest rate risk and thus the limited risks. The interest rate risk from the trading book is calculated on the basis of a daily VaR. The interest rate risk is controlled by means of interest derivatives available on the market. The primary risk in terms of managing the interest risk is the lack of market partners for interest derivatives.

The graph below illustrates the development of the interest change risk (banking book and trading book) on the basis of Heta's VaR for the year 2015.

#### Interest Rate Risk (Trading Book + Banking Book) – VaR (99 %, 1 day)

EUR thousand



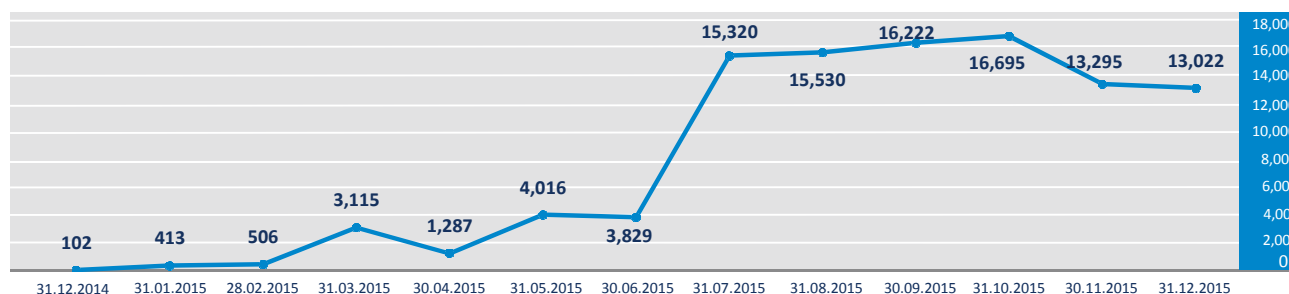
#### 9.11.5.2. Foreign currency risk

The main risk drivers in terms of the foreign currency risk at Heta are the currencies CHF, HRK, RSD and USD. The foreign currency risk is controlled to the extent that this is possible in the current wind-down process and insofar as foreign currency derivatives are available on the market. Due to the events presented in item (9.4.3) Open currency position and the limited ability to manage, the foreign currency risk rose considerably over the previous year, and now represents the main risk driver for Heta's market risk.

Development of Heta's foreign currency risk in 2015.

#### Open Foreign Currency Position Risk – VaR (99%, 1 day)

EUR thousand





### 9.11.5.3. Credit spread risk

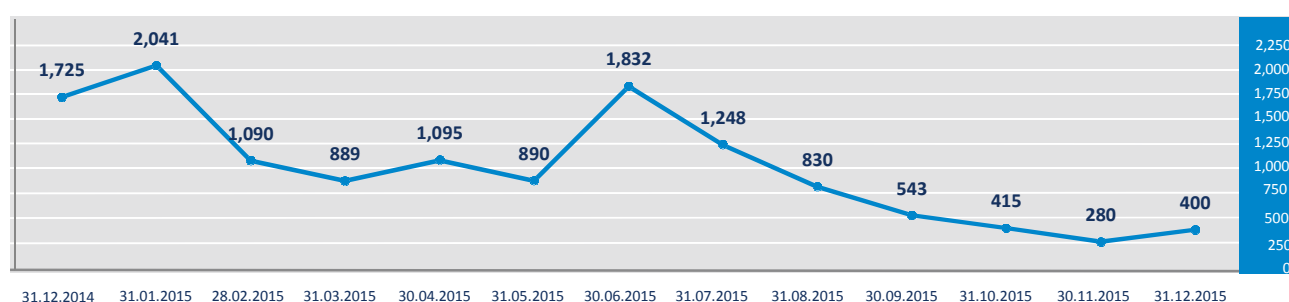
The credit spread risk at Heta originates from the securities portfolio. The security portfolio comprises transactions from previous investing activities and liquid bonds with extremely good creditworthiness held as liquidity reserves. The securities portfolio from investment transactions is wound down quickly, and in a manner that preserves the value. The liquidity reserve represents assets that can be liquidated immediately.

The credit spread risk within Heta is EUR 0.4 million at year-end 2015 with a one-day value at risk and a confidence level of 99 %. The main driver behind this reduction compared to the previous year was the disposal of securities - in particular the disposal of the securities portfolio due to the previously noted winding down of Norica Investments Ltd. and HBInt Credit Management Ltd.

Development of Heta's credit spread risk in 2015:

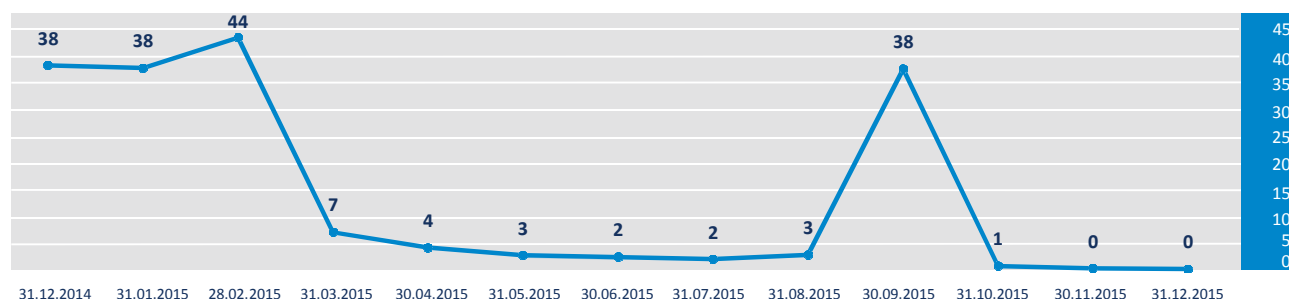
#### Credit-Spread-Risk (liquid) – VaR (99 %, 1 day)

EUR thousand



#### Credit-Spread-Risk (illiquid) – VaR (99 %, 1 day)

EUR thousand



## 9.12. Liquidity risk

Heta's structural liquidity risk is considerable. The FMA ordinance from 1 March 2015 regarding the imposition of a debt moratorium until 31 May 2016 had a temporary stabilising effect on Heta's liquidity situation. From the Executive Board's point of view, the company is no longer in a position to service all of its liabilities by their due date. According to the ordinance issued by the resolution authority, the debt moratorium ends on 31 May 2016.

Heta expects that its liabilities will be reduced (haircut) before the debt moratorium ends, whereby the amount and design of such a haircut are not known at this time, and as a result of which the due dates of the liabilities would also be adjusted to the wind-down of Heta.

Independent refinancing options no longer exist since the de-regulation. Proceeds generated by Heta and the repayments of refinancing lines of the subsidiaries are invest-

ed with the Austrian National Bank, with the effect that the liquidity reserves rose significantly compared to the previous year and in connection with the debt moratorium. The ability to measure the liquidity risk is restricted due to the possible changes that may occur after the end of the debt moratorium.

Various legal proceedings against Heta and its subsidiaries can significantly impair existing liquidity reserves if not found in favour of Heta (GSA) (see item (5.7) Legal Quality Review).

### 9.12.1. Definition

Heta defines liquidity risk as the risk of not being able to meet due payment obligations in full or on time, or - in the event of a liquidity crisis - only being able to procure refinancing at increased market rates, or only being able to sell assets at a discount to market prices.

### 9.12.2. Risk measurement

The main methodological tool for measuring, analysing, monitoring and reporting on liquidity risk within Heta is the liquidity overview. It is used to compare liquidity gaps resulting from deterministic and planned future payment flows and the realisable liquidity coverage potential in strictly defined maturity bands.

The liquidity coverage potential quantifies - in terms of amounts and time factors - the ability of the wind-down unit to provide liquid resources at the earliest date. The most important components of the liquidity coverage potential of the wind-down unit are:

- highly-liquid and freely available securities, and
- balances at the Austrian National Bank (OeNB).

### 9.12.4. Risk monitoring

Short-term liquidity risks are monitored on the basis of an internal "Liquidity Coverage Ratio". The liquidity overviews and other relevant ratios form part of the regular risk reports to the Executive Board, the Supervisory Board, the responsible controlling units, the Austrian National Bank (OeNB), the Austrian Financial Market Authority (FMA), the Federal Ministry of Finance (BMF) and the resolution authority.

### 9.12.5. Overview - Liquidity situation

On the whole, Heta's liquidity situation in the year 2015 was characterised by over-liquidity as a result of the debt moratorium, and was the result of on-going income generated from interest payments and repayments, but mainly from the liquidation of the loan, real estate and securities portfolio. At the end of the year, the liquidity overhang was EUR 4,565 million. No capital market activities were carried out in 2015. Possible changes after the end of the debt moratorium cannot be foreseen.

Heta's counterbalancing capacity in the year 2015 can be described as follows:

in TEUR

Liquidity Buffer	31.12.2015	31.12.2014
High Quality Securities (incl Credit Claims)	213,356	614,560
Central Bank Reserves	4,273,851	2,358,727
Cash	0	0
<b>Counterbalancing Measures</b>		
Other liquifiable Assets (short-, medium term)	77,453	87,988
Intragroup Liquidity Support	0	0
Committed/Required Credit Lines	0	0
New Issuance	0	0
Securitization	0	0
Covered Pool Potential	0	0
<b>Total Counterbalancing Capacity</b>	<b>4,564,660</b>	<b>3,061,275</b>

### 9.13. Operational risk

The wind-down objective of Heta requires a continuous change and adjustment process, which is fraught with significant operational risks. In addition, operational risk is also increased due to the many heterogeneous processes, the decentralised group environment and the previous weaknesses in the loan approval and collateral registration process.

Heta defines operational risk ("OpRisk") as the risk of incurring losses due to the inappropriateness or failure of

### 9.12.3. Risk controlling

Heta holds liquidity reserves for possible short-term payment obligations; these consist mainly of the balances at the Austrian National Bank (OeNB) and highly liquid securities. The basis of liquidity risk controlling is a cash flow statement. Any occurring gaps are compared to the liquidity coverage potential. Liquidity reserves are controlled within the limits of the options available to a wind-down unit, and in this process are regularly subjected to a review and stress situations.

internal processes, systems, people or external factors. This definition includes legal risks as well as reputation risks, but does not include strategic risks.

Operational risks are identified and measured in order to define suitable measures for the prevention, reduction transfer or acceptance of risks, including priorities for the implementation of safety and protection measures.

Claims are handled in close coordination with Group Legal and Group Compliance & Fraud Management, and are handled on a common platform.

The strategy for operational risk is supported by the following instruments and methods:

- Loss database for the systematic collection of operational risks throughout the organisation,
- Qualitative instruments such as scenario analyses for determining and measuring risks within business processes,
- Regular reports of key operational risks to the Executive Board.

The current threshold for reporting purposes is EUR 5,000. The process must ensure that all losses from operational risks are reported to GPS&RC and are documented in the database. Detailed analyses are conducted for significant losses.

Measures designed to minimise risk must be defined on the basis of the losses incurred, and taking into account the results of the risk analysis. The effectiveness of these measures is assessed on a regular basis.

Organisational changes are continuously monitored in the wind-down units to ensure the early identification of new risks. Different instruments such as control mechanisms, fraud prevention, process analyses and optimisations are used to prevent risks (see item (10) Internal control system of accounting procedures)

#### 9.14. Real estate risk

At Heta, real estate risk refers to all possible losses that may result from changes to the market values of moveable and immoveable property (real estate).

Real estate risks resulting from collateral deposited for real estate loans (residual risk) are excluded, since they are already covered in the credit risk (as collateral risk).

All properties are subjected to market and property ratings. The best possible liquidation strategy for each asset is derived from these ratings. The pro-active and timely sale of assets reduces the real estate risk exposure. The market values and carrying amounts of the respective assets form the basis for measuring the real estate risk.

#### 9.15. Other risks

Heta classes the following risk types under "Other risks":

- Strategic risk,
- Reputation risk,
- Business risk.

##### 9.15.1. Business risks

During the wind-down of the loan portfolio, Heta is exposed to legal risks, with the added factor of Heta's special situation. Heta is exposed to real estate risks with regard to the underlying collateral and material assets. In addition, Heta is active in markets with limited investor interest.

To counteract these business risks, Heta pursues a number of different parallel wind-down strategies, which range from the winding down of loans, individual and portfolio sales to the sale of investments and subsidiaries.

##### 9.16. Legal risks

Comments regarding important legal proceedings for Heta can be found in note (40) Important proceedings. Potential losses from these proceedings can have a significant negative impact on Heta's asset, financial and earnings position. As part of a process designed to review the provisions - the Legal Quality Review (LQR) - all of Heta's passive proceedings were reviewed in 2015 regarding the appropriate quantification of the provisions with the help of external legal advisors (see item (5.7) Legal Quality Review).

##### 9.17. Tax risks relating to tax audits

The tax audits carried out by the respective tax authorities in Austria during the past few years have now been completed. The corresponding provisions were already booked in the consolidated financial statements for 31 December 2015 (and the preceding consolidated financial statements) with regard to quantifiable audit results that had been communicated to Heta, for which Heta's legal opinion corresponds to that of the tax authority. In the case of findings with divergent opinions, Heta has filed an appeal and, depending on its assessment of how successful the appeal may be, has also created provisions.

Furthermore, Heta has assumed arm's length tax guarantees in connection with the sale of the Austrian subsidiary HGAA, for which provisions were created in the 31 December 2015 consolidated financial statements at the amount of expected utilisation.

## 10. Internal control system of accounting procedures

Heta has an internal control system (ICS) for accounting procedures, in which appropriate structures and procedures are defined and implemented.

Heta's internal control system (ICS) is based on the COSO framework (Committee of the Sponsoring Organisations of the Treadway Commission), whereby the Executive Board has independently determined the scope and direction of the internal control system (ICS) on the basis of the specific requirements of the organisation.

The internal control system (ICS), as a component of the company's risk management system, has the following general objectives:

- Safeguarding and implementing the business and risk strategies as well as group policies
- Effective and efficient use of all of the organisation's resources in order to achieve the targeted wind-down objectives
- Ensuring reliable financial reporting
- Supporting adherence to all the relevant laws, rules and regulations.

The particular objectives with regard to the accounting procedures for the set-up of the consolidated financial statements are that the internal control system (ICS) ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. It ensures that accounting procedures and standards (regulated in the group IFRS handbook) and the internal group policy on IFRS and accounting reporting under the Austrian Commercial Code (UGB) and the Austrian Banking Act (BWG), which are mandatory for all companies consolidated in the financial statements, are upheld. The aforementioned group policy specifies the organisation and process of financial reporting as regards accounting procedures.

The internal control system (ICS) is based on:

- The complete documentation of all relevant processes in Group Accounting and Reporting
- Working instructions and documentation of individual workflows
- The complete presentation of all relevant risks and their respective control mechanisms as part of process documentation
- Independently operating control mechanisms and measures in the formal organisational structure and workflow management (programmed controls implemented within the data proceeding)
- Observance of the principles of separation of duties and dual control

- Internal audit – as a separate organisational unit - which is concerned with monitoring all group business areas.

The internal audit department periodically assesses the reliability, propriety and lawfulness of the accounting process and the financial reporting.

- Assessment of the appropriateness of the organisational structure and workflow management at the level of the individual institution and group level (Heta)
- Assessment of the presence of an adequate internal control system
- Assessment of generally accepted accounting principles

In this way, the internal control system of Heta ensures that:

- The chart of accounts and structure of financial reporting conforms to national and international standards and to the internal requirements of Heta
- The business activities of Heta are correctly and appropriately documented and reported
- All relevant records are systematically submitted in a traceable manner
- All data required for financial reporting is documented in a traceable manner
- The accounting processes prevent the assets of Heta from being used, sold or acquired without the appropriate approval
- All subsidiaries and group units involved in producing financial reports are capable of fulfilling this function in terms of both levels of training and staff capacity
- The responsibilities related to the accounting processes for the set-up of the consolidated financial statements are clearly and unambiguously set out
- Access to the IT systems which are crucial to the accounting process (Arctis, Lotus Notes financial accounting database, SAP) is restricted in order to avoid misuse
- All relevant legal provisions are adhered to.

The processes, policies and control procedures that are already implemented at the group companies are subject to ongoing evaluation and development.

During the year, internal reports from Group Accounting & Reporting are submitted to the Executive Board and Supervisory Board on a semi-annual basis. Reports from Group Financial Controlling are submitted monthly. Detailed reports and analyses as well as periodic target/ actual comparisons and forecasts are also prepared. The budgeting process includes the preparation of a medium-term plan until 2020.

An interim financial report on the first six months is prepared in accordance with the Stock Exchange Act (BoerseG), which conforms to the requirements of IAS 34.

### 10.1. Internal control system related activities in the 2015 financial year

Heta's organisational structure changed significantly during the 2015 financial year as a result of the transformation process into a wind-down unit.

The process structures and control mechanisms were adjusted accordingly. The process of evaluating the control mechanisms focused on the sale processes and the impairment and measurement processes for loans and collateral.

### 10.2. Planned internal control activities for the 2016 financial year

Heta's new strategy and the adjustments and processes resulting from the wind-down process will be continued during the 2016 financial year. These activities will be accompanied by a steadily changing process environment.

It is anticipated that in 2016 the internal control system will be continuously enhanced and adjusted to the conditions inherent in the new processes. In this context, the focus will remain on the key processes of the wind-down unit.

## 11. Research and development

Heta does not conduct any research and development activities of its own.

## 12. Events after the balance sheet date

Following the authorisation from the resolution authority, Heta continued the wind-down of the derivative portfolio that began in December 2015 into the first months of the 2016 financial year. Those derivatives that no longer have a hedging relationship to an underlying transaction as a result of the payment moratorium issued on 1 March 2015 (in relation to liabilities), or on the basis of a term that goes beyond 2020 (in relation to the lending business), were terminated. The termination of these derivatives is not expected to lead to any major impacts on the result in 2016 since all negative market values from derivatives were allocated to a pending loss provision in the annual financial statements for 31 December 2015. Because of the imparity realisation principle, it was not possible to report profits from the measurement as at 31 December with regard to those derivatives that featured a positive market value. The termination of these derivatives in 2016 resulted in a profit in the low triple-digit million range.

On 20 January 2016 the Kärntner Ausgleichszahlungs-Fonds (K-AF) submitted repurchase offer for those subordinated and non-subordinated debt instruments of Heta for which the State of Carinthia and Kärntner Landesholding

(KLH) provided a guarantee. The offer was made public on 21 January 2016, and expired on 11 March 2016. On 14 March 2016, the Kärntner Ausgleichszahlungs-Fonds (K-AF) announced that the creditors had not accepted the offer. For additional details, please refer to item (5.4) Repurchase offer from the State of Carinthia

The deadline for the submission of binding offers for Centrice Real Estate GmbH, Vienna (Centrice), which is owned by the group, and the companies combined in its subgroup, ended during the first half of March 2016. Heta is currently reviewing the offers that were received, and expects that the sales process will be concluded successfully during the next six months.

On 10 March 2016, Heta and the buyer of Hypo Group Alpe Adria AG (HGAA) (SEE network) concluded a comprehensive settlement for all CHF exemptions (loan and legal risks) and other outstanding issues under the share purchase agreement from 22 December 2014. As a result of the settlement, the liability limits that apply to the relevant warranties and exemptions, and the maximum liability of the Republic under the hedging instrument with the buyer (and thus also the fee payable to the Republic) were reduced. As per the settlement, the buyer must also ensure that Hypo Group Alpe Adria AG (HGAA) returns to Heta an amount of EUR 150.0 million (CHF denominated) as an early partial repayment of the credit lines provided by Heta as early as March 2016. In addition, the settlement also included an agreement regarding another reduction in the portfolio adjustment transactions that were agreed with the buyer ("Buyer Brush") to EUR 500.0 million (not taking into account the aforementioned hedging of defaults in relation to a non-performing retail portfolio), and the portfolio adjustments transactions that were agreed as a condition for the settlement were also implemented in March 2016. Heta's return consideration under the settlement consisted of the waiver of credit lines provided to Hypo Group Alpe Adria AG (HGAA) (denominated in CHF) at the amount of EUR 325.0 million. The buyer's claims under the settlement were also secured by extending the already existing lien to the credit lines provided by Heta to Hypo Group Alpe Adria AG (HGAA). The settlement was authorised by the resolution authority on 10 March 2016 with a non-prohibition.

## 13. Forecast

In 2015, Heta's Executive Board was replaced; the Board will be responsible for a full year of activities in 2016 - a year that is again expected to be characterised by significant changes in the general environment: Following the decision of the resolution authority, which was issued on 1 March 2015 and had the effect of suspending repayments of all eligible liabilities until at least 31 May 2016, it is expected that the same authority will arrive at a new decision in 2016, at the latest when this moratorium expires. The general conditions that will result from this second ordinance will

have a significant effect on the extent to which and the time at which the proceeds from disposals may be used to satisfy the claims of the creditors.

Other important factors in addition to the effects from the ordinance include a number of lawsuits and pending court proceedings, which present cost factors that are difficult to ascertain, and that may at times have an enormous impact on the success of the liquidation process. At this time, there are several pending lawsuits by Heta creditors, which are directed against the payment stop that was imposed by the Federal Act on the Recovery and Resolution of Banks (BaSAG) and the resulting decision of the resolution authority from 1 March 2015.

With regard to the core sales endeavours, the course set for 2016 is very clear: As the result from proceeds surpassed the 2015 budget by a significant amount, the company continues to set ambitious goals for 2016. It plans to sell two large companies and two large portfolios in addition to the continued wind-down activities. These transactions would contribute to the consistent implementation of the medium-term plan 2016-2020 that was announced in the fall of 2015, and which envisions a cash resource target of EUR 6.3 billion by 2020. Moreover, the company will also review the eligibility of other companies in a "Fit4Sale" project.

The continued reduction in assets will also lead to a corresponding reduction in group companies and employee numbers. It is planned that by the end of 2016, the group's workforce will have decreased to 830 employees. A social plan that was developed with the works council in the past will ensure that these required reduction measures are implemented in a socially-compatible manner. In addition, internal projects will be implemented with the objective of addressing the reduced size and complexity of the group, and to promote the on-going integration of the subsidiaries into centralised and division-based management. In that sense, the year 2016 will again focus on cost- and structurally-efficient wind-down operations.

The economic environment that has been forecast for 2016 may not be viewed as supportive in this context. Of Heta's markets, only Macedonia and Montenegro are expected to register growth rates that are above the EU-28 average, while important countries such as Slovenia, Italy and Serbia are expected to fall below the average. The environment for banks and the loan-sales-business in the Adriatic region, which is of particular importance to Heta, must also be described as tense going into 2016. At this time, only a few markets have the required infrastructure for non-performing loans (NPL) dispositions - both from a legal and investor point of view. At the same time, studies confirm that more banks in the regions are cleaning up their

balance sheets, so that competition for portfolio dispositions will increase.

It should be noted that section 67 of the Insolvency Act (IO, grounds for opening insolvency proceedings regarding over-indebtedness under insolvency law) does not apply to Heta in accordance with section 7 (1) GSA. In its medium-term planning activities (see also note (5) Wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG)), which must be prepared by the Executive Board, the Board does not provide for interest or capital repayments with regard to the company's debts. Therefore the contents and time-related aspects of the wind-down plan that must be prepared by the resolution authority pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG), and which form the basis for the subsequent wind-down procedure, may deviate from Heta's medium-term plan, but must nevertheless ensure that Heta's ability to pay is maintained during the wind-down process. In addition, the orderly wind-down of Heta pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG) will also depend on whether circumstances that put the wind-down process pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG) objectives and principles at risk will occur in the future.

The large number of pending legal disputes presents another factor of uncertainty for the 2016 financial year. A large number of claims have been filed against Heta in Germany and Austria with respect to the decision of the Financial Markets Authority (FMA) regarding the wind-down pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG). From the viewpoint of the Executive Board, the actions taken by the creditors have considerable negative effects for the creditors themselves, because Heta incurs considerable costs as a result of these claims, which will have a very negative effect on the wind-down result and hence the assets to be distributed. Since the claims brought forward by some creditors are solely designed to secure special advantages at the expense of other creditors, Heta will not only fight any resulting judgement of the court of first instance, but will also employ legal remedies to defend against enforcement.

Finally, there is also a risk, in connection with the enforcement measures taken by individual creditors, that the resolution authority will apply for insolvency proceedings regarding Heta in order to warrant the equal treatment of creditors. If such a situation should arise, it would significantly increase the amount of losses that will be incurred by the creditors.

(Sources: WKO, EU Commission, OECD)

Klagenfurt am Wörthersee, 17 March 2016  
Heta Asset Resolution AG

THE EXECUTIVE BOARD

Wirt.-Ing. Sebastian  
Prinz von Schoenaich-Carolath  
(Chairman)

Mag. Martin Handrich  
(Member)

Mag. Arnold Schiefer  
(Member)

Mag. Alexander Tscherteu  
(Member)

# Financial Statements (UGB/BWG)

## Balance Sheet as at 31st December 2015

	31.12.2015	31.12.2014
	EUR	EUR thousand
<b>Assets</b>		
1. Cash in hand, balances with other banks	4,273,365,840.22	2,358,753
2. Treasury bills and other bills eligible for refinancing with central banks		
a) Treasury bills and other similar securities	182,898,021.21	233,182
b) bills for refinancing with central banks	0.00	0
	<u>182,898,021.21</u>	<u>233,182</u>
3. Loans and advances to credit institutions		
a) Repayable on demand	370,055,279.37	166,905
b) Other loans and advances	1,684,426,012.38	2,353,507
	<u>2,054,481,291.75</u>	<u>2,520,412</u>
4. Loans and advances to customers	2,504,042,456.91	3,246,408
5. Bonds and other fixed income securities		
a) Issued by the public sector	27,976,164.41	28,153
b) Issued by others	145,936,126.57	363,205
of which own debt securities	EUR 3,073,235.42	173,912,290.98
(prior year: EUR 3,223 thousand)		391,358
6. Shares and other non-fixed income securities	18,519,116.17	20,855
7. Shares in associated companies	2.00	2
thereof: credit institutions	EUR 0.00	
(prior year: EUR 0 thousand)		
8. Shares in affiliated companies	85,375,263.51	505,252
thereof: credit institutions	EUR 0.00	
(prior year: EUR 0 thousand)		
9. Intangible fixed assets	2,482,674.13	3,664
10. Tangible fixed assets	4,378,064.30	4,106
thereof:		
Land and buildings used by the company for its own activities	EUR 2,312,156.54	
(prior year: EUR 1,781 thousand)		
11. Own shares or interests and interests in controlling or majority holding companies	0.00	0
thereof:		
nominal value	EUR 0.00	
12. Other assets	249,296,555.23	316,227
13. Drawn capital, which is not called in, but yet deposited	0.00	0
14. Deferred assets	7,022,624.57	9,305
<b>Total assets</b>	<b>9,555,774,200.98</b>	<b>9,609,524</b>
<b>Below-the-line memo items</b>		
1. Foreign assets	2,994,271,858.64	4,695,859



		31.12.2015	31.12.2014
		EUR	EUR thousand
<b>Equity and Liabilities</b>			
1.	Liabilities to credit institutions		
a)	Repayable on demand	858,771,729.95	946,420
b)	With agreed maturities or periods of notice	2,660,724,946.14	1,982,739
		3,519,496,676.09	2,929,159
2.	Liabilities to customers		
a)	Savings deposits, thereof:		
aa)	Repayable on demand	0.00	0
bb)	With agreed maturities or periods of notice	0.00	0
b)	Other liabilities, thereof:		
aa)	Repayable on demand	178,228,583.65	108,685
bb)	With agreed maturities or periods of notice	1,302,427,024.32	1,559,395
		1,480,655,607.97	1,668,081
2a.	Liabilities to Pfandbriefbank	1,245,248,447.13	0
3.	Debt evidenced by certificates		
a)	Bonds issued	7,642,442,371.39	8,616,434
b)	Other debt evidenced by certificates	0.00	0
		7,642,442,371.39	8,616,434
4.	Other liabilities	326,094,865.19	140,578
5.	Deferred assets	6,134,802.40	24,702
6.	Provisions		
a)	Provisions for severance payments	3,109,016.00	5,349
b)	Provisions for pensions	5,822,846.00	5,808
c)	Tax provisions	2,312,684.31	0
d)	Other	833,574,954.89	2,111,067
		844,819,501.20	2,122,224
6a.	Funds for general banking risks	0.00	0
7.	Supplementary capital pursuant to part 2, title I (4) of Directive (EU) 575/2013	1,969,715,608.11	1,095,566
8.	Additional supplementary capital pursuant to part 2, title I (3) of Directive (EU) 575/2013	0.00	0
8a.	Compulsory convertible bond pursuant to section 26 Austrian Banking Act (BWG)	0.00	0
8b.	Instruments without any voting rights pursuant to section 26a Austrian Banking Act (BWG)	0.00	0
9.	Issued capital	3,494,208,118.77	3,494,208
10.	Appropriated paid-in capital	0.00	0
a)	Fixed reserves	0.00	0
b)	Non fixed reserves	0.00	0
11.	Revenue reserves	0.00	0
a)	Legal reserves	0.00	0
b)	statutory reserves	0.00	0
c)	Other reserves	0.00	0
12.	Liability reserves under section 57 (5) BWG	0.00	0
13.	Net accumulated losses	(10,973,041,797.27)	(10,481,428)
14.	Tax-free reserves		
a)	Valuation reserves due to unscheduled depreciation	0.00	0
b)	Other tax-free reserves	0.00	0
	thereof:		
aa)	Investment reserve pursuant to sec. 9 EStG 1988	0.00	0
bb)	Investment allowance pursuant to sec. 10 EStG 1988	0.00	0
cc)	Rent reserve pursuant to sec.11 EStG 1988	0.00	0
dd)	Transfer reserve pursuant to sec. 12 EStG 1988	0.00	0
<b>Total equity and liabilities</b>		<b>9,555,774,200.98</b>	<b>9,609,524</b>

	31.12.2015 EUR	31.12.2014 EUR thousand
<b>Below-the-line memo items</b>		
1. Contingent liabilities	105,142,661.12	215,432
thereof:		
a) Acceptances and endorsements	0.00	0
b) Guarantees and other collateral securities	<u>105,142,661.12</u>	<u>215,432</u>
(prior year: EUR 215,432 thousand)		
2. Loan exposures	185,654,768.63	436,436
thereof: Commitments arising from repurchase transactions		
3. Commitments arising from fiduciary transactions	73,257,414.28	69,631
4. Eligible capital under section 23 (14)	n.a.	n.a.
thereof: capital under section 23 (14) (7)	n.a.	n.a.
(prior year: EUR 0 thousand)		
5. Capital reserve requirements under section 22 (1)	n.a.	n.a.
thereof: capital under section 22 (1) (1) and (4)	n.a.	n.a.
(prior year: EUR 0 thousand)		
6. Foreign liabilities	4,460,822,793.30	4,231,077
7. Hybrid capital pursuant to section 24 (2) (5) and (6)	n.a.	n.a.

\*By derogation of the representation pursuant to Annex 2 on article I, section 43, part 2 Austrian Banking Act (BWG), the previous terms have been retained, as no disclosures relating to own capital funds are to be made for 2015 and the comparable figures for 2014 were reported on the basis of the previous item terms.

## Income statement for the period 1 January to 31 December 2015

		31.12.2015	31.12.2014
		EUR	EUR thousand
1.	Interest and similar income	424,764,761.65	622,668
	thereof: fixed-interest securities	EUR 14,209,101.87	
	(prior year: EUR 27,815 thousand)		
2.	Interest and similar expenses	(576,287,288.94)	(676,052)
<b>I.</b>	<b>NET INTEREST INCOME</b>	<b>-151,522,527.29</b>	<b>-53,384</b>
3.	Income from equity interests and investments		
	a) Shares, other equity interests and non-interest-bearing securities	0.00	204
	b) Associated companies	269,710.37	349
	c) Affiliated companies	734,475.59	2,800
		1,004,185.96	3,353
4.	Fee and commission income	1,792,337.28	4,890
5.	Fee and commission expenses	(93,113,819.78)	(72,893)
6.	Net income from trading activities	56,349,841.93	5,990
7.	Other operating income	28,504,749.92	59,044
<b>II.</b>	<b>OPERATING INCOME</b>	<b>(156,985,231.98)</b>	<b>(52,999)</b>
8.	General administrative expenses		
	a) Personnel expenses: thereof		
	aa) Wages and salaries	(30,164,048.62)	(40,967)
	bb) Costs of statutory social security contributions and other pay-related contributions	(8,054,934.71)	(10,251)
	cc) Other social welfare contributions	(627,538.56)	(759)
	dd) Expenses for pensions and other retirement benefits	(654,905.32)	(126)
	ee) Pension provision allocations	(671,744.68)	(938)
	ff) Expenses for severance payments and contributions to employee severance funds	(1,143,213.48)	(3,170)
		(41,316,385.37)	(56,211)
	b) Other administrative expenses (operating expenses)	(85,357,598.27)	(88,057)
		(126,673,983.64)	(144,269)
9.	Depreciation and amortisation of fixed assets (balance sheet items 9 and 10)	(3,113,246.07)	(7,848)
10.	Other operating expenses	(34,958.51)	(30,366)
<b>III.</b>	<b>OPERATING EXPENSES</b>	<b>(129,822,188.22)</b>	<b>(182,482)</b>

		31.12.2015	31.12.2014
		EUR	EUR thousand
<b>IV.</b>	<b>OPERATING PROFIT</b>	<b>-286,807,420.20</b>	<b>-235,481</b>
11./12.	Net gain/loss from the remeasurement and disposal of receivables, contingent liabilities, loan exposures and securities held as current assets	3,579,981,164.53	(5,574,763)
13./14.	Net gain/loss from the remeasurement and disposal of securities treated as financial assets and from investments in associated and affiliated companies	(3,118,180,894.90)	(2,355,170)
<b>V.</b>	<b>PROFIT FROM ORDINARY ACTIVITIES</b>	<b>174,992,849.43</b>	<b>-8,165,414</b>
15.	Extraordinary income	1,087,908,057.04	1,693,379
	thereof: withdrawal from the fund for general banking risks	EUR 0.00 (prior year: EUR 0 thousand)	
16.	Extraordinary expenses	(1,743,471,629.66)	(1,413,165)
	thereof: allocation to fund for general banking risks	EUR (0.00) (prior year: EUR 0 thousand)	
<b>17.</b>	<b>Extraordinary result</b>	<b>-655,563,572.62</b>	<b>280,214</b>
18.	Income taxes	(8,884,758.70)	(19,398)
	thereof: expenses connected to the taxation agreement	(EUR 7,639,405.26) (prior year: EUR 18,997 thousand)	
19.	Other taxes not recognised under the item 18	(2,157,867.04)	5,027
<b>VI.</b>	<b>Net loss for year</b>	<b>-491,613,348.93</b>	<b>-7,899,571</b>
20.	Changes in reserves	0.00	497,165
	thereof: reversal of liability reserves	EUR 0.00 (prior year: reversal EUR 247,165 thousand)	
	reversal of capital reserves	EUR 0.00 (prior year: reversal EUR 250,000 thousand)	
	Release of non-committed capital reserves	EUR 0.00 (prior year: reversal EUR 250,000 thousand)	
<b>21.</b>	<b>Loss carried forward</b>	<b>-10,481,428,448.34</b>	<b>-3,079,021</b>
<b>VIII.</b>	<b>NET ACCUMULATED LOSSES</b>	<b>-10,973,041,797.27</b>	<b>-10,481,428</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE 2015 FINANCIAL YEAR

## I. Fundamentals

### (1) The company<sup>2</sup>

Heta Asset Resolution AG (the former Hypo-Alpe-Adria-Bank International AG, "Heta" in short), was founded in 1896 as a Landes- und Hypothekenbankanstalt, and operates as the parent company of the Heta group (formerly Hypo Alpe Adria). Since 30 December 2009, it has been wholly owned by the Republic of Austria. It is registered in the commercial register (Firmenbuch) of the Commercial Court of Klagenfurt under company registration number FN 108415i. The registered office and headquarter of the group are located at Alpen-Adria-Platz 1, 9020 Klagenfurt am Wörthersee, Austria.

The banking license granted to the former Hypo Alpe-Adria-Bank International AG by the Austrian Financial Market Authority (FMA) in accordance with the Austrian Banking Act (BWG) was terminated with the decision by the Austrian Financial Market Authority (FMA) from 30 October 2014. The company was continued as a partially-regulated wind-down entity in accordance with the Federal Act on the Creation of a Wind-down Entity (Federal Act I 2014/51, GSA). Since then, the company's purpose has been concentrated on the full wind-down of its assets and participations. Within this context, it is also authorised, on the basis of the legal concession under the Federal Act on the Creation of a Wind-down Entity (GSA), to continue to enter into banking or leasing transactions that serve this purpose. According to section 3 (4) GSA, the company is subject to some of the provisions of the BWG and accordingly has assumed certain reporting and notification duties vis-a-vis the Austrian National Bank (OeNB) and the Austrian Financial Market Authority (FMA). The Austrian Financial Market Authority (FMA) continues to be the regulatory authority in charge, which pursuant to section 8 GSA is obliged to verify compliance with the applicable provisions of the Austrian Banking Act (BWG). In compliance with the requirements under the Federal Act on the Creation of a Wind-down Entity (GSA), a resolution of the general shareholders' meeting of 29 October 2014 amended the statutes to the effect that an obligation to create the obligation to dissolve after the statutory wind-down objectives have been attained was implemented.

Following the announcement of a significant asset coverage shortfall on 27 February 2015, the Republic of Austria notified Heta that it would no longer provide any capital and liquidity support. In view of these circumstances, the Austrian Financial Market Authority (FMA) announced a decision on 1 March 2015 pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG). As part of this decision, a moratorium was placed on all of Heta's "eligible liabilities" until 31 May 2016 in preparation for the application of the instrument involving the participation of creditors.

### (2) Legal information and important events in 2015

#### 2.1. Decision of EU Commission from 3 September 2013

On 3 September 2013, the Commission of the European Union (EU-Commission) reached a final decision in the state aid investigation that had been under way since 2009.

The decision provided for the division of the company into marketable, reprivatisable units of the South-East European Network (SEE network) and the wind-down unit. A reprivatisation process was stipulated for the banks of the SEE network in Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro; it had to be completed by the end of 2015 (Closing). Furthermore, the former Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A. had to be allocated to the wind-down segment during the second half of 2013. The wind-down unit is subject to new business restrictions and in particular the requirement that assets must be wound down in a manner that preserves assets and values.

Compliance with the restructuring plan and the imposed requirements is monitored by an independent trustee appointed by the European Commission, the "Monitoring Trustee".

#### 2.2. Hypo Alpe Adria Restructuring Act (HaaSanG)

The Hypo Alpe Adria Restructuring Act (HaaSanG) went into force on 1 August 2014, and designated the Financial Market Authority (FMA) as the authority responsible for implementation of the restructuring measures provided for in the law.

With the announcement of the Financial Markets Authority (FMA) Ordinance (HaaSanV) on 7 August 2014, the termination and deferment of Heta's liabilities listed in the Financial Markets Authority (FMA) regulation took effect, which means that repayment sums, interest or other ancillary fees owed by the company, where applicable, were automatically reduced to zero. The payment date for certain "disputed liabilities" was postponed to 30 June 2019 at the earliest, according to the Hypo Alpe

<sup>2</sup> Effective 31 October 2014, the company operating as "HYPO ALPE-ADRIA-BANK INTERNATIONAL AG" was renamed "HETA ASSET RESOLUTION AG". It continues to function as the parent company of the Heta Group (formerly "Hypo Alpe Adria"). The name "Heta" will be used consistently in these Notes.

Adria Restructuring Act (HaaSanG). In accordance with section 3 of the Hypo Alpe Adria Restructuring Act (HaaSanG), the subordinated liabilities as well as all collaterals including guarantees for such liabilities expired.

The expiration of liabilities comprised a total volume of around EUR 1.6 billion, of which subordinated liabilities of third-party investors accounted for EUR 0.8 billion and liabilities to the Bayerische Landesbank (BayernLB) accounted for EUR 0.8 billion. All of the liabilities covered under Hypo Alpe Adria Restructuring Act (HaaSanG) and the Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV) in the amount of EUR 1.6 billion were derecognised on 7 August 2014.

On 3 July 2015, the Constitutional Court of Austria (VfGH) repealed the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Ordinance issued by the Financial Market Authority (FMA) on the Hypo Alpe Adria Restructuring Act (HaaSanV) on this legal basis, without mention of a repair period. This meant that the liabilities that were derecognised in 2014 now had to be recognised again for accounting purposes in 2015. For additional information, please refer to note (40.2) Repeal of HaaSanG by the Constitutional Court of Austria (VfGH) and resulting lawsuits.

### 2.3. Federal Act on the Creation of a Wind-down Entity (GSA)

The license granted to the former Hypo Alpe-Adria-Bank International AG by the Austrian Financial Market Authority (FMA) to conduct banking activities according to the Austrian Banking Act (BWG) was terminated by the resolution of the Austrian Financial Market Authority (FMA) of 30 October 2014. Preconditions were that Heta no longer undertakes any deposit transactions and no longer holds any qualified participations – within the meaning of the Capital Requirements Regulation (CRR) – in credit institutions or financial securities firms. These preconditions were met following the restructuring.

As a wind-down unit pursuant to section 3 GSA, Heta continues to possess a legal concession to undertake banking operations. On the basis of the legal concession and pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA), certain banking operations continue to be implemented during the course of the wind-down activities.

Heta's responsibility as a wind-down unit consists of winding down its assets, which it must liquidate in a manner that is orderly, active and to the best possible advantage. The wind-down unit may only undertake transactions that are suited to winding down the portfolio. In addition, the wind-down unit may render certain transition services to former group companies. Pursuant to section 3 (4) GSA, Heta is subject to a limited extent to the provisions of the Austrian Banking Act (BWG) but not the minimum capital regulations. The Financial Market Authority (FMA) continues to be the responsible regulatory authority and is obligated, pursuant to section 8 GSA, to assess compliance with the applicable provisions of the Austrian Banking Act (BWG).

Following the resolution of the general shareholders' meeting on 29 October 2014, the company's statutes were amended in view of the transformation into a wind-down unit; the name of the parent company was also amended, from "HYPO ALPE-ADRIA-BANK INTERNATIONAL AG" to "HETA ASSET RESOLUTION AG". The company's business purpose was restricted to - with the exception of those specified in Federal Act on the Creation of a Wind-down Entity (GSA) - transactions that are required to fulfil the company's mandate (complete reduction of the portfolio as quickly as possible).

Article 2.4 of the amended statutes provides that a resolution on dissolution is passed as soon as the portfolio is completely wound down. This amendment was entered in the commercial register on 31 October 2014 and is effective as of that date. As this amendment relates exclusively to the name of the company and not the re-establishment of the company, this does not affect the legal person of the company itself or any of its contractual obligations.

### 2.4. Imposition of wind-down measures by the Financial Market Authority (FMA)

In order to fulfil the statutory requirements under section 3 (1) of the Federal Act on the Creation of a Wind-down Entity (GSA), Heta conducted a group-wide review of the assets relevant to the portfolio wind-down, a so-called "Asset Quality Review" (AQR), in the first quarter of 2015. The objective of the Asset Quality Review (AQR) was to subject all Heta assets that are relevant to the portfolio wind-down to a valuation taking into account the wind-down objectives.

While at the time of the initial interim results from the Asset Quality Review (AQR) on 27 February 2015, the company was still able to pay its debts and liabilities as they came due, the Executive Board saw objective and concrete indications pursuant to section 51 (1) (3) Federal Act on the Recovery and Resolution of Banks (BaSAG) that the company would no longer be able to pay its debts and liabilities on time in the near future. As a result, Heta's Executive Board immediately notified the Supervisory Board of the asset coverage shortfall in the range of EUR -4.0 billion to EUR -7.6 billion (special report according to the Federal Act on the Creation of a Wind-down Entity (GSA)). The Executive Board subsequently informed its sole shareholder, the Republic of Austria, of the shortfall, and inquired whether the government, against the background of this new information and the validity of the Federal Act on the Recovery and Resolution of Banks (BaSAG), would be prepared to compensate the existing asset coverage shortfall and the liquidity gaps expected in 2016 and 2017 with the appropriate measures. On the same day, the company also submitted a precautionary notice according to Federal Act on the Recovery and Resolution of Banks (BaSAG) to the resolution authority in charge, the Financial Market Authority (FMA), and asked to have a corresponding decision issued if the company's owner should fail to make a binding statement about suitable measures. Sub-

sequently, the Austrian Minister of Finance notified the Austrian Financial Market Authority (FMA) and the company on 1 March 2015 that no further measures will be implemented for Heta under the Financial Market Stability Act (FinStaG).

On the same day, the wind-down authority issued a resolution on the arrangement of wind-down measures in accordance with the Federal Act on the Recovery and Resolution of Banks (BaSAG). As part of this decision, a moratorium was placed on all “eligible liabilities” of Heta until 31 May 2016 according to section 58 (1) (10) BaSAG, in preparation for the application of the instrument involving the participation of creditors. For additional information, please refer to the ordinance of the Financial Market Authority (FMA) from 1 March 2015, which was published on the FMA homepage ([www.fma.gv.at](http://www.fma.gv.at)) The ordinance can also be found on Heta's homepage at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Press → Austrian Baking Restructuring and Resolution Act (BaSAG)).

An appeal against the decision from the resolution authority could be submitted within three months after it was released (1 March 2015), but this is without suspensory effect. Affected investors have announced that they will take their own legal steps against Heta. The ordinance is based on the Federal Act on the Recovery and Resolution of Banks (BaSAG), which was used to implement the European directive on bank restructuring in Austria. For this reason, Heta believes that the ordinance should also be recognised in another EU member state. It is noted that a request to hear a complaint is currently pending at the Constitutional Court of Austria (VfGH) regarding a review of the constitutionality of the Federal Act on the Recovery and Resolution of Banks (BaSAG).

According to a statement by the President of the Austrian Constitutional Court (VfGH) in March 2016, it is expected that the court will issue a decision on this issue during its fall session at the latest.

## 2.5. Changes to the Executive Board and the Governance structure

The Financial Market Authority (FMA) is the resolution authority for Austria pursuant to section 3 (1) Federal Act on the Recovery and Resolution of Banks (BaSAG). The resolution authority must consider the wind-down objectives during the application of the wind-down instruments and the exercise of its wind-down powers. In line with its powers, the resolution authority can also dismiss or replace the executive bodies of the wind-down institutes and take direct control of the institutes. In the case of Heta, the authority has decided that the business activities will continue to be carried out by the company's executive bodies.

At the organisational level, the Executive Board of the parent company was replaced completely, whereby the new members of the Executive Board were appointed in February and September 2015. The Heta Executive Board consists of Wirt.-Ing. Sebastian Prinz von Schoenaich-Carolath (Chairman) and the members Mag. Martin Handrich, Mag. Alexander Tscherteu and Mag. Arnold Schiefer.

The resolution authority is entitled to extensive supervisory, controlling and reporting rights, some of which were implemented through a separate governance structure. The new governance structure of Heta was developed during the first six months of 2015 together with the authority. Subsequently, the required changes were implemented in Heta's statutes and the internal rules of procedure for the Supervisory Board and the Executive Board.

The amended statutes were adopted at the general shareholders' meeting of Heta on 29 June 2015. The resolution authority has the right to have its representatives attend the committee meetings of the company's executive bodies. In addition, a series of major transactions and decisions are subject to the non-prohibition of the resolution authority, before they can be implemented. An advisory board consisting of external experts which were appointed by the resolution authority was also established. It provides recommendations to the resolution authority. The advisory board is a committee of the resolution authority and not an executive body of the company. The authority is also entitled to an escalation right, pursuant to which the treatment of all decisions, including those that must in principle not be submitted to the authority pursuant to the provisions of the internal rules of procedure, can be deleted by the authority.

At the same time, the forensic investigation of the past as an express business purpose of Heta was deleted from the statutes. However, it was agreed with the authority that the investigation of forensic cases that have so far not been finalised in line with the forensic investigation of the past will be continued taking into account efficiency and practical aspects.

## 2.6. Agreements relating to the former majority owner BayernLB

At the end of 2012, BayernLB sought a declaratory judgement from the Munich I regional court in relation to the financing lines that in the company's view are subject to the Austrian Equity Substituting Capital Act (EKEG), and may therefore neither be serviced by interest payments nor repaid. The company submitted a comprehensive statement of defence against the application and contested the order sought in its entirety; it also challenged, in the form of counterclaims, the repayments made by Heta to BayernLB until the time the suit was filed. In a hearing on 8 May 2015, the Munich I regional court verbally announced a judgement of the court of first instance and accepted virtually the entire order sought by BayernLB (for details, please see note (40.3.2) Judgement of the Munich I regional court regarding equity substitution loans from Bayerische Landesbank). Heta was ordered to pay, and the requested claims for recovery of the credit lines which had in the meantime

been repaid to BayernLB were dismissed in their entirety. Because of the imminent action by BayernLB, the liabilities to BayernLB (nominal EUR 0.8 billion), which are covered by the Hypo Alpe Adria Restructuring Act (HaaSanG) and hence were included in the retirement from the balance sheet in 2014, were allocated to a provision in the amount of EUR 0.9 billion in the 2014 financial statements.

The Memorandum of Understanding (MoU) signed by the Republic of Austria and the Free State of Bavaria, according to which Heta and BayernLB were invited to review whether they wished to end the legal dispute between the two parties on the basis of the Memorandum of Understanding (MoU), was announced in July 2015.

It remained up to Heta's executive bodies to decide whether to approve a settlement regarding the pending Austrian Equity Substituting Capital Act (EKEG) proceedings and the "action for misrepresentation" (Irrtumsklage) in view of the conditions and impacts on Heta. On 21 September 2015, Heta announced its willingness to conclude the settlement with BayernLB as per the Memorandum of Understanding (MoU). BayernLB decided against a comprehensive settlement with Heta. Therefore the proceedings are continued by Heta without any restrictions, and are to be completed with a legally binding decision by the German courts with jurisdiction. To this end, Heta submitted timely its grounds of appeal to the Munich upper regional court (OLG) on 1 February 2016.

However, BayernLB also declared its willingness, in the form of a unilateral settlement declaration, to make certain concessions to Heta regarding its claims in the Austrian Equity Substituting Capital Act (EKEG) proceedings. These include the waiver of pursuing the executive enforcement of the judgement of the court of first instance and limiting the participation of BayernLB in the wind-down of Heta (under certain conditions, such as BayernLB attaining the status of senior creditor etc.) to just EUR 2.4 billion plus interest (regardless of a possibly higher amount awarded in favour of BayernLB). Heta's claims against BayernLB from the counterclaim were not restricted, and continue to be pursued by Heta in the courts. With the exception of the claims from the Austrian Equity Substituting Capital Act (EKEG) proceedings and certain derivative transactions between BayernLB and Heta, all mutual claims between BayernLB and Heta have been cleared up.

The Memorandum of Understanding (MoU) does not include Heta's possible claims against the Republic of Austria. These are not affected by the agreements that have been entered into.

During the course of the action for misrepresentation (Irrtumsklage), the Republic of Austria requested, during the last quarter of the 2014 financial year, an adjustment to the share purchase agreement (emergency nationalisation agreement) and the related term sheet which was concluded between the Republic of Austria and BayernLB. These proceedings ended in line with the Memorandum of Understanding (MoU) between the Republic of Austria and BayernLB and Heta, which was implemented on 11 November 2015, and the Republic of Austria withdrew its action with a release of claims. For further information, please refer to note (40.3) Information regarding BayernLB.

In the financial statements for 31 December 2015, the liabilities to BayernLB are entered at approximately EUR 2.8 billion (nominal amount plus interest claims) on the basis of the original credit agreements and taking into account the judgement of the court of first instance by the Munich I regional court, while the settlement value resulting from the Memorandum of Understanding (MoU) would be approximately EUR 2.5 billion (nominal amount EUR 2.4 billion plus interest of at least 5 % as of 1 March 2015).

For further information, please refer to note (40.3.1) Memorandum of Understanding (MoU) between the Republic of Austria and the Free State of Bavaria and review of the MoU by Heta.

## 2.7. Development of the credit engagement vis-a-vis the former Italian subsidiary Hypo Alpe-Adria-Bank S.p.A.

In meeting the statutory requirements of the Federal Act on the Creation of a Wind-down Entity (GSA) and the HBI-Bundesholdinggesetz, Heta had to transfer all its shares in Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) to HBI-Bundesholding AG (HBI-BH) on the basis of the share purchase agreement from 8 September 2014. In addition to temporarily maintaining the existing financing for Heta in favour of (HBI) in the amount of approximately EUR 1.7 billion (nominal amount of the refinancing lines), Heta also committed, in line with the carve-out process, to provide an emergency liquidity facility of up to EUR 300.0 million in the event of the outflow of HBI deposits.

As a result of the Federal Act on the Recovery and Resolution of Banks (BaSAG) moratorium that went into force on 1 March 2015, Heta was no longer able to meet its obligation to provide an emergency liquidity facility, which resulted in the steady deterioration of HBI's liquidity situation, since it was not able to compensate the continued outflow of deposits without external support. In addition, HBI, in its local annual financial statements for 31 December 2014, which were submitted in June 2015, has made significant additional impairments with regard to our extended loans, which caused the company to fall below the minimum tier 1 capital ratio. The share purchase agreement concluded with HBI-BH included a provision that HBI-BH would be responsible for maintaining the tier 1 minimum capital ratio for HBI (currently 11.5 %) as required by the regulatory authority as of the closing of the agreement; however, in view of the increased risk provisions at HBI, HBI-BH asserted warranty claims from the share purchase agreement against Heta. In addition, it also referred to the failure to meet the obligation to provide the "Emergency Liquidity Facility".



The fact that HBI-BH itself does not have sufficient funds and no conclusive assessment could be made whether and at which amount the owner of HBI-BH - the Republic of Austria - would institute capital measures to provide HBI-BH with the corresponding resources created a situation in which the Banca d'Italia was likely to commence regulatory proceedings because of the failure to comply with the equity capital requirements and liquidity provisions.

In order to avoid additional damages to Heta as a result of the official measures in Italy, the Republic of Austria, HBI-BH and Heta concluded a term sheet regarding the financing and equity capitalisation of HBI on 29 June 2015. According to this agreement, HBI-BH provided HBI with EUR 196.0 million in liquidity in 2015, including EUR 100.0 million in the form of equity capital and EUR 96.0 million in the form of subordinated loans. In turn, Heta agreed to provide a new loan of EUR 100.0 million for the possible financing of outflows of customer deposits, and to waive up to EUR 630.0 million in existing receivables, of which a waiver for a partial amount of EUR 280.0 million was already implemented during the first six months of 2015. In return, HBI-BH promised to deliver to Heta each financial benefit from its relationships with HBI up to the amount of the proclaimed waiver, in line with a recovery agreement. To secure Heta's claims, HBI-BH committed to pledge its shares in HBI in favour of Heta. For additional details, please refer to note (42.1) Agreement with the Austrian government and HBI-Bundesholding AG regarding the capitalisation and liquidity for Hypo Alpe-Adria S.p.A.

During the second half of 2015, HBI repaid receivables of approximately EUR 140.0 million to Heta, and a revised wind-down plan for HBI was submitted by HBI-BH in December. The revised wind-down plan identified additional capital requirements for the time until the end of 2017 in order to comply with Italian capital provisions, which leads to the requirement of additional waivers of receivables in the amount of EUR 96.0 million on the part of HBI-BH, and up to EUR 350.0 million on the part of Heta. The purpose of the waivers provided by Heta is to ensure compliance with the capital ratios prescribed for HBI by Banca d'Italia, and were authorised by the resolution authority on 23 December 2015 with a non-prohibition.

The assessment of the recoverability of the refinancing lines approved by Heta in the past, which was carried out on 31 December 2015, is mainly based on the wind-down plan for HBI as submitted by HBI-BH. A large portion of the risk provisions created for 31 December 2014 was reversed in 2015 as a result of the stabilisation of HBI.

## 2.8. Completion of the sale of the SEE network

On 17 July 2015, Heta and the consortium of bidders, consisting of the US fund Advent International (Advent) and the European Bank for Reconstruction and Development (EBRD), completed the closing for the share purchase agreement from 22 December 2014 regarding the sale of all shares in Hypo Group Alpe Adria AG (HGAA AG or "SEE Network") (Closing). The closing was preceded by a "pre-closing" on 30 June 2015, where the parties confirmed the existence and compliance with all of the major closing conditions that had been agreed. The remaining conditions precedent were confirmed during the closing on 17 July 2015. In line with the pre-closing, the resolution authority also approved the implementation of the closing by way of a non-prohibition.

A number of amendments to the transaction and financing documents were agreed to by buyer before the closing. These changes also related to commercial aspects, including the reduction of the maximum total volume of possible portfolio adjustment transactions after the closing ("Buyer Brush"), during the course of which Heta was required to assume corporate and public sector loans, along with assets not essential to the banking business, from Hypo Group Alpe Adria AG (HGAA) by the end of March 2016 at the historic net carrying amounts as at 31 December 2014. This total volume was reduced from EUR 800.0 million to EUR 600.0 million. In turn, a hedge for defaults in relation to a non-performing EUR 100.0 million (net exposure) retail portfolio of Hypo Group Alpe Adria AG (HGAA) was arranged for an amount of up to EUR 75.0 million. For the purpose of protecting the buyer's warranty, exemption and other claims from the share purchase agreement from 22 December 2014, which was required as a condition for the closing, the Republic of Austria had to provide the buyer with guarantees of EUR 1.7 billion in line with a "hedging instrument". The fee that was agreed for this purpose, and which must be paid by Heta, is 1.27 % of the assessment basis of EUR 1.7 billion as at 31 December 2015.

In the share purchase agreement, Heta provided the buyer with a number of different warranties and exemptions from certain risks. As a result of the statutory compulsory conversion of CHF loans in Croatia and Montenegro, the buyer, drawing on the exemption claims in the share purchase agreement, demanded that Heta compensate the corresponding conversion damages at the end of 2015. In addition, on 31 December 2015, the buyer of Hypo Group Alpe Adria AG (HGAA) also took HETA to task for additional claims under contractual warranties and other contractual exemption obligations for risks from legal disputes with customers and other legacies.

In March 2016, Heta and the buyer came to an agreement regarding a comprehensive settlement to clean up all contractual CHF exemption claims (credit and legal risks) and other outstanding items in connection with the share purchase agreement. As a result of the settlement, the contractual liability limits that apply to the relevant warranties and exemptions, and the maximum liability of the Republic of Austria under the hedging instrument with the buyer (and thus also the fee that Heta must pay to the Republic of Austria) were reduced. For the purpose of the settlement, the buyer must also ensure that Hypo Group Alpe Adria AG (HGAA) returns to Heta an amount of EUR 150.0 million (CHF denominated) as an early partial repay-

ment of the credit lines provided by Heta as early as March 2016. In addition, the settlement also included an agreement regarding another reduction in the portfolio adjustment transactions that were agreed with the buyer ("Buyer Brush") to EUR 500.0 million (not taking into account the aforementioned hedging of defaults in relation to a non-performing retail portfolio), and the portfolio adjustments transactions that were agreed as a condition for the settlement were also implemented in March 2016. In turn, Heta waived credit lines (CHF denominated) of EUR 325.0 million vis-a-vis Hypo Group Alpe Adria AG (HGAA). The buyer's claims under the settlement were also secured by extending the already existing lien to the credit lines provided by Heta to Hypo Group Alpe Adria AG (HGAA). With regard to possible incidental costs, which are Heta's responsibility, the company provided the corresponding collateral. In the financial statements for 31 December 2015, the appropriate provisions were created both for the exemption and warranty risks resulting from the share purchase agreement, and the credit risks in connection with the "Buyer Brush".

For further details, please see note (42.2) Sale agreement regarding the reprivatisation of the SEE network.

## II. ACCOUNTING POLICIES

### (3) General Information

The annual financial statements of Heta were prepared according to the regulations of the applicable version of the Austrian Commercial Code (UGB), the Austrian Banking Act (BWG) and the Austrian Stock Corporation Act (AktG).

The provisions of the Austrian Banking Act (BWG) only have limited application to Heta following the conversion into a partially regulated wind-down unit under the Federal Act on the Creation of a Wind-down Entity (GSA). section 3 (4) of the GSA stipulates that the following accounting-related provisions of the XIIth section of the Austrian Banking Act (BWG) apply:

Sections 43 - 44	General provisions
Sections 45 - 50	General provisions concerning the balance sheet
Section 51	Provisions concerning certain balance sheet items
Section 52 - 54	Special provisions concerning certain items in the income statement
Sections 55 - 58	Measurement rules
Sections 59 - 59a	Financial statements
Section 65	Publication
Sections 66 - 67	Provisions regarding the cover pool pursuant to section 216 of the Austrian Civil Code (ABGB).

Although the provisions of section 64 BWG (Annex) do not directly impose an obligation to provide details, the disclosure obligations of section 65 BWG require that at minimum the details specified in section 64 (1) BWG must be provided in the notes to the financial statements.

The annual financial statements consist of the balance sheet, the income statement and the notes. A management report consistent with the annual financial statements was also prepared.

The balance sheet and income statement are structured according to the forms in Annex 2 to section 43 BWG. Certain income statement items were summarised according to the accounting policy choice defined in section 53 (3) and section 54 (2) BWG.

Figures are generally in thousand Euros (EUR thousand). The tables may contain rounding differences.

### (4) Measurement basis: Gone concern assumption

A group-wide measurement process for the assets that are relevant to the portfolio wind-down was initiated once the Federal Act on the Creation of a Wind-down Entity (GSA) went into full force at the end of October 2014 following Heta's transfer into a partially-regulated but not insolvency-proof wind-down unit. This measurement reflects the short- to medium-term intention in saturated markets within a wind-down period of five years, based on the assumption that 80 % of assets would be wound down by 2018.

After the initial interim results of the Asset Quality Review (AQR) were announced, which indicated an asset coverage shortfall between EUR -4.0 billion and EUR -7.6 billion, which was thus above the still available state aid range for capital measures approved by the EU Commission for EUR 2.9 billion, along with the expected implications for the company's capital and liquidity situation, Heta's owner, the Republic of Austria, announced on 1 March 2015 that no further measures would be taken with regard to Heta under the Federal Act on Financial Market Stability (FinStaG). Subsequently the FMA (resolution authority) issued a decision on 1 March 2015 ordering wind-down measures according the Federal Act on the Recovery and Resolution of Banks (BaSAG). This decision placed all so-called "eligible liabilities" of Heta under a moratorium until 31 May 2016.

Based on the amended business purpose, the implications of the Federal Act on the Creation of a Wind-down Entity (GSA), which calls for mandatory self-liquidation after the statutory wind-down objectives have been achieved, the complete disposal of units conducting new business, the over-indebtedness of the company and the Federal Act on the Recovery and Resolution of Banks (BaSAG) ordinance by the resolution authority, the Executive Board no longer had a basis for continuing to prepare the 2014 financial statements on the basis of the going concern premise. As a result, the financial statements for 31 December 2014 are based on the gone concern premise; this subsequently also applies to the financial statements for 31 December 2015.

It should be noted that section 67 of the Insolvency Act (IO, grounds for opening insolvency proceedings regarding over-indebtedness under insolvency law) does not apply to Heta in accordance with section 7 (1) GSA. In its medium-term planning activities (see also note (3) Wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG)), which must be prepared by the Executive Board, the

Board does not provide for interest or capital repayments with regard to the company's debts. Therefore the contents and time-related aspects of the wind-down plan that must be prepared by the resolution authority pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG), and which form the basis for the subsequent wind-down procedure, may deviate from Heta's medium-term plan, but must nevertheless ensure that Heta's ability to pay is maintained during the wind-down process. In addition, the orderly wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) will also depend on whether circumstances that put the wind-down process pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG) objectives and principles at risk will occur in the future.

##### **(5) Wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG)**

According to section 5 GSA, the wind-down of the portfolio is to be conducted according to a wind-down plan drawn up by the Executive Board and approved by the Supervisory Board. Pursuant to the legal opinion of the resolution authority, Heta is no longer required to prepare a strict Federal Act on the Creation of a Wind-down Entity (GSA) wind-down plan as part of the Federal Act on the Recovery and Resolution of Banks (BaSAG) regime. Rather, the resolution authority will conduct its own fair, cautious and realistic assessment of the assets and liabilities of Heta, which will also form the basis for the application of wind-down instruments. It is only on this basis that - as per the legal opinion held by the resolution authority - the company must prepare a wind-down plan according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) provisions ("BaSAG wind-down plan").

In order to define a clear disposal perspective for the assets of Heta in the Federal Act on the Creation of a Wind-down Entity (GSA), recognised directives for the measurement of assets were approved with the support of external advisors and auditors, which address the intended disposition objectives and the current market conditions that must be taken into account in this context. The assets of Heta were re-measured on the basis of these directives ("AQR, Asset Quality Review"). The results of the Asset Quality Review (AQR) were already taken into account in the financial statements for 2014, which were prepared in June 2015. During the course of the preparation of the financial statements for 31 December 2015, the Asset Quality Review (AQR) measurement guidelines were adjusted to current conditions, and Heta's assets were assessed accordingly on this basis.

Heta has completed its activities for planning the portfolio wind-down on the basis of the Federal Act on the Creation of a Wind-down Entity (GSA) objectives, and published the results of these activities, in an effort to create transparency for creditors and investors, as part of a company presentation on 20 October 2015 on the specially created platform ([www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Investor information 2015)). Another update was provided on 15 December 2015, which was also published on Heta's homepage.

Because of the legal situation described above, these statements may however not be viewed as the Federal Act on the Creation of a Wind-down Entity (GSA) wind-down plan or Federal Act on the Recovery and Resolution of Banks (BaSAG) wind-down plan, but rather as the (preliminary) medium-term plan for 2016-2020. The medium-term plan 2016-2020 was developed in accordance with the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG), and refers to the holding company.

On 1 March 2015, the Financial Market Authority (FMA) initially ordered that the maturities of the debt instruments issued by Heta and the liabilities, along with the dates on which the applicable interest payments must be made, would be deferred until 31 May 2016. By that time, the resolution authority is supposed to have made a decision regarding the participation of creditors and any other instruments that may be applied in this respect. Such a participation of creditors in the form of a haircut would have far-reaching implications for the medium-term plan 2016-2020. The resolution authority notified Heta that no assumptions regarding the selection and effects of possible wind-down measures taken by the Financial Market Authority (FMA) may be included in the medium-term plan 2016-2020. Therefore, the following simplified and non-binding (i.e. purely planning-related) assumptions were made for the purpose of preparing the 2016-2020 medium-term plan:

- It is assumed that eligible liabilities in the Financial Market Authority (FMA) ordinance will not be serviced until 2020, and that the entire amount will be left at the status that existed on 1 March 2015 (the beginning of the moratorium). Interest expenses attributable to these liabilities will be recognised (accrued) analogous to the current payment days, but will not be paid. Default interest is not taken into account.
- The planned return flows from the reduction in Heta's financial and non-financial assets increase the cash liquidity position, since they are not used to pay the eligible liabilities. The cash liquidity is currently invested at the Austrian National Bank (OeNB).

- A steady reduction in assets (excluding cash liquidity) of approximately 80 % by the end of 2018 remains the intended wind-down objective. To achieve the targets, receivables and real estate are to be sold to investors mainly through individual transactions supported by portfolio transactions and the sale of entire companies.
- The planning assumptions relating to the receivables from Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) and Hypo Group Alpe Adria AG (HGAA) were examined separately, since these are still expected to remain in place after 2020 for term-related reasons. Similarly, some performing residential subsidy loans also have terms that go beyond the planning period. A decision as to how these transactions will be taken into account will be reviewed in the current financial planning for the years 2016 to 2020. Performing loans and securities with short residual terms (until 2020) are to be recovered through regular repayments and those with longer terms are to be liquidated in the medium term by being placed on the market.

Heta reached these planning-related assumptions independently for the 2016-2020 medium-term plan.

The resolution authority will conduct its own assessment pursuant to section 54 et seq. BaSAG, and to this end will draw on its own independent expert. In this context, deviations from the medium-term plan for 2016-2020, which was prepared by Heta, cannot be excluded, but rather can be expected. The resolution authority is continuously informed of the current status of the medium-term plan.

## **(6) Repurchase offer from the State of Carinthia**

On the basis of the statutory authorisation pursuant to section 2a of the Federal Act on Financial Market Stability (FinStaG), the Kärntner Ausgleichszahlungs-Fonds (K-AF) on 20 January 2016 submitted offers for those Heta debt instruments for which the State of Carinthia and also the Kärntner Landes- und Hypothekenbank - Holding (KLH) have assumed a guarantee. The repurchase offer from the K-AF regarding the purchase of all debt instruments that were issued by Heta and that are subject to the legally prescribed deficiency guarantees of the State of Carinthia and the Kärntner Landes- und Hypothekenbank - Holding (KLH), were submitted on 20 January 2016 and announced publicly on the following day. The offers include a payment for 75.0 % for non-subordinated debt instruments ("senior debt instruments") and 30.0 % for subordinated debt instruments. The offers expired on 11 March 2016, and required the approval of at least two-thirds of the affected creditors of non-subordinated and subordinated debt instruments.

On 14 March 2016, the Kärntner Landes- und Hypothekenbank - Holding (K-AF) announced that the offers from the creditors of the debt titles were not accepted with the majorities that would be required under section 2a (4) FinStaG for the purchase of the debt instruments covered under the offers. Therefore the conditions for the purpose of the debt instruments covered by the offers, which were identified as conditions for the transaction in the offer document, have not been met. The Kärntner Ausgleichszahlungs-Fonds (K-AF) also notified that it was not interested in purchasing any of the debt instruments under the offers.

The repurchase offer of the Kärntner Ausgleichszahlungs-Fonds (K-AF) and their non-acceptance do not have any direct effect on Heta's financial statements for 31 December 2015, since they only pertain to the level between Heta's creditors and the Kärntner Ausgleichszahlungs-Fonds (K-AF) and thus are outside of Heta's sphere.

## **(7) Effects of BaSAG and the haircut on the annual financial statements**

On 1 March 2015, the resolution authority (FMA) issued a decision ordering resolution measures according to Federal Act on the Recovery and Resolution of Banks (BaSAG), pursuant to which all so-called "eligible liabilities" of Heta were placed under a moratorium until 31 May 2016 in accordance with section 58 (1) (10) BaSAG in preparation for the application of the instrument which involves the participation of creditors.

The resolution authority, in exercise of its sole decision-making powers according to Federal Act on the Recovery and Resolution of Banks (BaSAG), will define the possible participation of creditors and in particular the amount and date on which the affected liabilities will be serviced in the future. Details regarding the form of the haircut are not known at this time. It can however be expected that such a participation of creditors, in compliance with the rank of the respective liabilities under insolvency law, will lead to a reduction in nominal values and the relevant interest claims.

The accounting consideration of such a reduction follows immediately after the effective date of a decision issued by the resolution authority, and will therefore have the corresponding effects on the balance sheet and income statement for the 2016 financial year.

In the financial statements for 31 December 2015, all of the liabilities that are covered by the ordinance and which are subject to the payment moratorium continue to be reported as liabilities in the balance sheet, regardless of whether they

became due in 2015 pursuant to the contractual provisions. These liabilities are measured in consideration of accrued interest, whereby the relevant contractually agreed interest rate is used as a basis. Liabilities in foreign currency are measured in application of the European Central Bank (ECB) average rate on 31 December 2015. Because of the deferral effect that is legally imposed as per Federal Act on the Recovery and Resolution of Banks (BaSAG), no default interest is entered for the time period 1 March 2015 to 31 December 2015.

### III. ACCOUNTING and MEASUREMENT POLICIES

#### (8) Measurement of assets and liabilities

The annual financial statements were prepared subject to the principles of proper accounting according to the gone concern assumptions and in observance of the general principle to present a true and fair view of the company's asset, financial and earnings position.

The principle of prudence is applied in consideration of the special characteristics of business operations to the extent that only the gains realised by the reporting date were reported and all identifiable risks and impending losses are taken into consideration in the valuation process.

Assets and liabilities are valued on a single-asset basis. The continuation of the company as a going concern could no longer be assumed, therefore the annual financial statements have been prepared on the basis of the gone concern assumption. The previously applied valuation parameters and model assumptions had to be adapted due to the conversion of Heta into a wind-down unit pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA) and the application of the gone concern assumption to the accounting process. In the valuation of assets and liabilities, the requirements of the Federal Act on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG) are taken into consideration as well as the gone concern assumptions. Where section 3 Federal Act on the Creation of a Wind-down Entity (GSA) provides for a wind-down process that is as quick as possible within the scope of the wind-down targets, section 54 BaSAG stipulates that a "fair, prudent and realistic measurement of assets and liabilities" must be carried out. According to the requirements under Federal Act on the Recovery and Resolution of Banks (BaSAG), the appraiser to be appointed by the resolution authority will perform a final valuation of the company as at the required date of 1 March 2015. This final valuation must take place in consideration of section 57 (2) no. 1 BaSAG, and it must be ensured that "all losses on assets [...] are recorded in full in the accounts of the institute or company." Given that the legally required final valuation under section 57 BaSAG by the resolution authority (FMA) was not yet available at the time these annual financial statements were prepared, the respective measurement approaches and requirements had to be taken into account within the scope of the annual financial statements for 2015.

Assets and liabilities in foreign currencies are translated using the average rates of exchange on the balance sheet date. Forward transactions are translated at the applicable forward rate.

**Loans and advances** to credit institutions and customers are in general entered at their nominal value; risk provisions on loans and advances and those according to section 57 (1) BWG have been entered at the highest allowable amount. Premiums and discounts on issues are recognised under prepaid expenses and deferred income respectively, and are released over the life of the security. Loans and advances that are low in volume or subject to lower interest rates are discounted at a market interest rate.

**Credit risks** are accounted for by specific and portfolio-based loan loss allowances for loans and advances and by provisions for off-balance-sheet commitments. Risk provisions pursuant to Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) are determined and calculated in accordance with the detailed provisions of the International Financial Reporting Standards (IFRS). Specific loan loss allowances are created where there is an objective evidence of credit risk, taking into account the amount of the expected loss. The size of the specific provision is calculated as the difference between the carrying amount of the loan and the net present value of the estimated future cash flows, taking into account the provided collaterals, whereby the original effective interest rate is used as the discounting rate. In terms of the assessment of expected cash flows from the provided collaterals, the "realisable sales value" is applied in consideration of the gone concern assumption.

The assessment of recoverability includes an estimate regarding the amount, duration and probability of the expected repayments. In the case of loans and advances below an amount of EUR 1.0 million (2014: EUR 3.0 million), the specific provision is calculated as a lump-sum amount. Portfolio risk provisions are formed for impairments on the credit portfolio which have been incurred as at the balance sheet date but which have not yet been reported. In the calculation of these risk provisions, loans and advances are grouped in homogeneous portfolios with comparable risk characteristics. These are determined in consideration of the off-balance-sheet business. The calculation of portfolio risk provisions is based on an internal model and has been adapted in accordance with the requirements of a wind-down unit. Loans and advances for which specific provisions have been formed are not included in the calculation of portfolio risk provisions. Furthermore, impairments pursuant to section 57 (1) BWG were recognised at the highest possible amount in order to take into account expected disposal losses from loans and advances, which do not have the characteristics of default, as well as the potential credit risk from foreign currency-related exposure increases. The objectives of Section 3 GSA, which stipulates that the portfolio wind-down at Heta must take place in an orderly and active manner to the best possible advantage and as quickly as possible within the scope of the wind-down targets, was observed accordingly in line with the measurement of the financing portfolio.

The risk of impairment of **refinancing lines** to subsidiaries is assessed on the basis of an estimate of expected (negative) equity at the end of the detailed planning period until 2020 using the subsidiaries' business plans, which were also prepared in accordance with the gone concern assumption. The provision amount is calculated by adding the equity capital as at 31 December 2015 and the (positive and negative) results of the planning period until 2020. With regard to those subsidiaries for which a sales strategy has been defined, a lump-sum discount amount was taken into account on the basis of the business plans of the respective subsidiaries; this discount also represents the risks from possible contractual warranty obligations.

**Securities** earmarked for permanent use in the business are shown on the balance sheet as financial assets in accordance with section 56 (1) BWG and are valued according to the modified lower of cost or market value. Due to the requirements under the Federal Act on the Creation of a Wind-down Entity (GSA), which provides for the quickest possible disposal of all assets relevant to the wind-down portfolio, this also applies to securities items. Given that the company no longer has the opportunity to hold securities until maturity, the entire portfolio of financial assets was reclassified to current financial assets in 2014.

Securities in current assets are recognised at market value in accordance with section 56 (5) BWG, provided they are stock exchange listed securities. Unlisted securities are valued strictly at the lower of cost or market value. Bought-back liabilities are allocated to current assets. Own issues such as these are measured at cost of acquisition, with any difference between a higher buy-back value and the repayment amount being immediately recognised in the income statement. If there is a difference as a result of the repayment amount being lower than the buy-back value, this is only recognised in the income statement upon redemption. As there is no unlimited holding period for securities in current financial assets due to the Federal Act on the Creation of a Wind-down Entity (GSA), and these must therefore be sold in the short to medium term, care was taken to ensure that the calculation of the market value for less liquid securities allows for the swift disposal of the securities.

Securities forming part of the trading book are included at the market value as at the balance sheet date. As a general rule, market values of financial instruments to be included in the financial statements are based on stock market prices. If no quoted prices exist, the future cash flows of a financial instrument are discounted to the present value using the relevant interest rate curve. The measurement is carried out by means of processes and financial calculations which are standard for this sector.

**Investments in associated companies and shares in affiliated companies** are recognised at the cost of acquisition, provided that there is no permanent impairment that would require a write-down. If an impaired investment has to be written up again as a result of a higher company value, it will be written up at maximum up to the amount of the acquisition costs. The intrinsic value of the carrying amounts is checked at least once a year close to the balance sheet date. According to section 225 (5) of the UGB, associated companies must be measured using the provisions applicable to fixed assets unless they are not intended to be of permanent use to the entity. In this case, they are to be valued using the provisions applicable to current assets under section 206 UGB. Any amounts required to cover potentially negative equity in the subsidiaries are provided for within the scope of the measurement of granted refinancing lines. No carrying amounts for investments are reported for these companies. In terms of the measurement of participations, the statement from the Austrian Financial Reporting and Auditing Committee (AFRAC) "Subsequent measurement of participations in annual financial statements prepared under the UGB" dated November 2014 must be observed. Accordingly, the fair value of participations which are intended to be sold is calculated from the objective company value as long as no offer has been submitted to purchase the participation.

In the case of participations in which the company holds a majority share and whose purpose is the holding of securities (securities investment companies), the measurement is performed on the premise that the company will be wound down.

The carrying amount for other direct investments is calculated on the basis of this for companies which show positive equity.

**Intangible assets**, together with **tangible assets** (land and buildings; fixtures, fittings and equipment) are recognised at acquisition or construction cost, less scheduled depreciation and amortisation and, where necessary, less write-downs for impairment. Depreciation and amortisation is applied on a straight-line basis. Rates of depreciation and amortisation for immovable assets are between 2 % and 4 %, 5 % to 33 % for movable assets, and 25 % for software. If the carrying amount of real estate exceeds the expected disposal gains, unscheduled depreciation is recognised in the amount of the difference. Low-value assets with acquisition costs of less than EUR 400 are fully expensed in the year of purchase.

**Liabilities** are shown either at the nominal value or the amount repayable. Premiums or discounts are distributed on the basis of the term of the underlying liabilities, and are shown in the interest result. With regard to the liabilities that are subject to the moratorium, the agreed interest is accrued and reported as an expense. The other issue costs are shown immediately as an expense.

**Defined-contribution pension schemes for employees** are comprised of pension, severance and anniversary obligations. These obligations are calculated on the basis of the projected unit credit method in compliance with IAS 19, which is admissible pursuant to Austrian Commercial Code (UGB)/Austrian Banking Act (BWG), whereby the distribution of actuarial



profits and losses (so-called corridor method) was not utilised. The obligation recognised for a defined-benefit plan corresponds to the present value of the defined payment obligation less the fair value of the plan assets. The present value of the payment obligations exceeds the fair value for all of the pension plans. The resulting liability is reported in the "Provisions" item in the balance sheet.

In the financial year, the **provisions for pension obligations** for current pensions was calculated on the basis of an actuarial appraisal. The calculation used an interest rate of 2.00 % (2014: 2.15 %) and an unchanged annual pension increase of 2.0 % p.a.

The provisions for **anniversary benefits** were calculated on the basis of an actuarial appraisal and a termination of employment in the year 2020. The calculation was carried out on the basis of an interest rate of 2.00 % (2014: 2.15 %) and an amended salary trend of 3.0 % (2014: 2.3 %) p.a., taking into account a fluctuation discount of 6.0 % (2014: 6.0 %).

**Provisions for severance payments** were calculated on the basis of an actuarial appraisal, taking into account the claims at the expected termination date. The calculation was carried out on the basis of an interest rate of 2.00 % (2014: 2.15 %) and an amended salary trend of 3.0 % (2014: 2.3 %) p.a., taking into account a fluctuation discount of 0.0 % (2014: 0.0 %). The provision was calculated assuming retirement at the earliest statutory pensionable age according to the General Social Insurance Act ASVG (2004 Pension Reform) and termination by the employee after ten years of uninterrupted employment. Current service costs for pensions are distributed evenly over the entire period of service, from joining the company until reaching the statutory retirement age.

**Other provisions** were created in the amount of the expected utilisation. They take into account all liabilities for which the amount and/or due date is not yet known. Non-current other provisions are not discounted. Other provisions include provisions for restructuring costs accrued in relation to the wind-down of the company. The reduction of the workforce was also provided for by forming a provision for expected costs; this provision was recognised in extraordinary income. In order to give adequate consideration to the special characteristics of the complete wind-down of the company under the gone concern assumption and the principle of prudence, a one-off provision was formed for yet to be incurred personnel and material costs in the planning period to 2020. Allocations and reversals (usually to compensate for expenses and losses) are applied in the extraordinary result.

**Derivative financial transactions** (forward transactions, swaps, options) are allocated either to the banking book or to the trading book, depending on their purpose. Pending transactions, as a matter of principle, are not recognised in the balance sheet. Derivatives allocated to the trading book (currency futures) are recognised at market value in UGB accounting and are included under other assets or other liabilities. Where banking book derivatives are not being directly used to hedge an underlying transaction and are intended to hedge a risk other than a currency risk, a provision for anticipated losses – as well as not fully effective hedging relationships – is shown in the balance sheet for any negative market value existing on the balance sheet date. Paid for and received option premiums are disclosed under other assets and other liabilities respectively. Option price models based on the Black-Scholes models or the Hull-White models are used for the measurement of financial instruments with an option character, using current market parameters.

Due to the restructuring under the Federal Act on the Creation of a Wind-down Entity (GSA), which does not allow the company to hold non-current securities and loans and advances until their maturity, no hedge relationship (asset swap) is assumed for those derivatives that have a hedging relationships with such a financial instrument. If the market value was negative, provisions were created for pending losses. Furthermore, provisions were also made for the risk of a premature termination of derivatives and any resulting expenses. Because of the imparity realisation principle, it is not possible to report profits from the measurement for positive market values from derivatives.

## (9) Use of estimates and assumptions/main estimate uncertainties

The financial statements contain values that are calculated on the basis of discretionary decisions as well as estimates and assumptions. Important uncertainties relate in particular to establishing risk provisions for loans and advances, assessing fair values, the measurement of equity investments and refinancing lines provided to the same, the recoverability of other assets, the measurement of legal risks as well as provisions and the treatment of deferred tax risks.

The assessment of the recoverability of problematic loans includes an estimate regarding the amount, duration and probability of the expected repayments. This assessment is based on a detailed analysis of carefully devised assumptions, which however are subject to uncertainties. A different assessment of these assumptions may lead to markedly different valuations of the credit risk provisions. Therefore actual loan defaults may deviate from the credit provisions reported in these financial statements.

The fair value of financial instruments for which there are no active markets is established by means of various valuation models. The applied input parameters - where available - relate to observable market-based data. Where this is not possible, the fair value must be calculated on the basis of estimates. At Heta, fair value is calculated using a comparison with the fair

value of another financial instrument that is essentially identical, an analysis of discounted cash flows and option pricing models.

The measurement of participations (equity capital) and refinancing provided to the group companies (debt capital) is mainly performed on the basis of the subsidiaries' business plans, which provide for a full portfolio wind-down and - with regard to those companies for which the Executive Board has defined a sales strategy - on the basis of the funds expected from the disposal. Uncertainties exist with regard to compliance with the business plans, and the implementation of the wind-down strategy defined for each subsidiary (own wind-down or sale).

In view of the continuing economic weakness in south-eastern Europe, it is also possible that additional impairments will have to be applied to the existing loan portfolio. As a result, the uncertainties related to the estimates and assumptions may lead to a situation in which the carrying amounts of the affected assets must be further adjusted or provisions must be created in future periods.

## IV. NOTES ON BALANCE SHEET

### (10) Relations with affiliated and associated companies

The following balance sheet items include loans and advances and liabilities with respect to affiliated or associated companies:

	EUR thousand	
	31.12.2015	31.12.2014
<b>A3: Loans and advances to credit institutions</b>	<b>2,054,481</b>	<b>2,520,412</b>
of which to affiliated companies	0	0
of which to associated companies	0	0
of which to non-group companies	2,054,481	2,520,412
<b>A4: Loans and advances to customers</b>	<b>2,504,042</b>	<b>3,246,408</b>
of which to affiliated companies	1,083,091	1,816,859
of which to associated companies	0	0
of which to non-group companies	1,420,951	1,429,549
<b>P1: Liabilities to credit institutions</b>	<b>3,519,497</b>	<b>2,929,159</b>
of which to affiliated companies	0	0
of which to associated companies	0	0
of which to non-group companies	3,519,497	2,929,159
<b>P2: Liabilities to customers</b>	<b>1,480,656</b>	<b>1,668,081</b>
of which to affiliated companies	50,329	217,011
of which to associated companies	0	0
of which to non-group companies	1,430,327	1,451,070
<b>P8: Subordinated liabilities</b>	<b>1,969,716</b>	<b>1,095,566</b>
of which to affiliated companies	0	0
of which to associated companies	0	0
of which to non-group companies	1,969,716	1,095,566

Loans and advances to credit institutions declined during the 2015 financial year from EUR 2.5 billion to EUR 2.1 billion, primarily due to provisions connected with the sale of former subsidiaries in South-East Europe and Italy.

Loans and advances to customers do not include any subordinated loans and advances (2014: EUR 0.3 billion). The amount of subordinated loans and advances is mainly due to affiliated companies.

**(11) Maturities of balance sheet items**

Maturities in accordance with section 64 (1) (4) BWG:

	EUR thousand	
	31.12.2015	31.12.2014
<b>A3: Loans and advances to credit institutions</b>	<b>2,054,481</b>	<b>2,520,413</b>
- payable on demand	370,055	166,905
- up to three months	176,424	49,423
- three months to one year	467,214	413,317
- one year to five years	1,018,642	1,827,078
- over five years	22,146	63,690
<b>A4: Loans and advances to customers</b>	<b>2,504,043</b>	<b>3,246,407</b>
- payable on demand	269,547	224,746
- up to three months	208,840	478,452
- three months to one year	411,505	706,584
- one year to five years	961,809	1,189,788
- over five years	652,342	646,837
<b>P1: Liabilities to credit institutions</b>	<b>3,519,497</b>	<b>2,929,159</b>
- payable on demand	858,772	946,420
- up to three months	15,000	30,000
- three months to one year	160,000	86,407
- one year to five years	200,000	360,000
- over five years	2,285,725	1,506,332
<b>P2: Liabilities to customers</b>	<b>1,480,655</b>	<b>1,668,081</b>
- payable on demand	178,229	108,685
- up to three months	88,500	196,689
- three months to one year	188,760	135,000
- one year to five years	940,392	1,143,157
- over five years	84,774	84,550

The maturity of the loans and advances and liabilities is calculated according to the contractual provisions of the underlying transactions. Accordingly, the maturity dates of loans and advances do not reflect the statutory requirements of the Federal Act on the Creation of a Wind-down Entity (GSA), which stipulates the swiftest possible portfolio wind-down for Heta. Depending on the actual implementation of the wind-down, the effective return flows can or will differ from the contractual return flows. With regard to the maturity of liabilities, reference is made to the decision of the resolution authority (FMA) from 1 March 2015, which was issued on the basis of the Federal Act on the Recovery and Resolution of Banks (BaSAG). As a result, all "eligible liabilities" of Heta are placed under a moratorium until 31 May 2016 (see also explanations under note (2.2.) Hypo Alpe Adria Restructuring Act (HaaSanG)).

Of the Other loans and advances reported under Other assets, EUR 1,377 thousand (2014: EUR 3,311 thousand) feature a remaining maturity of more than one year. In the case of Other liabilities, this figure is EUR 138,015 thousand (2014: EUR 90,889 thousand).

Liabilities to credit institutions include an amount of EUR 2,219,423 thousand (2014: EUR 1,304,205 thousand), which - based on Heta's view that the conditions for the Austrian Equity Substituting Capital Act (EKEG) have been met - may not be returned to the former shareholder of Heta (see note (40.3.2) Judgement of the Munich I regional court regarding equity substitution loans from Bayerische Landesbank). This financing had already become due as per the contract on the balance sheet date. The change is mainly due to the renewed recognition of liabilities at the nominal amount of EUR 797,741 thousand to BayernLB, which were deemed to have expired in connection with the Hypo Alpe Adria Restructuring Act (HaaSanG) and the corresponding regulation (HaaSanV) that was repealed by the Constitutional Court of Austria (VfGH) as unconstitutional. The provision created for this purpose in the previous year was reversed accordingly.

Heta's structural liquidity risk is considerable. The FMA ordinance from 1 March 2015 regarding the imposition of a debt moratorium until 31 May 2016 had a stabilising effect on Heta's liquidity situation. From the Executive Board's point of view, the company is no longer in a position to service all of its liabilities by their due date. According to the ordinance issued by the resolution authority, the debt moratorium ends on 31 May 2016. Heta expects that its liabilities will be reduced (haircut) before the debt moratorium ends, whereby the amount and design of such a haircut are not known at this time, and as a result of which the due dates of the liabilities would also be adjusted to the wind-down of Heta. Independent refinancing options no

longer exist since the de-regulation. Proceeds generated by Heta and the repayments of refinancing lines of the subsidiaries are invested with the Austrian National Bank, with the effect that the liquidity reserves rose significantly compared to the previous year, and also in connection with the debt moratorium. The ability to measure the liquidity risk is restricted due to the possible changes that may occur after the end of the debt moratorium.

## (12) Securities

Information pursuant to section 64 (1) (10) and (11) BWG:

	EUR thousand	
	31.12.2015	31.12.2014
<b>Treasury bills and other bills eligible for refinancing with central banks</b>	<b>182,898</b>	<b>233,182</b>
of which listed	182,898	233,182
of which not listed	0	0
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	180,203	230,157
of which accrued interest	2,695	3,025
<b>3. Loans and advances to credit institutions (evidenced by certificates)</b>	<b>2,146</b>	<b>152,685</b>
of which listed	0	0
of which not listed	2,146	152,685
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	2,146	152,683
of which accrued interest	0	2
<b>4. Loans and advances to customers (evidenced by certificates)</b>	<b>136,840</b>	<b>183,671</b>
of which listed	0	0
of which not listed	136,840	183,671
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	136,244	183,004
of which accrued interest	596	667
<b>5. Bonds and other fixed income securities</b>	<b>173,912</b>	<b>391,358</b>
of which listed	173,912	391,358
of which not listed	0	0
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	171,942	387,697
of which accrued interest	1,970	3,661
<b>6. Shares and other non-interest-bearing securities</b>	<b>18,520</b>	<b>20,855</b>
of which listed	18,103	16,564
of which not listed	417	4,291
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	18,519	20,855
of which accrued interest	0	0
<b>7. Shares in associated companies</b>	<b>0</b>	<b>2</b>
of which listed	0	0
of which not listed	0	2
<b>8. Shares in affiliated companies</b>	<b>85,375</b>	<b>505,252</b>
of which listed	0	0
of which not listed	85,375	505,252

Bonds and other fixed-income securities are broken down as follows:

	EUR thousand	
	31.12.2015	31.12.2014
<b>Issued by the public sector</b>	<b>27,976</b>	<b>28,153</b>
<b>Issued by others</b>	<b>145,936</b>	<b>363,206</b>
Own issues	3,122	3,267
Domestic bonds (credit institutions)	16,111	30,673
Foreign bonds (credit institutions)	93,312	264,814
Mortgage bonds and municipal bonds	8,876	45,895
Convertible bonds	0	0
Other bonds	24,515	18,557
<b>Total</b>	<b>173,912</b>	<b>391,359</b>

The difference between the securities valued at the higher market value (section 56 (5) BWG) and the acquisition costs is EUR 18,628 thousand (2014: EUR 22,754 thousand).

In the year 2016, fixed-income securities in the amount of EUR 181,775 thousand (previous year's figure relating to 2015: EUR 282,858 thousand) from securities denominated in Euro and EUR 0 thousand (previous year's figure relating to 2015: EUR 11,433 thousand) from securities denominated in foreign currency become due.

Fixed-interest securities of non-public issuers, which were eligible for refinancing with the Austrian National Bank on the reporting date, amount to EUR 168,569 thousand (2014: EUR 293,718 thousand).

As at 31 December 2015, subordinated securities according to section 45 (2) BWG in the portfolio amounted to EUR 4,706 thousand (2014: EUR 6,602 thousand).

No money market instruments were attributed to the securities trading book as at 31 December 2015.

Securities that are recorded in the trading book or bank book as current assets are shown in the balance sheet at the respective market value, to the extent that the current financial assets involved are stock exchange listed securities within the meaning of section 56 (5) BWG. The fixed asset portfolio does not contain any financial instruments.

### (13) Investments and affiliated companies

Details regarding associated companies pursuant to section 238 (2) UGB are shown in Annex 3 to the notes.

In the 2015 financial year, expenses arising from shares in affiliated companies and participations in the total amount of EUR 3,137,233 thousand (2014: EUR 1,142,087 thousand) were incurred, which also included write-downs of carrying amounts due to disposals.

Recapitalisations of subsidiaries during the 2015 financial year amounted to EUR 3,211,081 thousand. With regard to most of the injections of new equity capital, specific provisions were created for the refinancing lines as at 31 December of the previous year. Following the implementation in 2015, the non-valuable part of the respective capital measure was recognised as a write-down in the carrying amount of the investment. In addition, the corresponding specific provision was reversed through profit or loss.

In the 2015 financial year, the carrying amounts for affiliated companies were written up in the amount of EUR 39,498 thousand (2014: EUR 0 thousand). The largest part is due to the two securities investment companies in Jersey, which repatriated their capital in the 2015 financial year. The impairment of the carrying value performed in previous years was recognised as a write-up through profit or loss at the amount of the repayment amounts that exceeded the carrying amounts.

### (14) Intangible and tangible assets

An analysis of individual items and of changes during the year under review are shown in the fixed assets movement schedule (Annex 1 to the notes).

As at 31 December 2015, the value of land included in land and buildings amounted to EUR 1,020 thousand (2014: EUR 1,020 thousand).

**(15) Other assets**

Other assets are comprised of the following:

	EUR thousand	
	31.12.2015	31.12.2014
Interest income	128,543	157,496
- of which to be paid after the closing date	119,492	146,865
Offset claim	57,705	42,935
Receivables from dividends paid out in different year to their allocation	0	362
Receivables arising from the foreign exchange valuation of banking book derivatives	16,454	3,429
Loans to affiliated companies	20,391	20,284
Receivables from trading book derivatives	14,042	16,099
Trade receivables	11,912	75,329
Other loans and advances	249	293
<b>Total</b>	<b>249,296</b>	<b>316,227</b>

**(16) Other liabilities**

Other liabilities are comprised of the following:

	EUR thousand	
	31.12.2015	31.12.2014
Interest expenses	91,156	62,594
- of which to be paid after the closing date	27,302	38,799
Clearing account balances	6,882	2,835
Fees and levies	34,052	26,535
Liabilities from foreign currency measurement of banking book derivatives	138,945	4,258
Liabilities from trading book derivatives	14,799	17,124
Trade payables	1,571	1,250
Miscellaneous liabilities	38,690	25,982
<b>Total</b>	<b>326,095</b>	<b>140,578</b>

Other liabilities include fees and levies of EUR 31,368 thousand (2014: EUR 21,157 thousand) from liabilities related to the tax allocation in the course of group taxation.

The Remaining other liabilities include accruals for guarantee commissions in the amount of EUR 17,161 thousand (2014: EUR 17,161 thousand).

**(17) Deferred assets**

This item consists of expenses that must be spread over the term of the agreements. The sum total of deferred assets as at the 31 December 2015 balance sheet date is EUR 7,023 thousand (2014: EUR 9,305 thousand).

**(18) Provisions**

Provisions are comprised of the following:

	EUR thousand	
	31.12.2015	31.12.2014
Holiday not taken	2,013	2,514
Long-service bonuses	87	835
Employee performance bonuses	5,315	4,895
Legal and consultancy fees	114,294	85,992
Risks from the lending business	33,062	57,641
Restructuring provisions	27,174	24,284
Letters of comfort/guarantees for subsidiaries	17,196	19,702
Provision related to sales transactions	122,510	311,000
Provision for impending claims by creditors	0	886,850
Provision related to closing costs	262,000	425,000
Provision related to guarantee fees	23,979	0
Vorsorgen i.Z.m. gesetzlichen Kostenrückforderungen	51,025	0
Provision related to a loss sustained in pending transactions	165,298	244,831
Tax provisions	2,313	0
Miscellaneous provisions	9,622	47,523
<b>Total</b>	<b>835,888</b>	<b>2,111,067</b>

In connection with the judgement of the court of first instance issued on 8 May 2015 relating to BayernLB's financing, which in the view of Heta must be regarded as equity-substituting, a provision in the amount of EUR 886,850 thousand had to be established in view of an imminent claim by creditors (see note (40.3.2.) Judgement of the Munich I regional court regarding equity substitution loans from Bayerische Landesbank). It was completely reversed following the repeal of the Hypo Alpe Adria Restructuring Act (HaaSanG) by the Constitutional Court of Austria (VfGH) (see Item 40.2 Repeal of the Hypo Alpe Adria Restructuring Act (HaaSanG) by the Constitutional Court of Austria (VfGH) and resulting lawsuits) and the associated re-recognition of the liability.

In order to comply with the statutory requirements of the Federal Act on the Creation of a Wind-down Entity (GSA), which provides for the conversion of Heta into a wind-down unit and the mandatory liquidation of the company after the completion of the portfolio wind-down, a provision was recorded in the amount of the future expenses to be incurred. This provision is based on the gone concern premise, which, in order to ensure consistency with the generally accepted principle of the most accurate possible description of the asset, financial and earnings position of the company, allows or requires the recording of future losses. On this basis, a provision was made for anticipated ongoing personnel and operating expenditure in the period from 2015 to 2020, which are associated with the complete wind-down of the portfolio. As at 31 December 2015, the provision is 262,000 thousand (2014: EUR 425,000 thousand). The utilisation of EUR 163,000 thousand was recognised in the extraordinary result and includes EUR 73,221 thousand from the reversal of the provision for yet to be incurred personnel and material expenses as well as EUR 89,779 thousand from the adjustment of this provision on the basis of adjusted business plans.

Special restructuring provisions were created to take into account the planned reduction in the workforce (until and including 2020) and the financial charges resulting from the social plan; these provisions amount to EUR 27,174 thousand (2014: EUR 24,284 thousand).

The item for provisions in connection with fees includes expenses for future fees for the 2016 and 2017 financial years in connection with the guarantee agreement, which was calculated in consideration of the expected cash flows.

The provisions for risks from the loan business include provisions at the portfolio level of EUR 1,169 thousand (2014: EUR 52 thousand) and also provisions for individual cases in the amount of EUR 31,892 thousand (2014: EUR 57,589 thousand).

The obligations from sales transactions, which are shown at EUR 122,510 thousand (2014: EUR 311,000 thousand) are in relation to the transfer of the SEE bank network. It relates to the fee payable to the Republic of Austria for providing a guarantee ("hedging instrument").

The provisions for legal and consulting fees include an amount of EUR 32,507 thousand (2014: 45,750 thousand) that pertains to the forensic investigation of the company's past and the associated legal advisory and procedural costs.

The provision for obligations to subsidiaries includes a contingent loss provision of EUR 16,993 thousand (2014: EUR 17,656 thousand) resulting from an internal leasing contract for a corporate asset (real estate).



Through the creation of provisions for pending losses, a loss sustained in pending transactions which are not shown in the balance sheet is recorded in the period in which it becomes probable and identifiable as a result of the developments in market conditions (section 198 (8) UGB). The amount of the provision is dependent on the size of the expected loss. The analysis of the possibly required provision takes into account the market values of all derivatives in the banking book. The calculation of the pending loss provision from banking book derivatives as at 31 December 2015 in the amount of EUR 165,298 thousand (2014: EUR 244,831 thousand) included a consideration of the report of the Austrian Financial Reporting and Auditing Committee (AFRAC) "Recognition of Derivatives and Hedging Instruments under Company Law" from September 2014. According to the Austrian Financial Reporting and Auditing Committee (AFRAC) opinion, derivatives constitute pending transactions and according to the imparity realisation principle may only be entered in the balance sheet if under section 198 (8) (1) UGB a provision is to be established for pending losses. Due to the excessive indebtedness of the company reported as at 31 December 2014 and the removal of financial support by Heta's owner, as well as the decision of the resolution authority (FMA) from 1 March 2015, it is not assumed that the issued bonds and debt instruments (shown as liabilities) that are subject to the moratorium will be serviced in the amount of the nominal claim. Therefore, no effective hedging relationship between the underlying transaction (shown as a liability) and the derivative security translation could be assumed retroactively since 31 December 2014. In the absence of these hedging relationships, a pending loss provision was created at the amount of the negative market value of the hedge derivatives. Due to the requirement stipulated by the Federal Act on the Creation of a Wind-down Entity (GSA) for all portfolio wind-down relevant assets to be sold as quickly as possible, it became necessary, in the case of derivatives transactions that have a hedging relationship to a claim or security shown in the balance sheet as an asset (asset swap), the maturity date of which is after 2020, for this hedging relationship to be dissolved and a provision in the amount of a possible negative market value to be recorded. This situation still exists as at 31 December 2015.

## (19) Information on risk provisions

The following risk provisions are in place as at 31 December 2015:

	EUR thousand	
	31.12.2015	31.12.2014
<b>Loans and advances to credit institutions</b>	<b>677,003</b>	<b>1,242,019</b>
Specific risk provisions	657,646	1,235,332
Portfolio-based provisions	19,357	6,687
<b>Loans and advances to customers</b>	<b>2,381,808</b>	<b>5,653,185</b>
Specific risk provisions	2,352,806	5,631,104
Portfolio-based provisions	29,002	22,081
<b>Off-balance-sheet risks from the lending business</b>	<b>33,061</b>	<b>57,641</b>
Individual provisions	31,892	57,589
Portfolio-based provisions	1,169	52
<b>Total</b>	<b>3,091,872</b>	<b>6,952,845</b>

Credit defaults that had already occurred on the reporting date but were not yet identified as such were taken into account with a portfolio impairment of EUR 49,528 thousand (2014: EUR 28,820 thousand).

The level of the specific risk provisions for loans and advances to customers and credit institutions decreased from EUR 6,866,436 thousand (2014) to EUR 3,010,452 thousand, of which an amount of EUR 767,656 thousand (2014: EUR 3,663,313 thousand) is attributable to financing provided to affiliated companies. Following the recapitalisation measures in 2015, the non-valuable portion of the respective capital measure was recognised as an impairment on the carrying amount of the participation, and the relevant specific provision was reversed accordingly through profit or loss. In this context, the valuation rates that are used for the real estate collateral on which the financing is based reflect the sales values that can be achieved in the short term in saturated markets.

## (20) Risk provisions according to section 57 (1) BWG (provision adjustments)

For those receivables from customers that show no indications of payment default, a provision of EUR 107,755 thousand (2014: EUR 111,093 thousand) was recognised according to section 57 (1) BWG for the loss on disposal expected due to a premature sale (difference between the market value of the receivables and the carrying amount).

With regard to claims against public debtors that are also not considered to be in payment default, provisions totalling EUR 31,521 thousand (2014: EUR 0 thousand) were created for possible future defaults.

In addition, a provision adjustment of EUR 65,525 thousand (2014: EUR 115,000 thousand) was created for the foreign currency risks resulting from the open currency positions.

Overall, the maximum provisions created pursuant to section 57 (1) BWG amount to EUR 204,800 thousand (2014: EUR 226,093 thousand).

## **(21) Liabilities Pfandbriefbank**

The other member institutions and guarantors covered the liabilities of Pfandbriefbank (Österreich) AG (Pfandbriefbank) after 1 March 2015, for which Heta would have been responsible in terms of the internal relationship. These concern those issues that were carried out by the Pfandbriefbank on behalf of Heta. Heta was informed by the Pfandbriefbank that the bank had assigned its own claims against Heta (from the forwarding of the issue proceeds) to (several) member institutions and guarantors in return for assuming these liabilities.

The legal nature of the receivable from Heta had not changed by the balance sheet date.

Since Heta was not fully informed of the internal agreements between the Pfandbriefbank, the other member institutions and the guarantors, the Executive Board made the decision that the liabilities issued through the Pfandbriefbank would no longer be reported under Liabilities to customers and Liabilities evidenced by certificates, but rather in a separate item as at 31 December 2015.

For additional information, please refer to note (28) Liability for commitments issued through Pfandbriefbank (Österreich) AG.

## **(22) Deferred income**

This item consists of income that must be spread over the term of the agreements. The sum total of deferred income as at the 31 December 2015 balance sheet date is EUR 6,135 thousand (2014: EUR 24,702 thousand) and includes received upfront payments from derivative transactions.

For the most part, deferred income consists of an item in the amount of EUR 5,419 thousand (2014: EUR 23,552 thousand), which results from the unwinding of swaps (through profit or loss) forming part of a valuation unit.

## **(23) Supplementary and subordinated capital**

Supplementary and subordinated capital cannot be repaid prematurely, nor can it be pledged or assigned. In the event of liquidation or insolvency, the entitlements rank behind all other creditors' claims, and may not be set off against receivables of the bank.

The carrying amount of the reported supplementary capital (excluding accrued interest) as at 31 December 2015 EUR 0 thousand (2014: EUR 0 thousand). Own holdings in this respect consist of EUR 0 thousand (2014: EUR 0 thousand).

The carrying amount of the subordinated capital (excluding interest accruals) as at 31 December 2015 is EUR 1,987,283 thousand (2014: EUR 1,092,994 thousand). The carrying amount of the subordinated capital pursuant to section 23 (8) BWG (applicable version) is EUR 1,573,956 thousand (2014: EUR 1,092,994 thousand). The supplementary and subordinated capital has a remaining term of one to over five years.

In the past, Heta issued supplementary capital in terms of section 23 (7) BWG (applicable version), which was recognised as an equity component for regulatory purposes. Pursuant to the restrictions under section 23 (7) (2) BWG (applicable version), interest pertaining to the same may only be paid out "if such payments are covered by the net income for the year (before movement in reserves)". Since Heta's annual financial statements for 31 December 2007 to 2015 did not meet this criterion, Heta was not able to pay the interest for the supplementary capital issues following the formal adoption of the annual financial statements. The supplementary capital still outstanding as at 7 August 2014 expired with the FMA ordinance on the basis of the Hypo Alpe Adria Restructuring (HaaSanG). Since the Hypo Alpe Adria Restructuring (HaaSanG) was repealed by the Constitutional Court of Austria (VfGH) as unconstitutional, the payments for the supplementary capital bonds are also covered by the moratorium that was issued by the resolution authority according to Federal Act on the Recovery and Resolution of Banks (BaSAG). It is also noted that based on today's situation, a total loss must be noted, taking into account the statutory loss allocation in relation to Heta's supplementary capital issues.

Heta placed a subordinate bond of EUR 1.0 billion with institutional investors on 6 December 2012. This bond has a term of ten years and a coupon of 2.375% on the nominal value. The Republic of Austria has given an unconditional and irrevocable guarantee, and has received the necessary provisional approval of the European Commission. The European Commission authorised the guarantee from a state-aid perspective in its resolution dated 3 September 2013. For receiving this guarantee,

Heta has committed to pay the Republic a guarantee fee that was calculated on the basis of a formula defined by the EU Commission. The guarantee fee is subject to deferral pursuant to the decision of the resolution authority, so that Heta does not pay the fee to the Republic of Austria at this time.

Following the repeal of the HaaSanG by the Constitutional Court of Austria (VfGH), the subordinated liabilities that had expired in the previous year were once again reported. The subordinated liability of EUR 1,998,237 thousand (2014: EUR 1,095,566 thousand) including interest is subject to the moratorium issued by the resolution authority in the form of an ordinance.

No subordinated loans were obtained during the 2015 financial year. The already existing subordinated loans, which in an individual case exceed 10% of the total amount of subordinated liabilities in the amount of EUR 1,969,716 thousand (2014: 1,095,566 thousand), and thus an amount of EUR 196,972 thousand, are broken down as follows:

	ISIN	Nominal in EUR m	Due date	Interest rate
2,375% HAAB GUARNT.NTS 12-22	XS0863484035	1,000	13.12.2016	2.375

The modalities for the listed and all other subordinated liabilities comply with section 23 (8) BWG (applicable version).

The total amount of interest expenses for subordinated liabilities for the year under review amount to EUR 50,871 thousand (2014: EUR 42,341 thousand), with commission expenses of EUR 53,250 thousand (2014: EUR 53,250 thousand).

## (24) Issued capital

The capital stock of Heta on the balance sheet date is EUR 2,419,097 thousand (2014: EUR 2,419,097 thousand) and is divided into 989,231,060 (2014: 989,231,060) no-par bearer shares.

The extraordinary shareholders' meeting of 9 April 2014 resolved to increase the company's share capital by EUR 750,000 thousand by issuing 306,694,308 new no-par bearer shares. The resolution intended for the new shares to be issued at the pro-rata amount of share capital per individual no-par bearer share (excluding premium). The sole shareholder (Republic of Austria) had the subscription right for newly issued shares.

As a result of the resolution passed at the general shareholders' meeting of the former Hypo Alpe-Adria-Bank International AG on 30 May 2011 to reduce share capital and the resolution passed at the extraordinary shareholders' meeting of former Hypo Alpe-Adria-Bank International AG held on 30 June 2011 to convert some of the participation capital into share capital, the Tier 1-eligible participation capital held in Heta and subscribed by the Republic of Austria on 29 December 2008 now amounts to EUR 1,075,111 thousand (18,000 participation certificates each with a value of EUR 15.28394848). Under section 23 (3) (8) BWG there is no obligation to make back-payments of dividends on participation capital.

On the basis of the issue agreement and in application of section 102 BWG, the Republic of Austria is in principle entitled to exchange all the participation certificates it holds for no-par bearer shares of Heta at a conversion price to be determined in accordance with the conditions of the participation certificates.

The participation capital subscribed by the former owners during the course of the change in ownership of the former Hypo Alpe-Adria-Bank International AG on 29 December 2009 amounted to EUR 64,429 thousand (31 December 2013: EUR 64,429 thousand). In the 2014 financial year, a collection of this participation capital occurred through the application of the provisions of section 103q (14) in connection with section 26b (2) second sentence BWG (in the respective current version). The collection occurred at a settlement amount of zero.

In the annual financial statements of Heta, the participation capital is reported under Capital stock at nominal value. In the event of the liquidation of the issuer, holders of participation capital have the same rights to the proceeds of liquidation as holders of similarly-ranked capital; during its term, no ongoing allocation of earnings is made - with the exception of capital corrections. In the case of dividend payments relating to the participation capital, these are reported as appropriation of profits and not as an interest expense. The existence of an adequate annual profit after movement in reserves is used as the assessment basis. No participation capital can be distributed as no such annual profit exists.

**(25) Reserves**

Changes in capital, revenue and liability reserves were as follows:

	EUR thousand			
	At start of year 1.1.2015	Additions	Reversals	Stock at end 31.12.2015
Capital reserves	0	0	0	0
Revenue reserves	0	0	0	0
Liability reserves	0	0	0	0

There are no untaxed reserves as at 31 December 2015.

**(26) Notes regarding negative equity as at 31 December 2015 (over-indebtedness)**

In its separate financial statements according to UGB/BWG as at 31 December 2015, Heta reports total assets of EUR 9.5 billion and liabilities of EUR 17.0 billion. At EUR -7.5 billion the company is extremely over-indebted (negative equity).

Section 67 of the Insolvency Act (IO, grounds for opening insolvency proceedings regarding over-indebtedness under insolvency law) does not apply to Heta in accordance with section 7 (1) GSA.

In its medium-term plan (see also item (5) Wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG)), which must be prepared by the Executive Board, the Board does not provide for interest or capital repayments with regard to the company's debts. Therefore the contents and time-related aspects of the wind-down plan that must be prepared by the resolution authority pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG), and which forms the basis for the subsequent wind-down procedure, may deviate from Heta's medium-term plan, but must nevertheless ensure that Heta's ability to pay is maintained during the wind-down process. In addition, the orderly wind-down of Heta pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG) will also depend on whether circumstances that put the wind-down process pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG) objectives and principles at risk will occur in the future.

## V. OFF-BALANCE-SHEET ITEMS

### (27) Derivative financial instruments

The following transactions were not yet settled by the balance sheet date 31 December 2015:

EUR thousand

	Nominal purchase contracts	Nominal sales contracts	Fair value positive	Fair value negative
<b>a) Interest-related business</b>				
<b>OTC-products</b>	<b>8,146,277</b>	<b>8,146,277</b>	<b>579,259</b>	<b>323,921</b>
Interest rate swaps	8,115,127	8,115,127	579,154	323,816
Interest swaptions	0	0	0	0
Forward rate agreements	0	0	0	0
Cap, Floor	31,150	31,150	105	105
<b>Exchange-traded products</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Future bond	0	0	0	0
<b>b) Currency-related business</b>				
<b>OTC-products</b>	<b>596,812</b>	<b>601,239</b>	<b>16,974</b>	<b>156,306</b>
Currency swaps	464,733	464,733	16,968	152,329
Cross currency swaps	131,112	135,539	0	3,972
Forward exchange contracts	967	967	6	6
Currency swaptions	0	0	0	0
<b>Exchange-traded products</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>c) Shares and index-linked transactions</b>				
<b>OTC-products</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
put option	0	0	0	0
<b>d) Other</b>				
<b>OTC-products</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Credit Default Swaps	0	0	0	0
Total Return Swaps	0	0	0	0
<b>Exchange-traded products</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Derivative transactions are used to hedge against fluctuations in interest rates, currencies or market prices. For the most part, micro hedges are used to hedge individual transactions on the equity and liabilities side.

As at 31 December 2014, all derivative hedging relationships with issued bonds and liabilities had to be dissolved due to the hedging relationship no longer being effective. For securities and loans shown as assets that have a remaining maturity of more than 5 years, no bona fide hedging relationship has been assumed for such cases since 31 December 2014.

A pending loss provision was created with regard to the negative market value of derivatives as at 31 December 2015 in the amount of EUR 165,298 thousand (2014: EUR 244,831 thousand).

The comparative values as at 31 December 2014 are as follows:

EUR thousand

	Nominal purchase contracts	Nominal sales contracts	Fair value positive	Fair value negative
<b>a) Interest-related business</b>				
<b>OTC-products</b>	<b>11,400,417</b>	<b>11,400,417</b>	<b>950,535</b>	<b>552,931</b>
Interest rate swaps	11,362,623	11,362,623	950,434	552,831
Interest swaptions	0	0	0	0
Forward rate agreements	0	0	0	0
Cap, Floor	37,794	37,794	101	101
<b>Exchange-traded products</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Future bond	0	0	0	0
<b>b) Currency-related business</b>				
<b>OTC-products</b>	<b>2,994,606</b>	<b>2,996,229</b>	<b>7,109</b>	<b>241,601</b>
Currency swaps	848,233	848,233	4,693	237,938
Cross currency swaps	2,144,391	2,146,018	2,382	3,634
Forward exchange contracts	1,981	1,978	34	29
Currency swaptions	0	0	0	0
<b>Exchange-traded products</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>c) Shares and index-linked transactions</b>				
<b>OTC-products</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
put option	0	0	0	0
<b>d) Other</b>				
<b>OTC-products</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Credit Default Swaps	0	0	0	0
Total Return Swaps	0	0	0	0
<b>Exchange-traded products</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## (28) Liability for commitments issued through Pfandbriefbank (Österreich) AG

The share administration of the Pfandbriefstelle of the Austrian regional mortgage banks (formerly Pfandbriefstelle) is the sole shareholder Pfandbriefbank (Österreich) AG ("Pfandbriefbank"). On 27 June 2014, the Pfandbriefstelle submitted an application to the Austrian Financial Market Authority (FMA) and the Austrian Ministry of Finance (BMF) for approval to transfer its entire banking operations to a new stock company (Pfandbriefbank) by way of universal succession pursuant to section 92 of the Austrian Banking Act (BWG). The Pfandbriefbank was registered in the commercial register on 15 January 2015.

As a member institution of the Pfandbriefstelle pursuant to section 2 (1) of the Pfandbriefstelle Act, Heta assumes joint liability with all other member institutions for all liabilities assumed by the Pfandbriefstelle. This liability also applies to all member institutions and their universal successors, as listed in Article 2 of the Pfandbriefstelle's statutes. Pursuant to section 2 (2) of the Pfandbriefstelle Act (PfBrStG), the guarantors of the member institutions also assume joint liability for liabilities of the Pfandbriefstelle that were incurred until 2 April 2003 and after 2 April 2003 with terms ending no later than 30 September 2017.

In the audit report of the Pfandbriefbank in terms of liability law, the volume of liabilities included under the liability of the guarantors is EUR 3.3 billion as at the balance sheet date of 31 December 2015 (2014: EUR 5.5 billion). Taking into account the funds obtained by the Pfandbriefbank and forwarded to Heta in the amount of EUR 1.2 billion (2014: EUR 1.2 billion), the value that must be reported according to section 237 (8a) UGB is EUR 2.1 billion (2014: EUR 4.3 billion).

According to the Ordinance issued by the Financial Market Authority (FMA) on 1 March 2015, Heta's liabilities to the Pfandbriefbank (Österreich) AG have been deferred. In addition to the aforementioned statutory liabilities, these items include in particular those Pfandbriefbank receivables from Heta from the forwarding of the proceeds from issues that the Pfandbriefbank implemented on Heta's behalf. As a result of the ordinance, Heta is no longer required to pay the quarterly administration fees prescribed by the Pfandbriefbank, because it no longer utilises any services from the Pfandbriefbank. Furthermore, the Pfandbriefbank demands that Heta reimburse it for certain costs that were incurred as a result of the mora-

torium. Heta disputes any obligation to reimburse such costs; if there was such an obligation, these claims would also have been deferred as a result of the moratorium.

## (29) Other off-balance-sheet financial obligations

The financial obligations shown as below-the-line items in the balance sheet are as follows:

	EUR thousand	
	31.12.2015	31.12.2014
<b>Contingent liabilities</b>	<b>105,143</b>	<b>215,432</b>
Guarantees and other collateral securities	105,143	196,931
Letters of credit	0	18,501
Contingent guarantees from credit derivatives	0	0
<b>Loan exposures</b>	<b>185,655</b>	<b>436,436</b>

Credit risks exist in the form of not yet utilised credit lines in the amount of EUR 185,655 thousand (2014: EUR 436,436 thousand).

In addition, there are also guarantees that were made in connection with sale agreements, which may be utilised in the future and that may lead to financial charges for Heta.

In addition, other financial obligations exist in the form of joint liability for all those issues that were issued by the Pfandbriefstelle.

The obligations from the use of property, plant, and equipment not reported on the balance sheet of Heta (rent and lease obligations) for the 2016 financial year amount to EUR 1,586 thousand (previous year's value relating to 2015: EUR 1,747 thousand) and a total of EUR 7,930 thousand (previous year's value relating to 2015 to 2018: EUR 8,141 thousand) for the 2016 to 2019 financial years.

The provision for future personnel and material expenses that was created for the first time as at 31 December 2014 in the amount of approximately 425,000 was released into the extraordinary result during the 2015 financial year to cover these expenses in the amount of EUR 73,221 thousand. In addition, this provision was also adjusted on the basis of the amended business plans at an amount of 89,779 thousand, and the resulting income was reported under the extraordinary result. Thus the provision amount for future financial years amounts to EUR 262,000 thousand.

In addition to the contingent liabilities and loan exposures shown below the line, there are liquidity guarantees and soft (i.e. not legally binding) letters of comfort to individual group companies. To maintain their business operations, nearly all group companies depend on Heta to provide liquidity and/ or equity. This applies in particular to companies such as the group's leasing companies, which have no own funding sources to obtain liquidity and therefore have to be financed by the parent company, so that the material risk of loss is transferred to the lending institution. Insofar as these companies have negative equity that is not compensated by positive earnings in the planning period, so that the ability to service the internal group refinancing lines is at risk, a provision is recorded with regard to the affected refinancing line (through profit or loss).

As at the balance sheet date, a right of sell-out exists according to which Heta undertakes to acquire, at the residual carrying amount, the leased property comprising the headquarters in Klagenfurt after the expiration of the lease agreements in the years 2019 to 2022 upon the written request of its indirect subsidiary. A provision for pending losses was recognised in the amount of the difference between the contractual obligation and the market value of the corporate asset.

**(30) Fiduciary transactions**

The volume of fiduciary transactions on the balance sheet date, which are not reported in the statement of financial position, is as follows:

	EUR thousand	
	31.12.2015	31.12.2014
Loans and advances to credit institutions	0	0
Loans and advances to customers	73,257	69,632
Securities and shares in associated companies	0	0
other trust assets	0	0
<b>trust assets</b>	<b>73,257</b>	<b>69,632</b>
Liabilities to credit institutions	23,798	33,116
Liabilities to customers	49,460	36,516
other fiduciary liabilities	0	0
<b>fiduciary liabilities</b>	<b>73,257</b>	<b>69,632</b>

Trust income and expenses are as follows:

	EUR thousand	
	1.1.-31.12.2015	1.1.-31.12.2014
trust income	54	234
trust expenses	0	0



## VI. NOTES REGARDING THE INCOME STATEMENT

### (31) Regional breakdown of income and expenses

Interest income and expense is shown as a regional breakdown, with allocation to a region dependent on the location of the registered office of the company.

	EUR thousand	
<b>Interest and similar income</b>	<b>1.1.-31.12.2015</b>	<b>1.1.-31.12.2014</b>
<b>Loans and advances to credit institutions and customers</b>	<b>98,792</b>	<b>204,427</b>
of which Austria	34,929	38,181
of which International	63,863	166,246
<b>Fixed-income securities</b>	<b>14,209</b>	<b>27,815</b>
of which Austria	6,589	10,953
of which International	7,620	16,862
<b>Other assets</b>	<b>311,764</b>	<b>390,425</b>
of which Austria	310,772	390,424
of which International	992	1

	EUR thousand	
<b>Interest and similar expenses</b>	<b>1.1.-31.12.2015</b>	<b>1.1.-31.12.2014</b>
<b>Liabilities to credit institutions and customers</b>	<b>199,473</b>	<b>202,182</b>
of which Austria	5,163	5,258
of which International	194,310	196,924
<b>Debt evidenced by certificates</b>	<b>265,993</b>	<b>277,073</b>
of which Austria	265,993	277,073
of which International	0	0
<b>Other liabilities</b>	<b>110,821</b>	<b>196,798</b>
of which Austria	106,975	192,575
of which International	3,846	4,223

Of the item interest and similar expenses, interest in the amount of EUR 219,068 thousand, JPY 235,007 thousand and CHF 22,561 thousand was no longer paid due to the moratorium that went into effect on 1 March 2015.

### (32) Income from securities and participations

Income from participations pursuant to section 238 (4) UGB is as follows:

	EUR thousand	
	<b>1.1.-31.12.2015</b>	<b>1.1.-31.12.2014</b>
<b>Dividends recognised in parent's accounts during the year earned, rather than the year the resolution was passed to distribute profit:</b>	<b>0</b>	<b>362</b>
HBInt Credit Management Limited, Jersey	0	362
<b>Dividends received</b>	<b>1,004</b>	<b>2,991</b>
Norica Investment Ltd., Jersey	0	2,396
Hypo Consultants Holding GmbH	0	42
HBInt Credit Management Limited, Jersey	735	0
Other	270	553
<b>Total</b>	<b>1,004</b>	<b>3,353</b>

The impairment of investments and the other expenses and income related to investments in the 2015 financial year are reported under the item "13./14. Net of expenses and income from the disposal and measurement of securities valued as financial investments, and investments and shares in associated companies".

**(33) Net fee and commission income**

The development of Commission income and expenses is as follows:

	EUR thousand	
	1.1.-31.12.2015	1.1.-31.12.2014
<b>From the lending business</b>	<b>-90,623</b>	<b>-67,272</b>
Fee and commission income	1,748	4,676
Fee and commission expenses	-92,371	-71,948
<b>From the securities business</b>	<b>-550</b>	<b>-542</b>
Fee and commission income	7	1
Fee and commission expenses	-557	-543
<b>From other transactions</b>	<b>-148</b>	<b>-187</b>
Fee and commission income	37	214
Fee and commission expenses	-185	-401
<b>Total</b>	<b>-91,321</b>	<b>-68,001</b>

Fee and commission expenses for the 2015 financial year amount to EUR 17.6 million (2014: EUR 17.6 million) from the fee payable to the Republic of Austria in connection with the EUR 200.0 million guarantee agreement from the year 2010 (see note (42) Main agreements) and an amount of EUR 53.3 million (2014: EUR 53.3 million) from guarantee expenses attributable to an outstanding state-guaranteed subordinate bond. This item also includes expenses of EUR 23.9 million for future fees in the 2016 and 2017 financial years in connection with the aforementioned guarantee agreement, which were calculated on the basis of the expected cash flows and recognised as a provision.

**(34) Other administrative expense (material costs)**

The breakdown of Other administrative expenses is as follows:

	EUR thousand	
	1.1.-31.12.2015	1.1.-31.12.2014
Legal and consultancy costs	68,345	60,057
Advertising expenses	905	829
Rental and leasing expenses	4,463	4,875
IT costs	3,520	4,577
Data centre costs	2,651	6,931
Training expenses	316	996
Issue costs	175	253
Travel expenses	488	987
Fleet costs	411	624
Insurance	2,741	2,833
Telephone/postage costs	494	621
Costs in connection with company legal structure	308	401
Office/stationery costs	69	87
Miscellaneous operating expenses	471	3,986
<b>Total</b>	<b>85,357</b>	<b>88,057</b>

As a result of Heta's function as a holding company, some of the centrally procured third-party services are charged out to the group companies. This income is shown under other operating income.

**(35) Other operating income**

Other operating income is as follows:

	EUR thousand	
	1.1.-31.12.2015	1.1.-31.12.2014
Income from rental and leasing contracts	491	295
Income from release of provisions	13,038	40,254
IC group internal charging	5,736	16,279
Income from selling real estates	235	446
Other operating income	9,005	1,770
<b>Total</b>	<b>28,505</b>	<b>59,044</b>

**(36) Other operating expense**

This item of EUR -35 Tausend (2014: EUR -30,366 thousand) includes expenses of EUR -10 thousand due to investment disposals, and EUR -25 thousand for other expenses.

**(37) Net gain/loss from the remeasurement and disposal of receivables, contingent liabilities, loan exposures and securities held as current assets**

This item of EUR 3,579,981 thousand (2014: EUR -5,574,763 thousand) includes results from the reversal and allocation of impairments in the 2015 financial year of EUR +2,864,205 thousand (2014: EUR -2,736,994 thousand), which result from the reversal of provisions for refinancing lines to (existing and former) subsidiaries. The reversals are due to the recapitalisation of subsidiaries that were implemented during the 2015 financial year, which increased the recoverability of the remaining refinancing lines accordingly. Credit risk provision for third-party customers were reversed in the amount of EUR +555,451 thousand (2014: net allocation of EUR -2,297,771 thousand). This item also includes income in the amount of EUR +64,720 thousand (2014: EUR -229,142 thousand) from the reversal of derivative positions.

It also includes reversals of provisions of EUR +84,693 thousand (2014: EUR -226,093 thousand) in accordance with section 57 (1) BWG that are related to a planned sale of performing loans as well as to expected negative effects from the appreciation of the Swiss franc (CHF).

Expenses in connection with the securities classified as current assets amounted to EUR -29,444 thousand (2014: EUR -38,876 thousand).

**(38) Net gain/ loss from impairments treated as financial assets and from investments in associated and affiliated companies**

In the 2015 financial year, this item of EUR -3,118,181 thousand (2014: EUR -2,355,170 thousand) includes negative measurement effects in the area of bank participations in the amount of EUR -568 thousand (2014: EUR -605.293 thousand) and EUR -3,097,168 thousand (2014: EUR -514,084 thousand) relating to other subsidiaries. Most of these write-downs on bank participations pertain to the SEE bank network. In addition, this item also includes provisions for obligations from sales transactions in the amount of EUR -20,446 thousand (2014: EUR -1,252,100 thousand).

The income in connection with securities classified as current assets amount to EUR 0 thousand (2014: EUR 15,503 thousand).

### (39) Extraordinary result

The Extraordinary result item amounts to EUR-655,564 thousand (2014: EUR 280,214 thousand) and is the result of Extraordinary income of EUR 1,087,908 thousand (2014: EUR 1,693,379 thousand) and Extraordinary expenses in the amount of EUR -1,743,472 thousand (2014: EUR -1,413,165 thousand).

Extraordinary income includes an amount of EUR 902,343 thousand (2014: 1,675,314 thousand) of income from the reversal of a provision due to last year's requirement to create a provision as a result of the judgement of the first instance in connection with the BayernLB financing, which in Heta's view had to be considered as equity substituting (see note (40.3.2.) Judgement of the Munich I regional court regarding equity substitution loans from Bayerische Landesbank), and EUR 11,069 thousand (2014: EUR 18,065 thousand) in income from the reversal of provisions and also from settlement payments made in line with the activities relating to the forensic investigation of Heta's past.

This item also includes income of EUR 163,000 thousand resulting from the reversal of the provision created in the previous year for the internal and external costs pertaining to the wind-down of Heta in the amount of EUR -457,400 thousand.

Additional costs of EUR -4,375 thousand (2014: EUR -23,656 thousand) were recognised for the complete wind-down of the workforce.

The Hypo Alpe Adria Restructuring Act (HaaSanG), which went into force in August 2014, was declared unconstitutional by the decision of the Constitutional Court of Austria (VfGH) from 3 July 2015, which was proclaimed on 28 July 2015, and was repealed in its entirety. The associated liabilities to BayernLB and creditors of subordinated debt instruments in the amount of EUR 1,709,088 thousand plus interest and default interest had to therefore be recognised again as expenses.

This item also includes provisions of EUR -30,000 thousand (2014: EUR 0 thousand) in connection with a statutory cost recourse right.

## VII. OTHER DISCLOSURES

### (40) Important proceedings

#### 40.1. EU-proceedings

The EU state aid investigation of the former Hypo Alpe-Adria-Bank International AG was completed with a decision of the Commission of the European Union (EU Commission) on 3 September 2013.

The sale of the bank network in south-eastern Europe (SEE network, Hypo Group Alpe Adria AG (HGAA)) demanded by the EU Commission was completed on 17 July 2015, in compliance with the specifications set out for completing the disposition (deadline end of 2015). The transaction was confirmed by the EU Commission (from the viewpoint of state aid legislation) prior to the implementation of the closing.

The business purpose of Heta is the wind-down of its assets, whereby the restrictions provided for in the Commission's decision from September 2013 remain in effect. The wind-down entity continues to be subject to new business restrictions and the principle of a capital- and value-friendly wind-down, in particular also the specifications for the restructuring and business adjustment of individual engagements as well as requirements for the disposition of assets. Compliance with the requirements set out by the Commission's decision is regularly monitored by an independent Monitoring Trustee and noted in the quarterly reports to the EU Commission.

#### 40.2. Repeal of the Hypo Alpe Adria Restructuring Act (HaaSanG) by the Constitutional Court of Austria (VfGH) and resulting lawsuits

To date, Heta has been served with 34 claims in which creditors challenge the constitutional legitimacy of the Hypo Alpe Adria Restructuring Act (HaaSanG) and have sued for a declaration of the receivables and for payment. In many of these civil lawsuits, the proceedings were interrupted due to appeals to the Constitutional Court of Austria (VfGH) requesting a review of the constitutionality of the law. With the findings from 3 July 2015, the Constitutional Court of Austria (VfGH) repealed both the Hypo Alpe Adria Restructuring Act (HaaSanG) as well as the underlying ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV) regarding the implementation of restructuring measures, as unconstitutional. As a result, the liabilities which had been treated as expired in 2014 and that were derecognised through profit and loss were again recognised in the statement of financial position, and the provisions of EUR 0.9 billion, which were created in the 2014 financial statements in connection with the judgement of the court of first instance (Munich I regional court) (BayernLB (Austrian Equity Substituting Capital Act (EKEG)) procedure) from 8 May 2015 were reversed through profit and loss.

This resulted in an overall negative effect on the income statement and hence also on equity of EUR -0.8 billion (nominal) plus interest claims, which were mainly due to the re-recognition of liabilities to subordinated creditors. The renewed recognition of liabilities to BayernLB did not have a major effect on the financial statements for 31 December 2015 due to the provisions that were created in 2014.

Following the decision of the Constitutional Court of Austria (VfGH), some of the proceedings that were previously disrupted were restarted again either officially or at the request of the plaintiffs. Plaintiffs and defendants also submitted additional briefs. With the decision of the Constitutional Court of Austria (VfGH), which repealed the act and the Ordinance issued under the act, the disputed issue in the proceedings has been restricted to the applicability of the payment moratorium for the affected liabilities, which has been in place since 1 March 2015. In these proceedings, Heta takes the position that the affected liabilities are included in the moratorium issued by the Financial Market Authority (FMA).

At present, the proceedings appear to be characterised by cautious waiting, since most of the plaintiffs want to wait for the next decisions of the Austrian Financial Market Authority (FMA). Accordingly, the parties could agree on simply suspending many of the proceedings.

#### 40.3. Information regarding BayernLB

##### 40.3.1. MEMORANDUM OF UNDERSTANDING (MOU) BETWEEN THE REPUBLIC OF AUSTRIA AND THE FREE STATE OF BAVARIA AND REVIEW OF THE MOU BY HETA.

On 7 July 2015, the Austrian and Bavarian ministries of finance announced the signing of a Memorandum of Understanding (MoU) between the Republic of Austria and the Free State of Bavaria, which would form the basis for the settlement of all outstanding issues between BayernLB and Heta on the one hand, and between BayernLB and the Republic of Austria and the Kärntner Landesholding (KLH) on the other hand.

By signing the Memorandum of Understanding (MoU), the Republic of Austria and the Free State of Bavaria have initiated a process, during the course of which Heta was also invited to examine and decide whether it wished to participate in a general settlement of the existing legal disputes with BayernLB on the basis of this Memorandum of Understanding (MoU).

Therefore the executive bodies of the company were asked to review whether they are able to conclude a settlement regarding the proceedings that affect Heta - as outlined in the Memorandum of Understanding (MoU) - particularly with regard to the termination of Heta's Austrian Equity Substituting Capital Act (EKEG) proceedings with BayernLB, and the termination of the action for misrepresentation pursued by the Republic of Austria against BayernLB and Heta (for more information, see note (40.3.3) Action for misrepresentation: Republic of Austria and BayernLB). The Memorandum of Understanding (MoU) provided for a settlement amount of EUR 2.4 billion with regard to the Austrian Equity Substituting Capital Act (EKEG) proceedings (plus interest as of 1 March 2015), at which BayernLB would participate in the wind-down of Heta (whether pursuant to the BaSAG or in the course of insolvency proceedings) at the same rank and in the same manner as all other non-subordinated creditors.

The executive bodies of Heta, with the aid of Austrian and German legal experts, including the current barristers, performed a comprehensive review of the conditions for a settlement and the associated impact on Heta. On 21 September 2015, Heta announced that it would be prepared to conclude a settlement - as outlined in the Memorandum of Understanding (MoU) - with BayernLB. But in the end, BayernLB was not willing to settle the Austrian Equity Substituting Capital Act (EKEG) proceedings with Heta in the form that was originally planned. Therefore the proceedings are continued by Heta without any restrictions, and are to be completed with a legally binding decision by the German courts with jurisdiction. To this end, Heta submitted timely its grounds of appeal to the Munich upper regional court (OLG) on 1 February 2016.

However, BayernLB also declared its willingness to make certain concessions regarding its claims in the Austrian Equity Substituting Capital Act (EKEG) proceedings. These were unilaterally submitted by BayernLB in the form of a written settlement declaration, and can be summarised as follows: Even if BayernLB is awarded a larger claim in the Austrian Equity Substituting Capital Act (EKEG) proceedings with legal effect, it will only participate in the wind-down of Heta at an amount of EUR 2.4 billion plus interest of 5.0 % points p.a. above the respective base rate, at minimum 5.0 % p.a. This declaration was submitted with the proviso that BayernLB's claim participates in a wind-down procedure according to Federal Act on the Recovery and Resolution of Banks (BaSAG), insolvency proceedings regarding the assets or another form of wind-down of the company with the same rights and at the same rank as the other senior creditors. In addition, BayernLB has indicated its willingness to waive the initiation of compulsory enforcement measures and to limit its activities to participating in the wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) with its claim. No restrictions have been provided for with regard to Heta's claim against BayernLB from the counterclaims. If Heta is able to legally enforce its claims, BayernLB may also be taken to task with regard to these claims. With the exception of the claims from the Austrian Equity Substituting Capital Act (EKEG) proceedings and certain derivative transactions between BayernLB and Heta, all mutual claims were settled by way of the corresponding declarations by BayernLB on the one hand and Heta on the other hand.

In addition, the action for misrepresentation by the Republic of Austria against BayernLB as the first respondent and Heta as the second respondent was terminated. Possible claims of Heta against the Republic of Austria were not set out in any of the agreements and declarations. These are not affected by the agreements that have been entered into. Heta has obtained a waiver of statute of limitation from the Republic of Austria in order to protect its potential claims.

The implementation as shown above results in the following benefits for Heta:

- enforcement action by BayernLB with regard to Heta's assets was thus prevented;
- the claims of BayernLB against Heta totalling EUR 2.8 billion (as at 1 March 2015) will most likely be reduced to EUR 2.4 billion; and
- BayernLB commits - without prejudice to legal protection that applies equally to all creditors pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) - not to take any measures that would oppose the orderly wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) (e.g. by disputing the acknowledgement of wind-down measures in other member states).

The Executive Board of Heta believes that as a result of the agreements that have been concluded, approximately EUR 86.0 million in provisions and liabilities to BayernLB can be reversed as at 31 December 2015, since their utilisation is no longer expected, or because they are covered by BayernLB's voluntary write-off. These concern provisions for possible claims for damages asserted by BayernLB in connection with the Austrian Equity Substituting Capital Act (EKEG) proceedings and other liabilities for certain historic recourse claims of BayernLB.

The liabilities of EUR 2.8 billion (nominal plus interest claims) to BayernLB as at 31 December 2015 can only be reduced to the settlement value of approximately EUR 2.5 billion (nominal EUR 2.4 billion plus interest as of 1 March 2015 of at least 5.0 %) once it has been determined that the resolution authority recognises BayernLB's claims as equal-ranking and unsecured liabilities in the wind-down procedure for Heta. This waiver only takes effect once the wind-down of Heta is complete, however. If and at what amount the liabilities to BayernLB shown for 31 December 2015 will be covered under the measures

initiated by the resolution authority in 2016 regarding the participation of creditors is at the sole discretion of the Financial Market Authority (FMA).

#### 40.3.2. JUDGEMENT OF THE MUNICH I REGIONAL COURT REGARDING EQUITY SUBSTITUTION LOANS FROM BAYERISCHE LANDESBANK

At the end of 2012, the former majority shareholder of Hypo Alpe-Adria-Bank International AG, Bayerische Landesbank (BayernLB), sought a declaratory judgement from the Munich I regional court - which was later converted to an action for performance - in relation to the financing lines, which in the view of the former Hypo Alpe Adria are subject to the Austrian Equity Substituting Capital Act (EKEG) and may therefore neither be serviced by interest payments nor repaid until further notice. Heta submitted a comprehensive statement of defence against the claim and contested the order sought in its entirety; it also contested, in the form of five counterclaims, the repayments made to BayernLB totalling EUR 4.8 billion.

The Munich I regional court issued the judgement of the court of first instance at the hearing of 8 May 2015. The written ruling was submitted to Heta's lawyers in this case on 2 June 2015. In a not yet binding judgement, the court admitted almost the entire order sought by BayernLB, and ordered Heta to pay (i) EUR 1.03 billion plus associated interest in the amount of EUR 17.1 million, along with interest of 5.0 percentage points above the respective base rate (but at least 5.0 % p.a. since 1 January 2014 and 21 June 2014), (ii) CHF 1.29 billion plus associated interest of EUR 15.2 million, along with interest of 5.0 percentage points above the respective base rate (but at least 5.0 % p.a. since 1 January 2014) and (iii) EUR 1.4 million plus interest, and dismissed all of Heta's counterclaims (claims for recovery). Only in the instance of one bond of CHF 300 million did the court find that it did not have jurisdiction. In addition, it was found that BayernLB must be compensated for all damages that it incurred due to the non-payment or non-timely payment of the loan amounts. BayernLB would still have to sue for performance in order to obtain an enforceable decision regarding the action for damages. The declaratory judgement regarding the action for damages, which was issued with the decision of the Munich I regional court, does however limit the court's scope of review during a subsequent action for performance to whether the asserted damages are such in terms of this declaration, and whether their amounts were calculated properly.

In general, the reason put forward by the court is based on the argument that Heta was not able to provide evidence of a "crisis" in terms of the Austrian Equity Substituting Capital Act (EKEG), and the court also dismissed the application of the Hypo Alpe Adria Restructuring Act (HaaSanG) and the measures for claims based on the same according to German law, and also the application of the Austrian Financial Market Authority (FMA) ordinance issued on 1 March 2015 on the basis of the Federal Act on the Recovery and Resolution of Banks (BaSAG), which had the effect of deferring in particular BayernLB's claims that formed the subject of the proceedings until 31 May 2016.

Because of the judgement of the court of first instance, provisions of approximately EUR 0.9 billion (nominal plus interest claims) were created in the financial statements for 31 December 2014 for those liabilities that had expired due to the Hypo Alpe Adria Restructuring Act (HaaSanG). On 3 July 2015, the Austrian Constitutional Court (VfGH) repealed the Hypo Alpe Adria Restructuring Act (HaaSanG) and the liabilities were once again recognised in the statement of financial position. The provisions created for this purposes were reversed accordingly.

To comply with the deadlines, the appeal was submitted to the Higher Regional Court Munich (OLG) on 19 June 2015. The deadline for submitting the grounds of appeal was extended to 1 February 2016 with the agreement of BayernLB. Heta submitted timely its grounds of appeal. BayernLB also submitted grounds of appeal in compliance with the deadlines. A decision by the Court of Appeal is still outstanding. It is noted that in the proceedings before the Higher Regional Court Munich (OLG), BayernLB can continue to assert the current amount of its claims, regardless of the agreement that in the event of a legally-binding decision in favour of BayernLB the receivables will generally be reduced to EUR 2.4 billion (plus interest as of 1 March 2015) (see previous section).

#### 40.3.3. ACTION FOR MISREPRESENTATION: REPUBLIC OF AUSTRIA AND BAYERNLB

In a claim filed shortly before the end of the 2014 financial year at the Commercial Court of Vienna, the Republic of Austria, represented by the Austrian Attorney General's office, applied for an adjustment to the share purchase agreement entered into between the Republic of Austria and BayernLB (so called emergency nationalisation agreement) and the term sheets on which it is based. The claim for relief (main action) was for the payment of approximately EUR 3.5 billion on the part of BayernLB to the Republic of Austria. In addition, the annulment of certain provisions of the share purchase agreement and of the term sheets on which the share purchase agreement is based, in particular the provision stipulating an obligation on the part of the Republic of Austria to provide a guarantee to BayernLB of refinancing lines for Heta, was sought. For the case that the court did not agree with the main action, a series of alternative claims for, among others, the annulment of the emergency nationalisation agreement, were also filed. The first and second Respondent were BayernLB and Heta, respectively.

These proceedings were ended by the Republic of Austria in line with the Memorandum of Understanding (MoU) implemented on 11 November 2015. The Republic of Austria has withdrawn the claim against the two respondents with a release of claims.

#### **40.4. Claims in connection with the moratorium imposed according to the Federal Act on the Recovery and Resolution of Banks (BaSAG)**

Eleven lawsuits have been filed against Heta in Germany by investors for payment of bonds and applicable interests, which were not paid on the original payment day as a result of the moratorium issued on 1 March 2015. All of these lawsuits are pending at the Regional Court of Frankfurt. The lawsuits comprise bonds with a nominal value of EUR 2.2 billion and CHF 33.0 million.

With these claims, the plaintiffs dispute the recognition of the Financial Market Authority (FMA) measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG), and request payment - despite the deferral ordered in the ordinance. According to German law, judgements of the court of first instance may against collateral be declared temporarily enforceable (section 709 Code of Civil Procedure (ZPO)), which leads to the risk that plaintiffs apply for an enforcement on the basis of a judgement of the court of first instance. A judgement ordering Heta to pay the liabilities affected by the relevant legal disputes and a possible compulsory enforcement in favour of various creditors would run counter to the wind-down measures ordered by the Financial Market Authority (FMA) with its decision from 1 March 2015. For this reason, Heta will not only fight the potential judgements of the court of first instance, in order to settle the recognition of the Federal Act on the Recovery and Resolution of Banks (BaSAG) in all EU member states, but will also initiate legal remedies to defend against enforcement measures. Such a treatment of individual creditors would oppose the principle of equal treatment of creditors under the Federal Act on the Recovery and Resolution of Banks (BaSAG), the principle of the (balanced) assumption of losses by the creditors and the principle of ensuring that creditors are not put in a worse position as compared to liquidation measures taken in the course of an insolvency. As a result, on 16 March 2016 the resolution authority submitted an application to the Frankfurt regional court in charge requesting the suspension of the pending court proceedings pursuant to section 59 (1) BaSAG and alternatively requested the suspension of enforcement measures. In this context, the resolution authority is reviewing other possible legal steps designed to secure an orderly wind-down process. Finally, with regard to enforcement measures initiated by individual creditors, there is also the risk that the resolution authority applies for the commencement of insolvency proceedings to secure the equal treatment of creditors.

Insolvency proceedings would lead to additional losses for creditors because a far more rapid liquidation of assets (using the liquidation processes that apply in the respective countries with regard to insolvency proceedings) would have to be used as a basis for measurement instead of an orderly wind-down process over a period of five years (using the sales procedures commonly used for the respective assets). If such "insolvency or break-up values" are used, it would result in significantly higher losses or significantly lower proceeds.

Three legal proceedings were initiated against Heta by the State of Carinthia and the Kärntner Landesholding (KLH) in relation to legal proceedings initiated by investors against the State of Carinthia and the Kärntner Landesholding (KLH) on the basis of the deficiency guarantees ordered by state law in connection with the bonds affected by the moratorium. Heta has joined these proceedings on the side of the state and the Kärntner Landesholding (KLH) as an intervenor. Two proceedings resulted in a judgement of the first instance against the plaintiff. The plaintiff has appealed these decisions.

Two of the three submitted Federal Act on the Recovery and Resolution of Banks (BaSAG)-related submissions to the Constitutional Court of Austria (VfGH) for a review of the constitutionality of the law and the admissibility of including Heta under this law were dismissed by the Constitutional Court of Austria (VfGH) in the fall of 2015. According to a statement by the President of the Austrian Constitutional Court (VfGH) in March 2016, it is expected that the court will issue a decision on this issue during its fall session at the latest.

It is noted that in the judgement of the court of first instance by the Regional Court of Munich I in the legal proceeding regarding Austrian Equity Substituting Capital Act (EKEG) between Heta and BayernLB, the court noted that the measures taken by Austrian legislators and the supervisory authorities in connection with the wind-down of Heta would not be recognised in Germany, and it did not take into account the deferral ordered by the decision of the resolution authority pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) on the basis of mainly formal arguments. This point of view, which Heta believes to be incorrect, was disputed in the grounds of appeal.

#### **40.5. Claim by Anadi Financial Holdings Pte. Ltd. against Heta**

On 14 July 2015, Heta was served with an arbitration action by Anadi Financial Holdings Pte. Ltd., the buyer of the former Hypo Alpe-Adria-Bank AG, Klagenfurt am Wörthersee (now: Austrian Anadi Bank AG). In its claim, Anadi Financial Holdings Pte. demands in particular damage compensation of approximately EUR 37.2 million and also (assessed at approximately EUR 63.0 million according to its own information) a declaration of Heta's liability for future damages incurred by Anadi



Financial Holdings Pte. Ltd. due to alleged incorrect information or Heta's failure to disclose during the course of the sale of Hypo Alpe-Adria-Bank AG to Anadi Financial Holdings Pte. Ltd.

In the purchase agreement concluded by Heta and Anadi Financial Holdings Pte. Ltd. with regard to the sale of its shares in the former Hypo Alpe-Adria-Bank AG, it was agreed that the Vienna International Arbitral Centre (VIAC) according to the "Vienna Rules" would have jurisdiction over disputes between the parties. On 13 August 2015, Heta submitted a statement of defence in compliance with the deadlines, in which it rejected all of the plaintiff's allegations. The arbitration tribunal has since been formed, and the schedule for the proceedings has been finalised. As of today, it is expected that the proceedings will be completed at the earliest during the first quarter of 2017. The proceedings are not public.

Heta believes that the claims are unfounded; therefore provisions were not created as at 31 December 2015.

## 40.6. Other proceedings

### 40.6.1. CLAIMS REGARDING THE CONDITIONS OF THE LOAN AGREEMENTS

Customers and representatives of customers in Serbia, Croatia, Bosnia and Herzegovina have been fighting the provisions in loan or leasing agreements regarding interest adjustments and the linking to the CHF benchmark interest rate in the courts for some time. The leasing companies that remained in Heta and the local wind-down units in the aforementioned countries are also affected by these developments. Heta is affected in particular because it assumed the loan agreements of the respective former SEE banking subsidiaries in line with so-called "Brush" transactions, which were implemented to adjust the portfolios of the former subsidiary banks. In addition, the leasing companies also have their own portfolio of leasing agreements with variable interest adjustment clauses. The local Heta companies are confronted with lawsuits and some complaints, as well as inquiries regarding CHF and/or the adjustment of interest rates.

On 22 August 2015, a new law went into force in Montenegro, according to which banks are obliged to convert existing CHF loans into euros in accordance with the official exchange rate that applied at the time the loan agreement was concluded. The wind-down unit of Heta in Montenegro is not affected in the sense that it had already converted the existing CHF exposures before the legislation went into effect.

A few weeks later, the same law was also adopted and subsequently went into force in Croatia. The Croatian Heta unit is only minimally affected by this law, since it does not cover legal entities. But the affected loan volume is relatively small. Similar legal measures were also announced in Bosnia and Serbia. In Bosnia, such a legislative initiative was already on the parliamentary agenda at the beginning of March 2016, but was subsequently withdrawn due to a settlement between Hypo Group Alpe Adria AG (HGAA) and local government authorities that was arranged on short notice.

According to the purchase agreement concluded with the buyer of Hypo Group Alpe Adria AG (HGAA), Heta is required to compensate damages from the CHF portfolios of the former banking subsidiaries that result from such legal measures under certain conditions. The corresponding indemnification obligation on the part of Heta was however conclusively settled with the settlement on 10 March 2016 (also for future losses incurred by the buyer). For additional information, please refer to note (129.2) Sale agreement regarding the privatisation of the SEE network.

In Italy, lessees have filed several individual claims against the Italian subsidiary Heta Asset Resolution Italia S.r.l., in which they allege that the index clauses used in the leasing agreements (interest and currency indexing regarding the London Interbank Offered Rate (LIBOR) and CHF) should be declared null and void. Heta assumed these leasing agreements of the former Italian group subsidiary bank in line with an internal group restructuring process in 2012. Specifically, it is argued that because of the indexing clauses that are used in the leasing agreements, these agreements contain derivative instruments, which leads to additional information and audit obligations under Italian law. The first judgements were in favour of Heta's subsidiary, but two negative judgements of the first instance were issued in 2015. Even though current judicature has classified the leasing agreements as non-derivative, however, the more recent decisions argue in favour of such a classification. The Italian subsidiary of Heta has appealed the negative decisions. The corresponding provision was created in the financial statements for 31 December 2015.

### 40.6.2. PROCEEDINGS INVOLVING FORMER SHAREHOLDERS

During the course of the forensic investigation of the past, civil lawsuits were filed against former shareholders and former executive bodies by the former Hypo Alpe-Adria-Bank International AG in 2011 and 2012. It includes the suit (so-called "special dividend/consultant" civil action) filed in March 2012 against certain original shareholders and a total of nine former executive bodies (members of the Executive and Supervisory Board). It asserted claims (original value in dispute EUR 50.1 million) in connection with the distribution of a non-linear special dividend to the noted original shareholders in 2008 for the 2007 financial year, which was not justified from Heta's point of view. In the proceedings themselves, the preliminary hearing took place in the first quarter of 2014; evidentiary proceedings began in the first quarter of 2014. A settlement of approximately EUR 19 million (around 75 % of the defendant's amount in dispute) for Heta was agreed in July 2014 with

three defendant original shareholders and two former members of the executive bodies. Due to the initiation of the criminal proceedings, the civil proceedings were suspended on 1 December 2014 until the end of the criminal proceedings. Therefore it will be necessary to await the further progress of the criminal proceedings.

A civil suit filed in 2011 relates to the group of issues pertaining to the Hypo Leasing Holding (HLH) preferred shares, which were placed in 2004 and 2006 in two tranches. Following an investigation of the financing model and the preparation of a forensic report on the order of Heta, these events were prosecuted both in terms of civil and criminal law. Heta has filed a suit for payment of EUR 48.0 million against 12 defendants with joint liability for the same amount. However, the High Court found that Heta's legal arguments were devoid of a factual and legal basis, and referred the proceedings back to the first instance with a partial amount. The amount of approximately EUR 19.0 million was dismissed with legal effect. The outcome of the civil proceedings and the on-going criminal proceedings is still outstanding.

#### 40.6.3. OTHER PROCEDUAL MATTERS

In the group, there are currently almost 1,000 pending passive proceedings, in which Heta or its subsidiaries are the defendants, and over 10,000 active proceedings in which Heta or its subsidiaries are acting as the plaintiff or prosecuting party.

In 2015, these proceedings were entered across the group in a new electronic database at the holding level. In addition, a group-wide review of relevant and pending passive proceedings was held as part of the Legal Quality Review (LQR) project, with the support of external legal advisors. The focus of this project was to identify the chances of success and, in the same vein, to determine the need to create or increase/reverse risk provisions. Another objective of the Legal Quality Review (LQR) was to investigate the proceedings with regard to the strategic direction, and to obtain an independent recommendation for future process steps and adjustments to the legal strategy. Approximately 850 reviewed passive court proceedings are pending in the jurisdictions of Austria, Bosnia, Bulgaria, Croatia, Germany, Hungary, Italy, Serbia, Montenegro and Slovenia. The result of the Legal Quality Review also provides important information for the development of a strategy for the efficient and advantageous completion of these proceedings - a strategy that will be required during the wind-down process for Heta.

Most passive proceedings are connected to outstanding loan cases. Usually, in these proceedings borrowers assert a variety of claims and allegations in an attempt to extract themselves from the obligation to repay the loans. They argue, for example, that Heta did not meet its obligations to continue financing the borrower, and thus caused the borrower to incur damages, or that the collateral that Heta was trying to liquidate was not validly registered. In Croatia, a Croatian non-governmental organisation sometimes appears as the plaintiff, which tries to allege the supposed nullity of the loans and collateral registered in favour of Heta with the argument of missing regulatory approvals. Many lawsuits are also filed by third parties that have acquired property rights to allegedly unencumbered assets of Heta's borrowers, and now demand that collateral that continues to be validly registered in Heta's favour is deleted. Moreover, those subsidiaries that assumed assets from the former banking companies of the Hypo Group in line with the "brush transactions" are also confronted with lawsuits contesting the validity of these transfers. In addition, there are also legal disputes that are not related to loan agreements but other contractual obligations previously entered into by Heta.

The active proceedings relate mainly to proceedings for collecting outstanding claims from loan and leasing agreements, as well as different execution proceedings, enforcement and insolvency proceedings.

#### **(41) Guarantee by the State of Carinthia**

The statutory liability of the state of Carinthia is fashioned as a deficiency guarantee pursuant to section 1356 of the Austrian Civil Code (Allgemeines Bürgerliches Gesetzbuch), and includes all liabilities assumed by Heta before 3 April 2003, as well as all liabilities that were incurred from 3 April 2003 to 1 April 2007 and whose term does not extend beyond 30 September 2017. The state does not assume any guarantee for liabilities assumed after 1 April 2007. The guarantee is set out in the Kärntner Landesholding Act (K-LGH).

A guarantee commission agreement between the state of Carinthia and Heta provided for a guarantee commission of one per mill p.a. of the outstanding amount. This guarantee commission agreement was terminated by Heta on 31 December 2011 in exercise of the contractually designated ordinary termination right, as a result of which the contractual obligation to pay the guarantee commission is cancelled as of the year 2012. Notwithstanding this termination of the contractual guarantee commission agreement, the state of Carinthia's deficiency guarantee as set out in the legislation continues to be in effect pursuant to section 5 of the Kärntner Landesholding Act (K-LHG). The Aufsichtskommissär (Supervisor) of the Kärntner Landesholding is still authorised to access the relevant information at the company.

The company and the state of Carinthia have diverging legal opinions regarding the guarantee commission for the year 2011, which has not been paid by the company to date. The company submitted a waiver of statute of limitation ending in 31 December 2015 to the state, which was extended to 31 December 2016 in 2015. In turn, Carinthia committed to not file suit against the company for the time being.

As indicated under item (3.2) Hypo Alpe Adria Restructuring Act (HaaSanG), certain Heta liabilities, which are covered by the Hypo Alpe Adria Restructuring Act (HaaSanG) and the FMA Ordinance (HaaSanV) that went into force on 7 August 2014, were derecognised through profit and loss due to the expiry of the liability. This affected subordinated liabilities (EUR 0.8 billion) that featured a guarantee assumed by the state of Carinthia. Following the 3 July 2015 decision of the Austrian Constitutional Court (VfGH), these liabilities were again recognised in the balance sheet (through profit and loss).

The development of the state-guarantee liabilities is as follows:

EUR thousand

	31.12.2015		31.12.2014*
	Taking into account cancellation HaaSanG by VfGH	Taking into account cancellation HaaSanG by VfGH	Application HaaSanG
Heta Asset Resolution AG	11,133,754.1	11,025,267.1	10,168,728.1

\*) figures from the previous year were adjusted

The change in state-guarantee liabilities is mainly due to changes in the exchange rate.

On the basis of the statutory authorisation pursuant to section 2a of the Financial Market Stability Act (FinStaG), on 20 January 2016 the state of Carinthia submitted, through the specially created Kärntner Ausgleichszahlungs-Fonds (K-AF), an offer to Heta creditors for the purchase of all of Heta's debt instruments secured by the state guarantee. Heta responded to the request for information submitted by the state of Carinthia in connection with this offer regarding its debt instruments secured by the state guarantee in line with its existing obligations to provide information pursuant to section 5 Kärntner Landesholding Act (K-LHG). For further information, please refer to note (6) Repurchase offer from the State of Carinthia.

## (42) Main agreements

### 42.1. Agreement with the Austrian government and HBI-Bundesholding AG regarding the capitalisation of and liquidity for Hypo Alpe-Adria S.p.A.

In order to avoid regulatory settlement proceedings for the former subsidiary bank in Italy, Hypo Alpe-Adria-Bank S.p.A., Udine (HBI), which would have led to significantly higher losses for Heta with regard to its refinancing lines, on 23 June 2015 Heta concluded a binding term sheet regarding the further financing and equity capitalisation of HBI following a detailed internal and external, legal and business review, and an analysis of the legal options under the share purchase agreement with the Republic of Austria and HBI-Bundesholding AG (HBI-BH). One of the objectives of the agreements under the term sheet was to achieve a higher repayment amount for the funds tied up at HBI. The resolution authority reviewed the agreement in advance and informed the company that it does not have any objections to the agreement.

The term sheet provides for liquidity and equity capital contributions to HBI by HBI-BH, as well as debt waivers by Heta as the largest creditor, who has an interest in securing the greatest possible recoverability of its still outstanding refinancing lines. HBI-BH provided HBI with EUR 196.0 million in the form of equity capital (EUR 100.0 million) plus a subordinated loan (EUR 96.0) million. Heta committed to provide a new loan of EUR 100.0 million, which may only be drawn by HBI after the resources from HBI-BH have been used and proof is provided that additional liquidity is required to repatriate customer deposit and to service liabilities from bonds that were issued by HBI. The new loan from Heta must be repaid to Heta taking precedence over all other receivables of HBI-BH or other existing financing by Heta itself for HBI.

In addition, Heta also promised, with regard to the formerly existing refinancing line for HBI of approximately EUR 1.7 billion (nominal), to write off up to EUR 630.0 million in order to cover the capital requirements resulting from the accelerated wind-down process, and to enable HBI to meet its equity capital requirements. In June 2015, Heta wrote off a partial amount of EUR 280.0 million in receivables from HBI. This had the effect of avoiding regulatory proceedings against HBI. On a legal level, the write-off vis-a-vis HBI had to be final and absolute. From a business point of view, Heta will be compensated by way of a recovery agreement. As consideration for Heta's write-off of receivables from the refinancing lines, HBI-BH must release all financial benefits from or in connection with its position as a shareholder, provider of equity or debt - including payments from the equity capital contribution from HBI-BH and the new loan - to Heta up to the amounts that were written off by Heta (recovery agreement). To secure the claim from the recovery agreement as well as the repayment of the refinancing lines and the new loan from Heta, HBI-BH must also pledge its shares in HBI as well as all current and future claims against HBI in favour of Heta. All claims by HBI-BH vis-a-vis HBI, regardless of the type, are subordinated to the claims of Heta (including those from the recovery agreement) and the other creditors of HBI. Moreover, HBI-BH has also committed to ensure, within

the limits of its corporate rights, that HBI prepares, updates and adheres to a wind-down plan, with the objective of accelerating the repayment of the refinancing lines of Heta. Within the limits of its corporate rights, HBI-BH must also ensure that HBI, following the repayment of the refinancing lines that remain following the write-off, distributes the largest possible amount of excess liquidity to HBI-BH and also distributes profits in order to enable HBI-BH to service the recovery agreement vis-a-vis Heta. In the absence of other provisions, this agreement between Heta, the Austrian government and HBI-BH has the effect of conclusively settling any still existing claims from or in connection with the share purchase agreement.

The main agreements under the term sheet were implemented during the second half of 2015, when the first write-off of EUR 280.0 million (to ensure HBI's compliance with the regulatory capital provisions) was issued. The provision of funds by HBI-BH in the amount of EUR 196.0 million (EUR 100.0 equity capital and EUR 96.0 million in subordinated loans to provide liquidity to repay outstanding securities and customer deposits) was completed. A new Heta Emergency Liquidity Facility Agreement (ELFA) for EUR 100.0 million in favour of HBI that expires on 30 December 2016 was signed. The recovery agreement in favour of Heta and the associated pledging of the shares in HBI were concluded. Agreement was reached with regard to the role of an observer sent by Heta to HBI's board ("board observer"). Starting in the second quarter of 2016, a Heta representative will attend the meetings of the HBI Administrative Board ("Consiglio di Amministrazione") as a guest.

The updated wind-down plan for HBI for the period 2015 to 2018, which was submitted in December 2015, identified additional capital requirements until the end of 2017 in order to comply with Italian capital provisions (as specified by Banca d'Italia: core tier 1 capital, currently at least 11.5 %), which results in additional write-off requirements of EUR 96.0 million on the part of HBI-BH and up to EUR 350.0 million on the part of Heta (under certain defined conditions and steps). These write-offs had been anticipated, and were deemed required on the basis of the submitted wind down plan to stabilise HBI's capitalisation and liquidity and to avoid regulatory proceedings by Banca d'Italia ("Commissariamento"). The purpose of the write-offs is to improve the recoverability of the remaining Heta refinancing lines, which amounted to EUR 1.3 billion (nominal receivable taking into account EUR 280.0 million in write-offs in 2015) at the end of the year, and thus constitute a better scenario than a Commissariamento.

In December 2015, the resolution authority authorised this additional solution for the second write-off of up to EUR 350.0 million by Heta with a non-prohibition.

#### **4.2.2. Sale agreement regarding the reprivatisation of the SEE network.**

The public bidding process for the sale of the banking network in south-eastern Europe (SEE), which started in 2012 and is bundled under the Austrian Holding Hypo Group Alpe Adria AG, Klagenfurt am Wörthersee (HGAA AG; formerly SEE Holding AG), and which Heta transferred to the Finanzmarktbeilegung Aktiengesellschaft des Bundes (FIMBAG) as the trustee of the Republic of Austria at the end of 2014, was concluded with the signing of the closing agreement between Heta and AI Lake (Luxembourg) S.à.r.l. (a subsidiary of Advent International and the European Bank for Reconstruction and Development (EBRD)) in July 2015.

The sale agreement sets out the transfer of all shares in Hypo Group Alpe Adria AG (HGAA AG) to the buyer on the basis of a power of attorney issued by the Finanzmarktbeilegung Aktiengesellschaft des Bundes (FIMBAG) to Heta. The conclusion of the sales agreement was subject to various conditions precedent, including regulatory and antitrust approval, the approval of the European Commission for the transaction from a state aid point of view as the lack of a material adverse change (MAC) event.

One prerequisite for the closing was the conclusion of a loan receivables pledge agreement (pledge agreement) with which Heta's receivables from Hypo Group Alpe Adria AG (HGAA AG) of (then) EUR 2.1 billion were pledged to the buyer to secure the claims from the transaction documents.

A number of amendments to the transaction and financing documents were agreed to by buyer before the closing. These changes related to technical and commercial aspects, including the reduction in the maximum total volume of possible portfolio adjustment transactions after the closing ("Buyer Brush"), in the context of which Heta was required to assume corporate and public sector loans, along with assets not essential to the banking business, from Hypo Group Alpe Adria AG (HGAA) groups by the end of March 2016 at the historic net carrying amounts as at 31 December 2014. This total volume was reduced from EUR 800.0 million to up to EUR 600.0 million. In turn, a hedge for defaults in relation to a non-performing EUR 100.0 million (net exposure) retail portfolio of Hypo Group Alpe Adria AG (HGAA) was arranged for an amount of up to EUR 75.0 million. The implementation of these changes to the transaction and financing documents also required the issuance of a new power of attorney by the Finanzmarktbeilegung Aktiengesellschaft des Bundes (FIMBAG) as the (then) shareholder of Hypo Group Alpe Adria AG (HGAA AG), which was issued accordingly.

In line with this renewed issuance of the power of attorney, Heta and the Finanzmarktbeilegung Aktiengesellschaft des Bundes (FIMBAG), as the parties to the carve-out agreement, and Heta and the Republic of Austria as the issuer of hedging instrument in favour of the buyer of the SEE network, agreed on the components set out in the carve-out agreement from 30 October 2014, namely the purchasing price (dependent on the actual utilisation of risk exemptions, warranties and other com-

mitments in favour of the buyer, up to EUR 248.0 million must be paid to Finanzmarkt-beteiligung Aktiengesellschaft des Bundes (FIMBAG)), profit sharing (EUR 44.0 million paid to Finanzmarkt-beteiligung Aktiengesellschaft des Bundes (FIMBAG) in July 2015) and a fee for the hedging instrument (1.27 % p.a., term ending in 2022, to be paid to the Republic of Austria on a monthly basis after the fact). The amount of the fee depends on the amount of the outstanding guarantee assumed by the Republic of Austria under the hedging instrument; as at 31 December 2015 the assessment basis for the guarantee was EUR 1.7 billion. As a result of the settlement described above, the assessment basis for the guarantee was reduced in March 2016.

On 17 July 2015, Heta and the buyer executed the share purchase agreement from 22 December 2014 regarding the sale of all shares in Hypo Group Alpe Adria AG (HGAA AG) (Closing). The closing was preceded by a "pre-closing" on 30 June 2015, where the parties confirmed the existence and compliance with all of the major closing conditions that had been agreed. The remaining conditions precedent were confirmed during the final closing. In line with the pre-closing, the resolution authority also approved the implementation of the closing by way of a non-prohibition.

Pursuant to contractual provisions, Heta is obligated to continue to maintain the existing lines of credit of approximately EUR 2.1 billion. The conditions for the refinancing will be raised gradually up to a normal bank financing level. Possible contractual guarantee claims by the buyer under the share purchase agreement must be offset against Heta's refinancing claims, i.e. usually by Heta waiving the repayment of the relevant refinancing claims. In addition, in the contractually agreed portfolio settlement transactions ("Buyer Brush"), Heta also provides its consideration - from a financial point of view - by reducing its refinancing claims against Hypo Group Alpe Adria AG (HGAA AG). The remaining lines of credit, which are not offset against exemption or guarantees, and which remain even after consideration of the re-transferred assets and risk items ("Buyer Brush"), must be repaid no later than 2022. In order to address the risks from the comprehensive list of guarantees granted to the buyer and the right to transfer certain credit and leasing receivables and other assets as well as risk items (on the basis of the net carrying amount as at 31 December 2014) to Heta or subsidiaries named by the same ("Buyer Brush Option"), Heta already created the corresponding provisions in the previous financial statements.

The second half of the year 2015 was characterised by the execution of various rights and claims of the buyer under the sale agreement. Under the Buyer Brush Option, the buyer selected assets (consisting of loan and leasing receivables, land and other real assets from the legal transfer of collateral and non-strategic participations), which were re-transferred to Heta at the net carrying amount of the relevant assets as at 31 December 2014 with an offset of a transfer price against the existing refinancing lines. These re-transfers must be completed no later than 31 March 2016 either in the form of true asset transfers ("true sale") or compensation of the IFRS impairment expense ("P&L settlement amount") that is of relevance to the result in the year 2015 at the level of the financial statements for the SEE network (Hypo Group Alpe Adria AG (HGAA Group)). Additionally, the buyer has demanded that Heta provide compensation for conversion damages resulting from the statutory compulsory conversion of CHF loans in Croatia and Montenegro on the basis of the exemptions included in the share purchase agreement from 22 December 2014. Other currency-related claims due to possible statutory compulsory conversion measures were also expected for other countries (e.g. Bosnia-Herzegovina or Serbia). In addition, on 31 December 2015 the buyer of Hypo Group Alpe Adria AG (HGAA) also submitted additional claims under warranties and other exemptions from risks from legal disputes with customers and other legacies.

In March 2016, Heta and the buyer came to an agreement regarding a comprehensive settlement for all CHF exemptions (credit and legal risks) and other outstanding items. As a result of the settlement, the liability limits that apply to the relevant warranties and exemptions, and the maximum liability of the Republic under the hedging instrument with the buyer (and thus also the fee payable to the Republic) were reduced. For the purpose of the settlement, the buyer must also ensure that Hypo Group Alpe Adria AG (HGAA) returns to Heta an amount of EUR 150.0 million (CHF denominated) as an early partial repayment of the credit lines provided by Heta as early as March 2016. In addition, the settlement also included an agreement regarding another reduction in the portfolio adjustment transactions that were agreed with the buyer ("Buyer Brush") to EUR 500.0 million (not taking into account the aforementioned hedging of defaults in relation to a non-performing retail portfolio), and the portfolio adjustments transactions that were agreed as a condition for the settlement were also implemented in March 2016. Heta's return consideration under the settlement consisted of the waiver of credit lines provided to Hypo Group Alpe Adria AG (HGAA) (denominated in CHF) at the amount of EUR 325.0 million. The buyer's claims under the settlement were also secured by extending the already existing lien to the credit lines provided by Heta to Hypo Group Alpe Adria AG (HGAA). With regard to possible incidental costs, which are Heta's responsibility, the company provided the corresponding collateral.

In the future, the fee payable to the Republic of Austria for the transfer of the hedging instrument (1.27% p.a.) will be calculated on the basis of Hypo Group Alpe Adria AG (HGAA's) refinancing lines from Heta that exist at the end of March 2016 following the closing of the settlement and the transactions set out therein. This amount will not exceed EUR 1.365 billion. A corresponding reduced fee will be applied to the reduced amount (0.25 % p.a. until October 2016 and subsequently 0.10 % p.a. until 2020).

In the financial statement for 31 December 2015, the appropriate provisions were created both for the exemption and warranty risks resulting from the sale agreement, and the credit risks in connection with the “Buyer Brush”.

#### 42.3. Guarantee agreement with the Republic of Austria

On 28 December 2010, a guarantee agreement was concluded between the Republic of Austria and Heta, in which the liability of the Republic of Austria as deficiency guarantor in accordance with section 1356 of the Austrian Civil Code (ABGB) was agreed. The Republic of Austria's guarantee relates to a precisely specified portion of receivables of Heta's portfolio, and is limited to EUR 200.0 million (“maximum guarantee amount”). In return for the assumption of this guarantee by the Republic of Austria, a commission of 10 % p.a., calculated on the basis of the nominal amount of the guaranteed partial amount of the receivable, was agreed. The agreement was supplemented and amended with the first addendum from April 2011 and the second addendum from August 2013. In this context, the guarantee (now pursuant to section 1346 ABGB) was extended to 30 June 2017, and certain collateralised receivables were replaced with other already existing receivables of the bank, while the maximum guarantee amount was left unchanged at EUR 200.0 million. Furthermore, the drawdown process was adapted, and in particular the process for verifying the drawdown preconditions was revised. As part of the extension of the guarantee, the ability to assert claims was modified to the effect that this only became possible as of May 2014.

Guarantee commission payments were suspended on 1 March 2015 due to the moratorium.

The guarantee was utilised by 31 December 2015 for a total volume of EUR 60.7 million. In December 2015, the Republic of Austria for the first time acknowledged the existence of the drawdown preconditions for one case, and submitted a payment of EUR 11.2 million during the same month. In Heta's view, this means that the Austrian government is of the opinion that the ordinance and the associated deferral of the obligation to pay the commission did not have the effect of changing the general validity and continued existence of the guarantee. Therefore payments for the already drawn instances and possible future utilisation instances should only depend on the existence of the defined drawdown preconditions. The guarantee may now be viewed as solid since an acknowledgement of the guarantee can be assumed on the basis of the situation that has been described - regardless of the moratorium.

Therefore the impairments created in connection with the receivables “subject to the guarantee” will be reversed in the amount that is secured by the guarantee, and a recoverable cash flow will be assumed when calculating the risk provisions for those loan cases that are secured with the guarantee. In addition, the fee that is expected to be incurred until 2017 was also allocated to a provision for the full amount.

#### 42.4. Agreement to perform transition services

Pursuant to section 3 (2) GSA, Heta is entitled to render transition services to third parties that were included in Heta's financial statements as at 31 December 2013. Transition services are defined as services that had already been rendered based on a contractual agreement as of the date on which Heta's conversion into a partially regulated wind-down unit (i.e. 30 October 2014) took legal effect, and that must continue to be rendered based on a legal obligation to do so.

The option of rendering transition services is valid for a two-year period as of the date on which the Republic of Austria no longer holds a direct or indirect participation in the recipient of the services. Heta currently renders transition services based on contractual agreements to Hypo Alpe-Adria-Bank S.p.A. (HBI) and Hypo Group Alpe Adria AG.

#### 42.5. Group taxation agreement

From 1 January 2005 the group taxation option was exercised, with Heta acting as the lead company. The Group Taxation Agreement drawn up for this purpose includes, in addition to the compulsory arrangement on tax reconciliation (invoicing and settlement of tax apportionment) pursuant to section 9 (8) KStG (Austrian Corporation Tax Law), the respective rights and duties of the lead company and group members.

This covers in particular the procedure for filing the group application, calculation of each of the group members' tax results, rights to receive/ duty to provide information, ceasing to be a member of the group, duration and dissolution of the group. The tax allocation method applied is essentially based on charges and any advantage arising is distributed to group members by means of a fixed charge/ credit rate.

### (43) Assets submitted as collateral pursuant to section 64 (1) (8) BWG

According to section 64 (1) (8) BWG, current assets of EUR 476,626 thousand (2014: EUR 637,266 thousand) were transferred as collateral for liabilities to credit institutions and customers.

The relevant assets, which consist mainly of cash collaterals and securities deposited at the European Investment Bank (EIB), continue to be reported in Heta's balance sheet.

EUR thousand

	31.12.2015	31.12.2014
Loans and advances to customers	3,696	0
Loans and advances to credit institutions	399,487	520,588
Securities	73,443	116,678
<b>Total</b>	<b>476,626</b>	<b>637,266</b>

Loans and advances to credit institutions are the result of the customary cash collaterals that were provided in connection with the negative market values of derivatives. Cash collaterals received for positive market values are shown under liabilities to credit institutions.

Securities of EUR 0 thousand (2014: EUR 84,660 thousand) were lent in line with securities lending.

The refinancing lines for HGAA, which amounted to a gross receivables value of EUR 2.1 billion on 31 December 2015, have been pledged in favour of the purchaser of HGAA regarding his claims from the sale agreements on the basis of the Pledge Agreement concluded in the 2015 financial year. See note (42.2) Sale agreement for the reprivatization of the SEE network.

#### (44) Issued bonds that mature in the following year

In the year 2016, bonds issued pursuant to section 64 (1) (7) BWG become due at the amount of EUR 1,908,101 thousand (previous year's figure relating to 2014: EUR 2,430,691 thousand).

However, the liability may not be paid due to the moratorium issued by the resolution authority on 1 March 2015 (see Item 3.2. Hypo Alpe Adria Restructuring Act (HaaSanG)).

#### (45) Group situation

The former Hypo Alpe-Adria-Bank International AG has been wholly owned by the Republic of Austria since 30 December 2009. The name of the company was changed to Heta Asset Resolution AG (in short: Heta) as of 31 October 2014.

Heta Asset Resolution AG is the most senior parent company in the Heta Group. The annual financial statements are published in the Wiener Zeitung and at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (-> Investor Relations -> Financial reports & presentations).

#### (46) Audit expenses

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (Vienna/Austria) (EY) and KPMG Austria GmbH (Vienna/Austria) were selected to audit the 2015 annual financial statements.

The costs for the services of the audit company EY, by area of activity, were as follows:

EUR thousand

	1.1.-31.12.2015	1.1.-31.12.2014
<b>Audit fees for the annual financial statements</b>	<b>672</b>	<b>689</b>
Expenses for current year	527	540
Expenses relating to prior year	145	149
<b>Fees for other services</b>	<b>200</b>	<b>146</b>
Other assurance services	8	20
Tax consultancy	0	0
Other services	192	126
<b>Total</b>	<b>872</b>	<b>836</b>

The audit expenses recognised for the 2015 financial year amount to EUR 2,038 thousand (2014: EUR 2,628 thousand), including EUR 1,994 thousand (2014: EUR 2,569 thousand) for fees (exclusive of VAT) and EUR 44 thousand (2014: EUR 59 thousand) for cash outlays. In addition to the services invoiced by the appointed auditor Ernst & Young, invoices for services rendered by other companies within the Ernst & Young network have also been included in the total sum.

The costs for the services of the audit company KPMG, by area of activity, were as follows:

	EUR thousand	
	1.1.-31.12.2015	1.1.-31.12.2014
<b>Audit fees for the annual financial statements</b>	<b>729</b>	<b>540</b>
Expenses for current year	527	540
Expenses relating to prior year	203	0
<b>Fees for other services</b>	<b>1,309</b>	<b>2,088</b>
Other assurance services	0	0
Tax consultancy	100	108
Other services	1,208	1,980
<b>Total</b>	<b>2,038</b>	<b>2,628</b>

The audit expenses recognised for the 2015 financial year amount to EUR 8,153 thousand (2014: EUR 10,277 thousand), including EUR 7,975 thousand (2014: EUR 10,277 thousand) for fees (not including VAT) and EUR 178 thousand (2014: EUR 0 thousand) for cash outlays. In addition to the services invoiced by the appointed auditor KPMG, invoices for services rendered by other companies within the KPMG network have also been included in the total sum.

The expenses for the audit of the financial statements do not include those expenses which are clearly separable from the costs for the audit of the financial statements. In the case of a lump-sum fee, all of the costs are attributed to the audit of the financial statements.

#### (47) Audit procedure and error detection by the Austrian Financial Market Authority

The audit procedure carried out by the Austrian Financial Reporting Enforcement Panel (OePR/AFREP) since 2013 was completed on 10 April 2015 with the announcement of the audit results.

With regard to the consolidated financial statements for 31 December 2013, it was noted that the risk provisions on loans and advances were understated by at least EUR 8.1 million. With regard to the semi-annual financial report published on 30 June 2014, the Austrian Financial Reporting Enforcement Panel (OePR/AFREP) found that the risk provisions on loans and advances were understated by at least EUR -3.8 million. It furthermore noted that the provisions entered in connection with the transfer of the SEE bank network on 30 June 2014 and the corresponding effect on results was overstated by EUR 1.2 billion, since the criteria for entering a provision for the expected loss on disposal were not in place on 30 June 2014. Instead, and to the extent permitted by the relevant IFRS standards, the assets side of the group would have had to be re-assessed with regard to the assets of the SEE network.

Since Heta did not agree with the Austrian Financial Reporting Enforcement Panel's (OePR/AFREP) findings regarding the recognition of this provision, the procedure was continued by the Financial Market Authority (FMA). The following errors were noted in the decision from 19 November 2015:

- The consolidated semi-annual financial statements for 30 June 2014 report EUR 7.4 million in receivables from a group of affiliated customers. Notwithstanding the existence of objective information indicating a reduction in the value of the underlying receivables on 30 June 2014, an impairment test was not carried out, and an impairment was not applied. This constitutes a breach of IAS 39.58 in connection with IAS 39.63, which specifies an obligation to determine possible information that would indicate a reduction in the value of financial assets or groups of the same for each closing date, and further that in such cases a value adjustment in the amount of the difference between the carrying amount of the assets and the present value of the expected future cash flows must be recognised.
- The consolidated interim semi-annual financial statements for 30 June 2014 report EUR 16.1 million in loans and advances to another group of affiliated customers. The loans and advances are collateralised with shares in a listed company, for which current price quotations could be observed. As part of the receivables valuation process, the collateral was taken into account at the proportionate carrying amount of the equity capital less a lump-sum discount. This constitutes a breach of IAS 39.AG84 in connection with IAS 39.IG.E.4.8, according to which the measurement of a financial asset whose value has been reduced must take into account the fair value of the collateral.
- Because of that, the total "Risk provisions on loans and advances to customers" item in the semi-annual financial statements for 30 June 2014 is understated by at least EUR -3.8 million.
- Hypo SEE Holding AG was included in the financial statements of Heta by way of full consolidation. The related assets and debt, income and expenses are reported together with those of the parent company and the other companies that belong to the group. This constitutes a breach of IFRS 5, according to which special disclosure provisions in the state-



ment of comprehensive income (IFRS 5.33 to 36A) and in the balance sheet (IFRS 5.38 to 40) as well as special information obligation in the notes (IFRS 5.41 to 42) apply to discontinued operations and groups of dispositions, which are classified as held for sale.

In addition, Heta notes that the errors that were identified relate to the semi-annual financial report for 30 June 2014. According to the relevant provisions of the International Financial Reporting Standards (IAS 8.44), there is no requirement to retroactively correct the affected interim consolidated financial statements. The incorrect reporting period is not included in future consolidated financial statements, neither as a reference period nor in the form of opening balances, and must therefore not be adjusted during the current reporting period.

The error report pursuant to section 5 (2) Accounting Control Act (RL-KG) can be found on Heta's home page at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investoren → Veröffentlichungen → Veröffentlichungen 2015).

#### (48) Other supplementary information

Existing investments in the leasing business according to section 64 (1) (1) BWG include EUR 1,500 thousand (2014: EUR 0 thousand) of wholly adjusted shares in Hypo Leasing d.o.o. (Ljubljana) and the also wholly adjusted shares in Hypo Alpe-Adria-Leasing OOD (Sofia) and the partially-adjusted Hypo Alpe-Adria-Autoleasing OOD (Sofia).

This is in addition to claims against Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) in the amount of EUR 1,273,293 thousand (nominal) (2014: EUR 1,646,547 thousand), as well as claims against Hypo Group Alpe Adria AG (HGAA) in the amount of EUR 2,127,138 thousand (2014: EUR 1,987,562 thousand) and liabilities to the same in the amount of EUR 55,546 thousand (2014: EUR 94,329 thousand).

The amount for deferred tax assets not reported separately in the balance sheet that can be capitalised pursuant to the UGB (25 %) according to section 198 (10) UBG is EUR 0 thousand (2014: EUR 0 thousand).

Corporate taxes do not place a burden on Heta's extraordinary result. The amount of tax expenses that is reported also includes the tax apportionment of EUR -7,639 thousand (2014: EUR -18,997 thousand) for group members pursuant to section 9 KStG.

The return on total assets (the ratio of profit for the year after taxes divided by total assets as at the reporting date) is negative, as in the previous year.

Mortgage bond activities pursuant to the Pfandbrief law are as follows:

	EUR thousand					
	Debt evidenced by certificates		Covering loans		Surplus/shortfall in cover	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Public sector mortgage bonds	230,734	238,417	767,090	889,151	545,965	660,324

The balance sheet contains the following foreign currency amounts (equivalent value in EUR thousand):

	EUR thousand	
	31.12.2015	31.12.2014
Assets	1,522,322	1,631,280
Equity and Liabilities	2,944,990	2,923,465

A portion of the difference between the foreign currency assets and liabilities in the amount of EUR 1,422,668 thousand (2014: EUR 1,292,185 thousand) is secured with FX swaps and cross currency swaps, and forward exchange contracts.

The conditions for the refinancing lines to a former group company, which must continue to be treated as a related party, amount to a surcharge of between 33 and 210 basis points on the respective benchmark interest rate.

In addition, on the balance sheet date there are business relationships with other publicly-owned organisations at a scope customary for the banking industry.

The company did not conclude any significant transactions with related parties.

**(49) Employees**

The average number of employees (by capacities) during the year for the purposes of section 239 (1) (1) UGB was as follows:

	2015	2014
Salaried employees	441	535
Hourly-paid employees	0	0
<b>Total</b>	<b>441</b>	<b>535</b>

**(50) Severance and pension payments**

These expenses as defined in section 239 (1) (3) UGB break down as follows:

	1.1.-31.12.2015		1.1.-31.12.2014	
	Severance pay	Pensions	Severance pay	Pensions
Members of Executive Board	22	63	0	106
Key management personnel	542	21	268	56
Other employees	579	181	2,901	769
<b>Total</b>	<b>1,143</b>	<b>266</b>	<b>3,170</b>	<b>931</b>

EUR thousand

The expenditures for severances and payments to employee retirement funds break down into expenses for severances in the amount of EUR 714 thousand (2014: EUR 2,609 thousand) and payments to employee retirement funds of EUR 429 thousand (2014: EUR 561 thousand).

**(51) Information about executive bodies**

The executive bodies that were active during the financial year are shown in Annex 2 to the notes.

**51.1. Advances, loans and guarantees for executive bodies**

Until it was sold, all transactions relating to executive bodies were carried out through the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG, Klagenfurt am Wörthersee. Hypo Alpe-Adria-Bank AG was sold to an international investor in May of 2013 and the transaction closed on 19 December 2013. All existing relationships with this bank as at 31 December 2013 are therefore classified as relationships with a third-party bank.

**51.2. Remuneration for the executive bodies**

Remuneration paid to the executive bodies during the financial year is as follows:

	EUR thousand	
	1.1.-31.12.2015	1.1.-31.12.2014
<b>Executive Board</b>	<b>2,090</b>	<b>1,631</b>
of which on-going payments	2,090	1,631
<b>Supervisory Board</b>	<b>323</b>	<b>319</b>
<b>Remuneration paid to former members of the Executive and Supervisory Board and their surviving dependants</b>	<b>0</b>	<b>0</b>
thereof payments after termination	0	0
thereof related to termination	0	0
<b>Total</b>	<b>2,413</b>	<b>1,950</b>

The remuneration for Board members for 2015 (and 2014) does not include any variable elements.

Klagenfurt am Wörthersee, 17 March 2016  
Heta Asset Resolution AG

THE EXECUTIVE BOARD

Wirt.-Ing. Sebastian  
Prinz von Schoenaich-Carolath  
(Chairman)

Mag. Martin Handrich  
(Member)

Mag. Arnold Schiefer  
(Member)

Mag. Alexander Tscherteu  
(Member)

## Fixed assets movement schedule Annex 1 to the notes to the financial statements

Asset	Acquisition costs 01.01.2015	Addition 2015	Disposals 2015	Reclassifications 2015
2. <b>Treasury bills</b>				
Financial investments	20,369,590.16	0.00	0.00	-20,369,590.16
3. <b>Loans and advances to credit institutions</b>				
Financial investments	0.00	0.00	0.00	0.00
4. <b>Loans and advances to customers</b>				
Financial investments	30,563,573.41	0.00	0.00	-30,563,573.41
5. <b>Bonds and other fixed income securities</b>				
Financial investments	88,144,164.57	0.00	0.00	-88,144,164.57
7. <b>Shares in associated companies</b>	1,677,349.85	0.00	-11,517.15	0.00
8. <b>Shares in affiliated companies</b>	2,844,636,887.47	3,211,080,773.21	-537,072,986.03	0.00
9. <b>Intangible fixed assets</b>	19,120,164.78	1,215,173.03	-3,860,976.51	0.00
10. <b>Tangible fixed assets</b>	9,302,975.61	1,062,036.24	-369,797.94	0.00
<b>Total</b>	<b>3,013,814,705.85</b>	<b>3,213,357,982.48</b>	<b>-541,315,277.63</b>	<b>-139,077,328.14</b>

	Acquisition costs 31.12.2015	Accumulated depreciation	Accumulated write-ups	Carrying amount 31.12.2015	Carrying amount 31.12.2014	Write-ups 2015	Depreciation 2015
	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	1,665,832.70	-1,665,830.70		2.00	2,186.29	0.00	0.00
	5,518,644,674.65	-5,472,884,092.45	39,614,681.31	85,375,263.51	505,252,342.99	39,497,986.64	-3,137,232,853.30
	16,474,361.30	-13,991,687.17	0.00	2,482,674.13	3,663,586.32	0.00	-2,386,223.56
	9,995,213.91	-5,617,149.61	0.00	4,378,064.30	4,106,047.54	0.00	-727,022.51
	<b>5,546,780,082.56</b>	<b>-5,494,158,759.93</b>	<b>39,614,681.31</b>	<b>92,236,003.94</b>	<b>513,024,163.14</b>	<b>39,497,986.64</b>	<b>-3,140,346,099.37</b>

## Management bodies of the company Annex 2 to the notes to the financial statements

1 January to 31 December 2015

### Supervisory Board

#### Chairman of the Supervisory Board:

Dipl.-Kaufmann Michael MENDEL, Member from 7 November 2014, Chairman since 7 November 2014

#### Deputy Chairman of the Supervisory Board:

Mag. Alois HOCHEGGER, Member from 23 May 2014, Deputy Chairman from 7 November 2014

#### Members of the Supervisory Board:

Mag. Regina FRIEDRICH, from 23 May 2014

Mag. Christine SUMPER-BILLINGER, from 23 May 2014

DI Bernhard PERNER, from 7 November 2014

#### Appointed to the Supervisory Board by the Works Council:

Erwin SUCHER, from 15 February 2015

Mag. Lisa TAUCHHAMMER, from 22 October 2015

Akad. Vkm. Richard JOHAM, until 19 November 2015

### Federal Supervisory Authorities

#### State Commissioner:

Mag. Alexander PESCHETZ, from 1 July 2012

#### Deputy State Commissioner:

Mag. Stefan WIESER, from 1 August 2014

### Trustees

#### Trustee:

Mag. Alexander PESCHETZ, Federal Ministry of Finance, from 1 January 2011; re-appointed from 1 January 2016

#### Deputy Trustee:

HR Mag. Maria HACKER-OSTERMANN, from 1 September 2014

### Executive Board

Mag. Martin HANDRICH, Member of the Executive Board from 16 March 2015

Wirt.-Ing. Sebastian Prinz von SCHOENAICH-CAROLATH, Chairman of the Executive Board from 16 April 2015

Mag. Alexander TSCHERTEU, Member of the Executive Board from 1 July 2015

Mag. Arnold SCHIEFER, Member of the Executive Board from 1 October 2015

Mag. Johannes PROKSCH, Member of the Executive Board until 30 June 2015

Dr. Rainer JAKUBOWSKI, Chairman of the Executive Board until 16 April 2015, Member of the Executive Board until 31 July 2015

## List of shareholdings Annex 3 to the notes to the financial statements

Pursuant to section 238 UGB

### 1. Direct participations of Heta Asset Resolution AG

The following list shows the direct participations (greater than 20 %) of Heta according to section 238 (2) UGB:

Name of enterprise	Registered office	Capitalshare 1)	Equity in EUR thousand <sup>2</sup>	Profit/Loss in EUR thousand <sup>3</sup>	Date of closing
HBInt Credit Management Limited <sup>4)</sup>	St. Helier - Jersey	51.000	544,800	16,176	31.12.2014
Norica Investments Limited <sup>5)</sup>	St. Helier - Jersey	51.000	511,155	11,151	31.12.2013
IMPREGNACIJA - HOLZ d.o.o. Vitez <sup>6)</sup>	Vitez	93.380	-	-	-
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	100.000	3,763	-27,841	31.12.2015
HYPO Consultants Holding GmbH	Klagenfurt am Wörthersee	100.000	322	-15	31.12.2014
Hypo Alpe-Adria Jersey Limited	St. Helier - Jersey	100.000	-365	-365	31.12.2014
Alpe Adria Privatbank AG in Liquidation	Vaduz	100.000	3,023	-1,188	31.12.2015
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	100.000	-6,977	408	31.12.2015
ALPE-ADRIA GASTRONOMIE GMBH	Klagenfurt am Wörthersee	100.000	-82	-99	31.12.2014
Alpe Adria Venture Fund GmbH & Co KG	Klagenfurt am Wörthersee	100.000	1,055	-73	31.12.2014
TCK d.o.o.	Ljubljana	100.000	44,748	44,735	31.12.2015
KONJUSKA d.o.o.	Primosten	100.000	-984	41	31.12.2014
TCV d.o.o.	Ljubljana	100.000	1,973	1,973	31.12.2015
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD - U LIKVIDACIJI	Belgrade - Novi Beograd	100.000	2,534	-277	31.12.2015
HETA ASSET RESOLUTION Bulgaria OOD	Sofia	100.000	-1,230	-1,468	31.12.2015
HETA ASSET RESOLUTION Auto Bulgaria OOD <sup>7)</sup>	Sofia	100.000	-	-	31.12.2015
HETA Asset Resolution d.o.o.	Ljubljana	100.000	10,230	-4,136	31.12.2015
Hypo Alpe-Adria (Jersey) II Limited	St. Helier - Jersey	100.000	-293	-293	31.12.2014
REZIDENCIJA SKIPER d.o.o.	Savudrija	100.000	-64,549	43	31.12.2015
CEDRUS Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.000	71,442	-2,398,199	31.12.2015

The equity and profit/ loss values shown above for fully consolidated companies are generally calculated in accordance with the uniform group measurement provisions pursuant to International Financial Reporting Standards (IFRS), and therefore may differ from the published separate financial statements, which were prepared according to the respective national provisions. The information is based on data prior to consolidation.

Sub-groups: The values for the equity capital and the result from the financial statements take into account the consolidated subsidiary companies

<sup>1)</sup> Calculated percentage portion from the viewpoint of Heta Asset Resolution AG, minority shareholders at the fourth decimal points are no longer shown

<sup>2)</sup> Equity = total equity capital of the company; proportionate equity (corresponding to the direct shareholdings) is not shown

<sup>3)</sup> Result = net profit/loss prior to reserves and non-controlling interest; the proportionate result (corresponding to the direct shareholding) is not shown

<sup>4)</sup> HBInt Credit Management repatriated its capital in 2015 and will be dissolved in 2016

<sup>5)</sup> Norica Investments Limited repatriated its capital in 2015 and will be dissolved in 2016

<sup>6)</sup> Die IMPREGNACIJA - HOLZ d.o.o. is inactive and does not draw up accounts

<sup>7)</sup> The equity and profit/loss values for HYPO ALPE-ADRIA-AUTOLEASING OOD are included in the direct parent company HYPO ALPE-ADRIA-LEASING OOD

## 2. Consolidation pursuant to International Financial Reporting Standards (IFRS)

Heta prepares its financial statements as at 31 December 2015 according to the International Financial Reporting Standards (IFRS). The published annual financial statements are based on the group of consolidated companies according to International Financial Reporting Standards (IFRS) and include the following:

Company	Registered office	Capital share <sup>1)</sup>		Date of Closing
		direct	<sup>1)</sup> indirect	
Alpe Adria Privatbank AG in liquidation	Vaduz	100.0	100.0	31.12.2015
Alpe Adria Snow Fun Park Grundstücks GmbH	Munich	100.0	100.0	31.12.2015
Alpe-Adria poslovodstvo d.o.o.	Zagreb	100.0	100.0	31.12.2015
Alpe-Adria-Projekt GmbH	Munich	100.0	100.0	31.12.2015
BLOK 67 ASSOCIATES DOO BEOGRAD	Belgrade - Novi Beograd	100.0	100.0	31.12.2015
BORA d.o.o. Banja Luka	Banja Luka	100.0	100.0	31.12.2015
BRODARICA POSLOVNI CENTAR d.o.o.	Zagreb	100.0	100.0	31.12.2015
CEDRUS Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
Centrice Castellum d.o.o.	Zagreb	100.0	100.0	31.12.2015
Centrice d.o.o.	Ljubljana	100.0	100.0	31.12.2015
Centrice Galerija d.o.o.	Zagreb	100.0	100.0	31.12.2015
Centrice Ljubljana d.o.o.	Ljubljana	100.0	100.0	31.12.2015
Centrice Real Estate GmbH	Vienna	100.0	100.0	31.12.2015
Centrice Real Estate Ljubljana d.o.o.	Ljubljana	100.0	100.0	31.12.2015
Centrice Zagreb d.o.o.	Zagreb	100.0	100.0	31.12.2015
DOHEL d.o.o.	Sesvete	100.0	100.0	31.12.2015
EPSILON GRAĐENJE d.o.o.	Zagreb	100.0	100.0	31.12.2015
H-ABDUKO d.o.o.	Zagreb	100.0	100.0	31.12.2015
HAR GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
HETA 2014 Tanácsadó Kft	Budapest	100.0	100.0	31.12.2015
HETA ASSET RESOLUTION Auto Bulgaria OOD	Sofia	(99.8/0.2)	100.0	31.12.2015
HETA ASSET RESOLUTION Bulgaria OOD	Sofia	(99.9/0.1)	100.0	31.12.2015
HETA Asset Resolution d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2015
HETA ASSET RESOLUTION D.O.O. BEOGRAD	Belgrade	100.0	100.0	31.12.2015
HETA ASSET RESOLUTION d.o.o. PODGORICA	Podgorica	100.0	100.0	31.12.2015
HETA Asset Resolution Germany GmbH	Munich	100.0	100.0	31.12.2015
HETA Asset Resolution Hrvatska d.o.o.	Zagreb	100.0	100.0	31.12.2015
Heta Asset Resolution Italia S.r.l.	Tavagnacco (UD)	100.0	100.0	31.12.2015
HETA ASSET RESOLUTION Leasing d.o.o. PODGORICA	Podgorica	100.0	100.0	31.12.2015
HETA ASSET RESOLUTION LEASING DOOEL Skopje	Skopje	100.0	100.0	31.12.2015
HETA Asset Resolution Leasing GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
HETA Asset Resolution Magyarországt Zrt.	Budapest	100.0	100.0	31.12.2015
HETA CENTER –2 d.o.o.	Ljubljana	100.0	100.0	31.12.2015
HETA d.o.o. Sarajevo	Sarajevo	100.0	100.0	31.12.2015
HETA Grund- und Bau-Leasing GmbH	Klagenfurt am Wörthersee	(99.9/0.1)	100.0	31.12.2015
HETA HOUSE D.O.O. - PODGORICA	Podgorica	100.0	100.0	31.12.2015
HETA Immobilien- und Bauconsult GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2015
HETA LEASING D.O.O. BEOGRAD	Belgrade	100.0	100.0	31.12.2015
HETA Leasing Kärnten GmbH & Co KG	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
HETA Luftfahrzeuge Leasing GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2015
HETA REAL ESTATE D.O.O. BELGRAD	Belgrade	100.0	100.0	31.12.2015
HETA Real Estate GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2015
HTC ENA d.o.o.	Ljubljana	100.0	100.0	31.12.2015
HYPERIUM DOOEL Skopje	Skopje	100.0	100.0	31.12.2015



company	Registered office	Capital share <sup>1)</sup>		Date of Closing
		direct	<sup>1)</sup> indirect	
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
HYPO ALPE-ADRIA-Verwaltung 2011 GmbH	Munich	100.0	100.0	31.12.2015
HYPO ALPE-ADRIA-ZASTUPNIK - Društvo za zastupanje u osiguranju d.o.o. Sarajevo	Sarajevo	100.0	100.0	31.12.2015
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
LOMA CENTER d.o.o.	Ljubljana	100.0	100.0	31.12.2015
Malpensa Gestioni Srl	Tavagnacco (Udine)	100.0	100.0	31.12.2015
MM THETA d.o.o.	Ljubljana	100.0	100.0	31.12.2015
MM ZETA d.o.o.	Ljubljana	100.0	100.0	31.12.2015
O-CENTER d.o.o.	Ljubljana	100.0	100.0	31.12.2015
REZIDENCIJA SKIPER d.o.o.	Savudrija	(75.0/25.0)	100.0	31.12.2015
SKIPER HOTELI d.o.o.	Savudrija	100.0	100.0	31.12.2015
SKIPER OPERACIJE d.o.o.	Savudrija	100.0	100.0	31.12.2015
SKORPIKOVA POSLOVNI CENTAR d.o.o.	Zagreb	100.0	100.0	31.12.2015
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Wittenburg	100.0	100.0	31.12.2015
SPC SZENTEND Ingatlanforgalmazó és Ingatlanfejlesztő Kft.	Budapest	100.0	100.0	31.12.2015
TCK d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2015
TCV d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2015
Tridana d.o.o.	Ljubljana	100.0	100.0	31.12.2015
Victor Retail I d.o.o.	Sarajevo	100.0	100.0	31.12.2015
X TURIST d.o.o.	Umag	100.0	100.0	31.12.2015
Y TURIST d.o.o.	Umag	100.0	100.0	31.12.2015
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD - U LIKVIDACIJI	Belgrade - Novi Beograd	100.0	100.0	31.12.2015

## Major holdings Annex 4 to the notes to the financial statements

as at 31 December 2015

HETA ASSET RESOLUTION AG	
FINANCIALS	OTHERS
<b>Austria:</b> HAR GmbH, Klagenfurt/WS HETA Asset Resolution Leasing GmbH, Klagenfurt/WS HETA Real Estate GmbH, Klagenfurt/WS HETA Luftfahrzeuge Leasing GmbH, Klagenfurt/WS HETA Grund- und Bau-Leasing GmbH, Klagenfurt/WS HETA Leasing Kärnten GmbH & Co KG, Klagenfurt/WS HETA Immobilien- und Bauconsult GmbH, Klagenfurt/WS	<b>Bosnia and Herzegovina:</b> HETA d.o.o., Sarajevo BORA d.o.o., Banja Luka  <b>Serbia:</b> HETA LEASING D.O.O., BEOGRAD HETA ASSET RESOLUTION D.O.O., BEOGRAD HETA REAL ESTATE D.O.O., BELGRAD  <b>Bulgaria:</b> HETA ASSET RESOLUTION Bulgaria OOD, Sofia <sup>1</sup> HETA ASSET RESOLUTION Auto Bulgaria OOD, Sofia <sup>1</sup>
<b>Italy:</b> Heta Asset Resolution Italia S.r.l., Udine	<b>Montenegro:</b> HETA ASSET RESOLUTION Leasing d.o.o. PODGORICA HETA ASSET RESOLUTION d.o.o. PODGORICA
<b>Slovenia:</b> HETA Asset Resolution d.o.o., Ljubljana <sup>1</sup> TCV d.o.o., Ljubljana <sup>1</sup> TCK d.o.o., Ljubljana <sup>1</sup>	<b>Macedonia:</b> HETA ASSET RESOLUTION LEASING DOOEL Skopje
<b>Croatia:</b> HETA Asset Resolution Hrvatska d.o.o., Zagreb HETA Asset Resolution Ulaganja d.o.o., Zagreb H-ABDUCO d.o.o., Zagreb	<b>Hungary:</b> HETA Asset Resolution Magyarország Zrt., Budapest  <b>Germany:</b> HETA Asset Resolution Germany GmbH, München
	<b>Austria:</b> CEDRUS Handels- und Beteiligungs GmbH, Klagenfurt/WS <sup>1</sup> HYPO ALPE-ADRIA BETEILIGUNGEN GMBH, Klagenfurt/WS Hypo Alpe-Adria-Immobilien GmbH, Klagenfurt/WS <sup>1</sup> HYPO Vermögensverwaltung Gesellschaft m.b.H., Klagenfurt/WS <sup>1</sup> Performing Real Estate: Centrice Real Estate GmbH, Wien
	<b>Croatia:</b> REZIDENCIJA SKIPER d.o.o., Savudrija <sup>1</sup> X TURIST d.o.o., Umag Y TURIST d.o.o., Umag BLOK 67 ASSOCIATES DOO BEOGRAD  <b>Serbia:</b> ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD – U LIKVIDACIJI <sup>1</sup>

Illustrated are the direct fully consolidated subsidiaries of HETA ASSET RESOLUTION AG (except: some companies in liquidation) which are marked with '1'. The other subsidiaries represent fully consolidated second- or third level subsidiaries of HETA ASSET RESOLUTION AG, mainly subsidiaries of HAR GmbH. It is pointed out that this chart does not contain all direct and indirect subsidiaries of HETA ASSET RESOLUTION AG, therefore the illustration is not exhaustive.

Segment Financials: Contains the Wind-Down leasing companies and the companies which took over the non-performing financing portfolio from the former sister banks ('brush entities').

Segment Others: Contains the subholdings, other subsidiaries and companies which manage the performing real estate portfolio.

## Statement of all legal representatives

"We confirm to the best of our knowledge that the separate financial statements for Heta Asset Resolution AG give a true and fair view of the assets, liabilities, financial position and profit or loss of the business as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business, together with a description of the principal risks and uncertainties the business faces".

Klagenfurt am Wörthersee, 17 March 2016  
Heta Asset Resolution AG

THE EXECUTIVE BOARD

Wirt.-Ing. Sebastian  
Prinz von Schoenaich-Carolath (Chairman)

Mag. Martin Handrich  
(Member)

Mag. Arnold Schiefer  
(Member)

Mag. Alexander Tscherteu  
(Member)

# Auditors' Report

## Report on the financial statements\*

We have audited the accompanying financial statements, including the accounting system, of **HETA ASSET RESOLUTION AG, Klagenfurt am Wörthersee**, for the fiscal year from January 1, 2015 to December 31, 2015. These financial statements comprise the balance sheet as of December 31, 2015, the income statement for the fiscal year ended December 31, 2015, and the notes.

### Management's Responsibility for the Financial Statements and for the Accounting System

The Company's management is responsible for the accounting system and for the preparation and fair presentation of these financial statements in accordance with Austrian Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of the Company as of December 31, 2015 and of its financial performance for the fiscal year from January 1, 2015 to December 31, 2015 in accordance with Austrian Generally Accepted Accounting Principles.

Without restricting the audit opinion, we refer

- to the information provided by the company's Executive Board in the notes to the annual financial statements under note (4) "Measurement basis: Gone concern assumption". A group-wide measurement process for the assets that are relevant to the portfolio wind-down was initiated once the Federal Act on the Creation of a Wind-down Entity (GSA) went into full force at the end of October 2014 following the company's transfer into a partially-regulated but not insolvency-proof wind-down unit. This measurement reflects the short to medium-term disposal intention in saturated markets during a wind-down period of five years, based on the assumption that 80 % of assets would be wound down by 2018. After the initial interim results of the Asset Quality Review (AQR) were announced, which indicated an asset shortfall between EUR -4.0 billion and EUR -7.6 billion, which was thus above the still available state aid range for capital measures approved by the EU Commission for EUR 2.9 billion, along with the expected implications for the company's capital and liquidity situation, the company's owner, the Republic of Austria, announced on 1 March 2015 that no further measures would be taken for the company under the Federal Act on Financial Market Stability (FinStaG). Based on the amended business purpose, the implications of the Federal Act on the Creation of a Wind-down Entity (GSA), which calls for mandatory self-liquidation after the statutory wind-down objectives have been achieved, the complete disposal of units conducting new business, the over-indebtedness of the company and the Federal Act on the Recovery and Resolution of Banks (BaSAG) ordinance by the resolution authority, the Executive Board no longer had a basis for continuing to prepare the 2014 annual financial statements on the basis of the going concern assumption. As a

result, the annual financial statements for 31 December 2014 are based on the gone concern assumption; this subsequently also applies to the annual financial statements for 31 December 2015;

- to the information provided by the company's Executive Board in the notes to the annual financial statements under note (4) Measurement basis: Gone concern assumption and note (26) Notes regarding negative equity as at 31 December 2015 (over-indebtedness). In its medium-term plan, which must be prepared by the company's Executive Board, the Board does not provide for interest or capital repayments with regard to the company's debts. Therefore the contents and time-related aspects of the wind-down plan that must be prepared by the resolution authority pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG), and which forms the basis for the subsequent wind-down procedure, may deviate from the company's medium-term plan, but must nevertheless ensure that the company's ability to pay is maintained during the wind-down process. In addition, the orderly wind-down of the company pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG) will also depend on whether circumstances that put the wind-down process pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG) objectives and principles at risk will occur in the future;
- to the information provided by the company's Executive Board in the notes to the annual financial statements under note (2.7) Development of the credit engagement vis-a-vis the former Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A., which refers to the risks faced by the company as a result of the sale agreement and the refinancing of Hypo Alpe-Adria-Bank S.p.A. The assessment of the recoverability of the refinancing lines approved by the company in the past, which was carried out on 31 December 2015, is mainly based on the wind-down plan for Hypo Alpe-Adria-Bank S.p.A. as submitted by HBI-Bundesholding AG;
- to the information provided by the company's Executive Board in the notes to the annual financial statements under note (2.8) Completion of the sale of the SEE network, which refers to the risks faced by the company as a result of the sale agreement and the refinancing of Hypo Group Alpe Adria (the SEE network). The sale agreement provides a comprehensive list of guarantees and grants the buyer consortium the right, among other things, to transfer certain loan receivables and other assets, as well as risk items, to the company or to companies it has designated for this purpose. Pursuant to contractual provisions, the company is also obligated to continue to maintain the lines of credit in place as at 31 December 2014. In March 2016, the company and the buyer came to an agreement regarding a comprehensive settlement to clean up all contractual CHF exemption claims (credit and legal risks) and other outstanding items in connection with the share purchase agreement. As a result of the settlement, the contractual liability limits that apply to the relevant warranties and exemptions, and the maximum liability of the Republic of Austria under the hedging instrument with the buyer (and thus also the fee that the company must pay to the Republic of Austria) were reduced;
- to the information provided by the company's Executive Board in the notes to the annual financial statements under note (11) Maturities of balance sheet items", which advises that the company faces a significant structural liquidity risk. From the Executive Board's point of view, the company is no longer in a position to service all of its liabilities by their due date;
- to the information provided by the company's Executive Board in the notes to the annual financial statements under note (9) Use of estimates and assumptions/main estimate uncertainties, which advises that in view of the persistent economic weakness in south-eastern Europe, it is possible that additional impairments may have to be applied to the existing loan portfolio in the future;
- to the information provided by the company's Executive Board in the notes to the annual financial statements under note (40.4) Claims in connection with the moratorium imposed according to the Federal Act on the Recovery and Resolution of Banks (BaSAG), which notes that the plaintiffs dispute the recognition of the Financial Market Authority (FMA)'s measures pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG) and - contrary to the deferral ordered in the ordinance - demand payment. Judgements of the court of first instance may be declared as provisionally enforceable against collateral according to German law. Such a treatment of individual creditors would oppose the principle of equal treatment of creditors under Federal Act on the Recovery and Resolution of Banks (BaSAG), the principle of the (balanced) assumption of losses by the creditors and the principle of ensuring that creditors are not put in a worse position as compared to liquidation measures taken in the course of an insolvency. Therefore there exists the risk that the resolution authority will apply for insolvency proceedings in order to warrant the equal treatment of creditors. Insolvency proceedings would lead to additional losses for creditors because a far more rapid liquidation

of assets (using the liquidation processes that apply in the respective countries with regard to insolvency proceedings) would have to be used as a basis for measurement instead of an orderly wind-down process over a period of five years (using the sales procedures commonly used for the respective assets). If such "insolvency or break-up values" are used, it would result in significantly higher losses or significantly lower proceeds.

#### **Comments on the Management Report**

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements.

In our opinion, the management report is consistent with the financial statements.

Vienna, 17 March 2016

Ernst & Young  
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Ernst Schönhuber mp  
Auditor

Mag. Friedrich O. Hief mp  
Auditor

KPMG Austria GmbH  
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Walter Reiffenstuhl mp  
Auditor

\*) This report is a translation of the original report in German, which is solely valid. Publication of the financial statements together with our auditor's opinion may only be made if the financial statements and the management report are identical with the audited version attached to this report. Section 281 (2) UGB (Austrian Commercial Code) applies.

## **Group report according to IFRS**

HETA ASSET RESOLUTION

# Group Management Report

By way of introduction, the reader is advised that effective 31 October 2014, the company operating as “HYPO ALPE-ADRIA-BANK INTERNATIONAL AG” was renamed “HETA ASSET RESOLUTION AG”. It continues to function as the parent company of the Heta Group (formerly “Hypo Alpe Adria”, in short “Heta”).

The company prepares its separate financial statements in accordance with Austrian law (Austrian Commercial Code (UGB)/Austrian Banking Act (BWG)). The consolidated financial statements to be published for the financial year ending 31 December 2015 report on the basis of the International Financial Reporting Standards (IFRS) as they must be applied in the European Union (EU); this management report refers to the same. Both documents are also published on the internet under [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Financial reports & presentations).

## 1. Overview of Heta Asset Resolution AG

The current Heta was founded in 1896 as a Landes- und Hypothekenanstalt and remained a typical Carinthian regional bank for almost 100 years. The strategic focus of the bank's business was centred on public-sector financing activities. In the 1990s, the former Hypo Alpe Adria began its gradual expansion into the Alps-to-Adriatic region and developed from a regional bank into an international finance group. In 2004, the domestic operations in Austria were deconsolidated and the remaining unit was implemented as the management holding company Hypo Alpe-Adria-Bank International AG, which was responsible for the group's funding activities. These activities consisted of the placement of liabilities in the market, most of which came with a guarantee from the State of Carinthia.

During the course of the global financial crisis, Hypo Alpe Adria encountered serious difficulties and finally had to be nationalised at the end of 2009 (emergency nationalisation). In December 2009, the Republic of Austria became the bank's sole owner.

The banking license awarded to the former Hypo Alpe-Adria-Bank International AG by the Financial Markets Authority (FMA) pursuant to the Austrian Banking Act (BWG) was terminated with a decision by the Financial Markets Authority (FMA) from 30 October 2014. Since then, the company is continued as a partially-regulated wind-down unit in accordance with the Federal Act on the Creation of a Wind-down Entity (Federal Law Gazette I 2014/51, Federal Act on the Creation of a Wind-down Entity (GSA)). The business mandate of Heta is the full wind down of its assets. According to section 3 (1) GSA, the wind-down unit must “ensure orderly, active and best possible exploitation (portfolio wind-down)”. The company must subsequently be liquidated. Within this context, it is also authorised, on the basis of the legal concession under the Federal Act on the Creation of a Wind-down Entity (GSA), to continue to enter into banking or leasing transactions that serve this purpose.

According to section 3 (4) GSA, Heta is subject to some of the provisions of the Austrian Banking Act (BWG) and accordingly has assumed certain reporting and notification duties vis-a-vis the Austrian National Bank (OeNB) and the Financial Markets Authority (FMA). The Financial Markets Authority (FMA) continues to be the regulatory authority in charge, which pursuant to section 8 GSA is obliged to verify compliance with the applicable provisions of the Austrian Banking Act (BWG).

The Federal Act on the Recovery and Resolution of Banks (BaSAG) went into force on 1 January 2015. According to section 162 (6) BaSAG, the authorisations and instruments set out in the fourth part of the law may be applied to Heta.

During the conversion process into a wind-down unit according to the Federal Act on the Creation of a Wind-down Entity (GSA), the company conducted a group-wide Asset Quality Review (AQR), which must reflect the requirements for the fastest possible portfolio wind-down process. Following the announcement on 27 February 2015 of an asset coverage shortfall of between EUR -4.0 billion and EUR -7.6 billion, which was identified during the course of the Asset Quality Review (AQR), the Republic of Austria informed Heta that it would no longer receive any capital or liquidity support. In view of the circumstances, the Financial Markets Authority (FMA) in its capacity as the resolution authority, announced a decision on 1 March 2015 pursuant Federal Act on the Recovery and Resolution of Banks (BaSAG). As part of this decision, a moratorium was placed on all of Heta's “eligible liabilities” until 31 May 2016 in preparation for the application of the instrument involving the participation of creditors. The resolution authority (FMA), in exercise of its sole decision-making powers according to Federal Act on the Recovery and Resolution of Banks (BaSAG), will define the possible participation of creditors and the amount and date on which the affected liabilities are paid. With regard to additional information, we refer to the decision of the Financial Markets Authority (FMA) dated 1 March 2015, which is published on the Financial Markets Authority (FMA) homepage ([www.fma.gv.at](http://www.fma.gv.at)) and also on Heta's home page [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Press → Austrian Banking Restructuring and Resolution Act (BaSAG)).

As at 31 December 2015, Heta is comprised through its subsidiaries in Austria, Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Bulgaria, Germany and Hungary. At the end of 2015, the group had 1,329 active employees (FTE).

In its financial statements as at 31 December 2015 according to Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) (separate financial statements) Heta reported negative equity of EUR -7.5 billion, total assets of EUR 9.6 billion and liabilities of EUR 17.0 billion. The balance sheet is therefore significantly over-indebted. The consolidated IFRS financial statements report negative equity of EUR -5.7 billion (not taking into account minority in-



terest) - particularly as a result of different accounting and measurement policies).

## 2. General economic

The year 2015 was one of considerable upheavals with global impacts ranging from collapsing oil prices to the capital market crisis in China, not to mention other serious challenges (various stabilisation efforts in Greece, refugee flows that put a burden on government budgets, low inflation rates) for Europe and the Eurozone, which offered very little room for substantial growth opportunities. During the year 2015, the Gross Domestic Product (GDP) of the Eurozone grew by approximately 1.6 %. The inflation rate closed the year 2015 with 0.1 %, with expectations of lower inflation rates in the future. Similarly, the willingness to consume or invest, alongside the provision of loans and the development of the money supply remained rather weak despite the massive stimulus measures employed by the European Central Bank (ECB).

In the countries that are key to Heta's activities, primarily Austria, Croatia, Slovenia and Italy, but also Serbia and Bosnia-Herzegovina, there were several significant developments in 2015 which also had an effect on Heta's activities in the various countries.

The Austrian Gross Domestic Product (GDP) is expected to grow by 0.7 % in 2015. This persistently weak growth rate continues to reflect the cautious approach adopted by companies and consumers, and is the result of both local policy and budget policy uncertainties. For example, the national debt ratio increased to 85.7 % of the Gross Domestic Product (GDP). Another problem in terms of 2015 developments was the situation in the labour market with an unemployment rate of 5.8 %.

Following 2015 growth forecasts that were in the range of 0.5 % for Croatia, this figure was subsequently revised to a 1.8 % increase in the Gross Domestic Product (GDP) after the first half of 2015. This development is due to improved exports, private consumption and the tourism industry. The unemployment rate also declined slightly during 2015. The risks for the Croatian economy include political uncertainty after the elections in November 2015, and the difficulties in the bank sector - especially those related to Croatian legislation regarding the compulsory conversion of Swiss Franc (CHF) loans. Such measures weaken the ability of banks to provide important momentum for another potential upturn by providing business financing.

In 2015, Slovenia continued to grow at an above-average rate (compared to the Eurozone) of 2.6 %. Increased exports and improved competitiveness were contributors in this regard, as were private consumption and investment expenditures. Lower-trending unemployment rates and the resulting increase in incomes available to households lent additional support to these developments. The country's economy benefited from improved corporate productivity

and profitability, as well as investments from EU resources. Risk factors include government debt levels and the lack of reform efforts with regard to restructuring and imminent privatisation measures, and the required restructuring measures in the banking sector.

With a growth rate of only 0.9 % in 2015, Italy is among the countries with decidedly below-average developments, although the rate for 2015 is also indicative of a slight upward trend, which is also manifested in the positive trend of confidence indices at the corporate and consumer level. While economic growth in Italy is hampered by political imponderables regarding the progress of fiscal, structural and administration reforms, the economic burden of non-performing loans (NPL) and the situation on export markets, there are also other factors that support an upward trend. They include a slight decrease in the unemployment rate and lower oil prices - all of which have a positive effect on private consumption.

Serbia registered positive growth of 0.7 % in 2015 - a marked upturn that is due to industrial production and various retail revenues at the end of the year. National policies with a programme to consolidate the government budget, along with the financing approved by the International Monetary Fund (IMF) at the end of 2015, contributed to an improved economic environment. Nevertheless, the Serbian economy still faces a number of significant challenges in view of the critical situation in the labour market (17.7 % unemployment), currency volatilities and significant restructuring requirements at nationalised companies.

Bosnia and Herzegovina also offer a positive growth rate of 2.1 % in 2015, although this result is again due to the one-time effect of the reconstruction activities after the 2014 floods and various basic investments into infrastructure (e.g. highways), as was the case last year. Several positive aspects, such as the trade balance deficit, which did not deteriorate, and a positive outlook for the country's important export markets, could provide some hope regarding sustained economic stability. But in fact, the catch-up requirements of this decentralised-governed country are still considerable, as evidenced by the reform requirements of the International Monetary Fund (IMF), which led to more liberal labour market legislation in 2015, for example.

(Sources: OECD, OeNB, eurostat, EU Commission)

### 3. Legal information and important events in 2015

#### 3.1. Decision of EU Commission from 3 September 2013

On 3 September 2013, the Commission of the European Union (EU-commission) reached a final decision in the state aid investigation that had been under way since 2009.

The decision provided for the division of the company into the marketable, reprivatisable units of the South-East European Network (SEE) and the wind-down unit. A reprivatisation process was stipulated for the banks of the SEE network in Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro; it had to be completed by the end of 2015 (Closing). Furthermore, the former Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A. had to be allocated to the wind-down segment during the second half of 2013. The wind-down unit is subject to new business restrictions and in particular the requirement that assets must be wound down in a manner that preserves assets and values.

Compliance with the restructuring plan and the imposed requirements is monitored by an independent trustee appointed by the European Commission, the "Monitoring Trustee".

#### 3.2. Hypo Alpe Adria Restructuring Act (HaaSanG)

The Hypo Alpe Adria Restructuring Act (HaaSanG) went into force on 1 August 2014, and designated the Financial Market Authority (FMA) as the authority responsible for implementation of the restructuring measures provided for in the law.

With the announcement of the Financial Markets Authority (FMA) Ordinance on 7 August 2014, the termination and deferment of Heta's liabilities listed in the Financial Markets Authority (FMA) regulation took effect, which means that repayment sums, interest or other ancillary fees owed by the company, where applicable, were automatically reduced to zero. The payment date for certain "disputed liabilities" was postponed to 30 June 2019 at the earliest, according to Hypo Alpe Adria Restructuring Act (HaaSanG). In accordance with section 3 of the Hypo Alpe Adria Restructuring Act (HaaSanG), the subordinated liabilities as well as all collateral including guarantees for such liabilities expired.

The expiration of liabilities comprised a total volume of around EUR 1.6 billion, of which subordinated liabilities of third-party investors accounted for EUR 0.8 billion and liabilities to the Bayerische Landesbank (BayernLB) accounted for EUR 0.8 billion. All of the liabilities covered under Hypo Alpe Adria Restructuring Act (HaaSanG) and the Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV) in the amount of EUR 1.6 billion were derecognised out on 7 August 2014.

On 3 July 2015, the Constitutional Court of Austria (VfGH) repealed the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Ordinance issued by the Financial Markets Authority (FMA) on the Hypo Alpe Adria Restructuring Act (HaaSanV)

on this legal basis, without mention of a repair period. This meant that the liabilities that were derecognised in 2014 now had to be recognised again for accounting purposes in 2015. For additional information, please refer to item (6.1) Repeal of the Hypo Alpe Adria Restructuring Act (HaaSanG) by the Austrian Constitutional Court (VfGH) and resulting lawsuits.

#### 3.3. Federal Act on the Creation of a Wind-down Entity (GSA)

The license granted to the former Hypo Alpe-Adria-Bank International AG by the Financial Markets Authority (FMA) to conduct banking activities according to the Austrian Banking Act (BWG) was terminated by the resolution of the Financial Markets Authority (FMA) of 30 October 2014. Preconditions were that Heta no longer undertakes any deposit transactions and no longer holds any qualified participations – within the meaning of the Capital Requirements Regulation (CRR) – in credit institutions or financial securities firms. These preconditions were met following the restructuring.

As a wind-down unit pursuant to section 3 GSA, Heta continues to possess a legal concession to undertake banking operations. On the basis of the legal concession and pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA), certain banking operations continue to be implemented during the course of the wind-down activities.

Heta's responsibility as a wind-down unit consists of winding down its assets, which it must liquidate in a manner that is orderly, active and to the best possible advantage. The wind-down unit may only undertake transactions that are suited to winding down the portfolio. In addition, the wind-down unit may render certain transition services to former group companies. Pursuant to section 3 (4) GSA, Heta is subject to a limited extent to the provisions of the Austrian Banking Act (BWG) but not the minimum capital regulations. The Financial Markets Authority (FMA) continues to be the responsible regulatory authority and is obligated, pursuant to section 8 GSA, to assess compliance with the applicable provisions of the Austrian Banking Act (BWG).

Following the resolution of the general shareholders' meeting on 29 October 2014, the company's statutes were amended in view of the transformation into a wind-down unit; the name of the parent company was also amended, from "HYPO ALPE-ADRIA-BANK INTERNATIONAL AG" to "HETA ASSET RESOLUTION AG". The company's business purpose was restricted to - with the exception of those specified in the Federal Act on the Creation of a Wind-down Entity (GSA) - transactions that are required to fulfil the company's mandate (complete reduction of the portfolio as quickly as possible).

Article 2.4 of the amended statutes provides that a resolution on dissolution is passed as soon as the portfolio is completely wound down. This amendment was entered in the commercial register on 31 October 2014 and is effective

as of that date. As this amendment relates exclusively to the name of the company and not the re-establishment of the company, this does not affect the legal person of the company itself or any of its contractual obligations.

### 3.4. Application of the Federal Act on the Recovery and Resolution of Banks (BaSAG)

In order to fulfil the statutory requirements under section 3 (1) of the Federal Act on the Creation of a Wind-down Entity (GSA), Heta conducted a group-wide review of the assets relevant to the portfolio wind-down, a so-called "Asset Quality Review" (AQR), in the first quarter of 2015. The objective of the Asset Quality Review (AQR) was to subject all Heta assets that are relevant to the portfolio wind-down to a valuation taking into account the wind-down objectives.

While at the time of the initial interim results from the Asset Quality Review (AQR) on 27 February 2015, the company was still able to pay its debts and liabilities as they came due, the Executive Board saw objective and concrete indications pursuant to section 51 (1) (3) Federal Act on the Recovery and Resolution of Banks (BaSAG) that the company would no longer be able to pay its debts and liabilities on time in the near future. As a result, Heta's Executive Board immediately notified the Supervisory Board of the asset coverage shortfall in the range of EUR -4.0 billion to EUR -7.6 billion (special report according to the Federal Act on the Creation of a Wind-down Entity (GSA)). The Executive Board subsequently informed its sole shareholder, the Republic of Austria, of the shortfall, and inquired whether the government, against the background of this new information and the validity of the Federal Act on the Recovery and Resolution of Banks (BaSAG), would be prepared to compensate the existing asset coverage shortfall and the liquidity gaps expected in 2016 and 2017 with the appropriate measures. On the same day, the company also submitted a precautionary notice according to Federal Act on the Recovery and Resolution of Banks (BaSAG) to the resolution authority in charge pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG), the Financial Markets Authority (FMA), and asked to have a corresponding decision issued if the company's owner should fail to make a binding statement about suitable measures. Subsequently, the Austrian Minister of Finance notified Financial Markets Authority (FMA) and the company on 1 March 2015 that no further measures will be implemented for Heta under the Financial Market Stability Act (FinStaG).

On the same day, the wind-down authority issued a resolution on the arrangement of wind-down measures in accordance with Federal Act on the Recovery and Resolution of Banks (BaSAG). As part of this decision, a moratorium was placed on all "eligible liabilities" of Heta until 31 May 2016 according to section 58 (1) (10) BaSAG, in preparation for the application of the instrument involving the participation of creditors. For additional information, please refer to the ordinance of the Financial Market Au-

thority (FMA) from 1 March 2015, which was published on the Financial Markets Authority (FMA) homepage ([www.fma.gv.at](http://www.fma.gv.at)) The ordinance can also be found on Heta's homepage at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Press → Austrian Banking Restructuring and Resolution Act (BaSAG)).

An appeal against the decision from the resolution authority could be submitted within three months after it was released (1 March 2015), but this is without suspensory effect. Affected investors have announced that they will take their own legal steps against Heta. The ordinance is based on the Federal Act on the Recovery and Resolution of Banks (BaSAG), which was used to implement the European directive on bank restructuring in Austria. For this reason, Heta believes that the ordinance should also be recognised in another EU member state. It is noted that a request to hear a complaint is currently pending at the Constitutional Court of Austria (VfGH) regarding a review of the constitutionality of the Federal Act on the Recovery and Resolution of Banks (BaSAG). According to a statement by the President of the Constitutional Court of Austria (VfGH) in March 2016, it is expected that the court will issue a decision on this issue during its fall session at the latest.

The resolution authority, in exercise of its sole decision-making powers according to Federal Act on the Recovery and Resolution of Banks (BaSAG), will define the possible participation of creditors and in particular the amount and date on which the affected liabilities will be serviced in the future. Details regarding the form of the haircut are not known at this time. It can however be expected that such a participation of creditors, in accordance with the rank of the respective liabilities under insolvency law, will lead to a reduction in nominal values and the attributable interest claims.

An accounting consideration of such a reduction follows immediately after the effective date of a decision issued by the resolution authority to be announced by 31 May, and will therefore have the corresponding effects on the consolidated balance sheet and income statement for the 2016 financial year.

### 3.5. Changes to the Executive Board and the Governance structure

The Financial Market Authority (FMA) is the resolution authority for Austria pursuant to section 3 (1) Federal Act on the Recovery and Resolution of Banks (BaSAG). The resolution authority must consider the wind-down objectives during the application of the wind-down instruments and the exercise of its wind-down powers. In line with its powers, the resolution authority can also dismiss or replace the executive bodies of the wind-down institutes and take direct control of the institutes. In the case of Heta, the authority has decided that the business activities will continue to be carried out by the company's executive bodies.

At the organisational level, the Executive Board of the parent company was replaced completely, whereby the new members of the Executive Board were appointed in February and September 2015. The Heta Executive Board consists of Wirt.-Ing. Sebastian Prinz von Schoenaich-Carolath (Chairman) and the members Mag. Martin Handrich, Mag. Alexander Tscherteu and Mag. Arnold Schiefer.

The resolution authority is entitled to extensive supervisory, controlling and reporting rights, some of which were implemented through a separate governance structure. The new governance structure of Heta was developed during the first six months of 2015 together with the authority. Subsequently, the required changes were implemented in Heta's statutes and the internal rules of procedure for the Supervisory Board and the Executive Board.

The amended statutes were adopted at the general shareholders' meeting of Heta on 29 June 2015. The resolution authority has the right to have its representatives attend the committee meetings of the company's executive bodies. In addition, a series of major transactions and decisions are subject to a non-prohibition issued by the resolution authority, before they can be implemented. An advisory board consisting of external experts who were appointed by the resolution authority was also established. It provides recommendations to the resolution authority. The advisory board is a committee of the resolution authority and not an executive body of the company. The authority is also entitled to an escalation right, pursuant to which the treatment of all decisions, including those that must in principle not be submitted to the authority pursuant to the provisions of the internal rules of procedure, can be deleted by the authority.

At the same time, the forensic investigation of the past as an express business purpose of Heta was deleted from the statutes. However, it was agreed with the authority that the investigation of forensic cases that have so far not been finalised in line with the forensic investigation of the past will be continued taking into account efficiency and practical aspects.

### 3.6. Agreements relating to the former majority owner BayernLB

At the end of 2012, BayernLB sought a declaratory judgement from the Munich I regional court in relation to the financing lines that in the company's view are subject to the Austrian Equity Substituting Capital Act (EKEG), and may therefore neither be serviced by interest payments nor repaid. The company submitted a comprehensive statement of defence against the application and contested the order sought in its entirety; it also challenged, in the form of counterclaims, the repayments made by Heta to BayernLB until the time the suit was filed. In a hearing on 8 May 2015, the Munich I regional court verbally announced a judgement of the court of first instance and accepted virtually the entire order sought by BayernLB (for details, please see note (128.3.2) Judgement of the Munich I regional court regard-

ing equity substitution loans from Bayerische Landesbank). Heta was ordered to pay, and the requested claims for recovery of the credit lines which had in the meantime been repaid to BayernLB were dismissed in their entirety. Because of the imminent action by BayernLB, the liabilities to BayernLB (nominal EUR 0.8 billion), which are covered under Hypo Alpe Adria Restructuring Act (HaaSanG) and hence were included in the retirement from the balance sheet in 2014, were allocated to a provision for EUR 0.9 billion in the 2014 consolidated financial statements.

The Memorandum of Understanding (MoU) signed by the Republic of Austria and the Free State of Bavaria, according to which Heta and BayernLB were invited to review whether they wished to end the legal dispute between the two parties on the basis of the Memorandum of Understanding (MoU), was announced in July 2015.

It remained up to Heta's executive bodies to decide whether to approve a settlement regarding the pending Austrian Equity Substituting Capital Act (EKEG) proceedings and the "action for misrepresentation" (*Irrtumsklage*) in view of the conditions and impacts on Heta. On 21 September 2015, Heta announced its willingness to conclude the settlement with BayernLB as per the Memorandum of Understanding (MoU). BayernLB decided against a comprehensive settlement with Heta. Therefore the proceedings are continued by Heta without any restrictions, and are to be completed with a legally binding decision by the German courts with jurisdiction. To this end, Heta submitted timely its grounds of appeal to the Munich upper regional court (OLG) on 1 February 2016.

However, BayernLB also declared its willingness, in the form of a unilateral settlement declaration, to make certain concessions to Heta regarding its claims in the Austrian Equity Substituting Capital Act (EKEG) proceedings. These include the waiver of pursuing the executive enforcement of the judgement of the court of first instance and limiting the participation of BayernLB in the wind-down of Heta (under certain conditions, such as BayernLB attaining the status of senior creditor etc.) to just EUR 2.4 billion plus interest (regardless of a possibly higher amount awarded in favour of BayernLB). Heta's claims against BayernLB from the counterclaim were not restricted, and continue to be pursued by Heta in the courts. With the exception of the claims from the Austrian Equity Substituting Capital Act (EKEG) proceedings and certain derivative transactions between BayernLB and Heta, all mutual claims between BayernLB and Heta have been cleared up.

The Memorandum of Understanding (MoU) does not include Heta's possible claims against the Republic of Austria. These are not affected by the agreements that have been entered into.

During the course of the action for misrepresentation (*Irrtumsklage*), the Republic of Austria requested, during the last quarter of the 2014 financial year, an adjustment to

the share purchase agreement (emergency nationalisation agreement) and the related term sheet which was concluded between the Republic of Austria and BayernLB. These proceedings ended in line with the Memorandum of Understanding (MoU) between the Republic of Austria and BayernLB and Heta, which was implemented on 11 November 2015, and the Republic of Austria withdrew its action with a release of claims. For further information, please refer to note (128.3) Information regarding BayernLB.

In the consolidated financial statements for 31 December 2015, the liabilities to BayernLB are entered at approximately EUR 2.8 billion (nominal amount plus interest claims) on the basis of the original credit agreements and taking into account the judgement of the court of first instance by the Munich I regional court, while the settlement value resulting from the Memorandum of Understanding (MoU) would be approximately EUR 2.5 billion (nominal amount EUR 2.4 billion plus interest of at least 5.0 % as of 1 March 2015).

### 3.7. Development of the credit engagement vis-a-vis the former Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A.

In meeting the statutory requirements of the Federal Act on the Creation of a Wind-down Entity (GSA) and the HBI-Bundesholdinggesetz, Heta has transferred all its shares in Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) to HBI-Bundesholding AG (HBI-BH) on the basis of the share purchase agreement from 8 September 2014. In addition to temporarily maintaining the existing financing for Heta in favour of HBI in the amount of approximately EUR 1.7 billion (nominal amount of the refinancing lines), Heta also committed, in line with the carve-out process, to provide an emergency liquidity facility of up to EUR 300.0 million in the event of the outflow of HBI deposits.

As a result of the Federal Act on the Recovery and Resolution of Banks (BaSAG) moratorium that went into force on 1 March 2015, Heta was no longer able to meet its obligation to provide an emergency liquidity facility, which resulted in the steady deterioration of HBI's liquidity situation, since it was not able to compensate the continued outflow of deposits without external support. In addition, HBI, in its local annual financial statements for 31 December 2014, which were submitted in June 2015, has made significant additional impairments with regard to our extended loans, which caused the company to fall below the minimum tier 1 capital ratio. The share purchase agreement concluded with HBI-BH included a provision that HBI-BH would be responsible for maintaining the tier 1 minimum capital ratio for HBI (currently 11.5 %) as required by the regulatory authority as of the closing of the agreement; however, in view of the increased risk provisions at HBI, HBI-BH asserted warranty claims from the share purchase agreement against Heta. In addition, it also referred to the failure to meet the obligation to provide the "Emergency Liquidity Facility".

The fact that HBI-BH itself does not have sufficient funds and no conclusive assessment could be made whether and at which amount the owner of HBI-BH - the Republic of Austria - would institute capital measures to provide HBI-BH with the corresponding resources created a situation in which the Banca d'Italia was likely to commence regulatory proceedings because of the failure to comply with the equity capital requirements and liquidity provisions.

In order to avoid additional damages to Heta as a result of the official measures in Italy, the Republic of Austria, HBI-BH and Heta concluded a terms sheet regarding the financing and equity capitalisation of HBI on 29 June 2015. According to this agreement, HBI-BH provided HBI with EUR 196.0 million in liquidity in 2015, including EUR 100.0 million in the form of equity capital and EUR 96.0 million in the form of subordinated loans. In turn, Heta agreed to provide a new loan of EUR 100.0 million for the possible financing of outflows of customer deposits, and to waive up to EUR 630.0 million in existing receivables, of which a waiver for a partial amount of EUR 280.0 million was already implemented during the first six months of 2015. In return, HBI-BH promised to deliver to Heta each financial benefit from its relationships with HBI up to the amount of the proclaimed waiver, in line with a recovery agreement. To secure Heta's claims, HBI-BH committed to pledge its shares in HBI in favour of Heta. For additional details, please refer to note (129.1) Agreement with the Austrian government and HBI-Bundesholding AG regarding the capitalisation and liquidity for Hypo Alpe-Adria S.p.A.

During the second half of 2015, HBI repaid receivables of approximately EUR 140.0 million to Heta, and a revised wind-down plan for HBI was submitted by HBI-BH in December. The revised wind-down plan identified additional capital requirements for the time until the end of 2017 in order to comply with Italian capital provisions, which leads to the requirement of additional waivers of receivables in the amount of EUR 96.0 million on the part of HBI-BH, and up to EUR 350.0 million on the part of Heta. The purpose of the waivers provided by Heta is to ensure compliance with the capital ratios prescribed for HBI by Banca d'Italia, and were authorised by the resolution authority on 23 December 2015 with a non-prohibition.

The assessment of the recoverability of the refinancing lines approved by Heta in the past, which was carried out on 31 December 2015, is mainly based on the wind-down plan for HBI as submitted by HBI-BH. A large portion of the risk provisions created for 31 December 2014 was reversed in 2015 as a result of the stabilisation of HBI.

### 3.8. Completion of the sale of the SEE network

On 17 July 2015, Heta and the consortium of bidders, consisting of the US fund Advent International (Advent) and the European Bank for Reconstruction and Development (EBRD), completed the closing for the share purchase agreement from 22 December 2014 regarding the sale of all

shares in Hypo Group Alpe Adria AG (HGAA or “SEE Network”) (Closing). The closing was preceded by a “pre-closing” on 30 June 2015, where the parties confirmed the existence and compliance with all of the major closing conditions that had been agreed. The remaining conditions precedent were confirmed during the closing on 17 July 2015. In line with the pre-closing, the resolution authority also approved the implementation of the closing by way of a non-prohibition.

A number of amendments to the transaction and financing documents were agreed to by buyer before the closing. These changes also related to commercial aspects, including the reduction of the maximum total volume of possible portfolio adjustment transactions after the closing (“Buyer Brush”), during the course of which Heta was required to assume corporate and public sector loans, along with assets not essential to the banking business, from Hypo Group Alpe Adria AG (HGAA) by the end of March 2016 at the historic net carrying amounts as at 31 December 2014. This total volume was reduced from EUR 800.00 million to EUR 600.0 million. In turn, a hedge for defaults in relation to a non-performing EUR 100.0 million (net exposure) retail portfolio of Hypo Group Alpe Adria AG (HGAA) was arranged for an amount of up to EUR 75.0 million. For the purpose of protecting the buyer's warranty, exemption and other claims from the share purchase agreement from 22 December 2014, which was required as a condition for the closing, the Republic of Austria had to provide the buyer with guarantees of EUR 1.7 billion in line with a “hedging instrument”. The fee that was agreed for this purpose, and which must be paid by Heta, is 1.27 % of the assessment basis of EUR 1.7 billion as at 31 December 2015.

In the share purchase agreement, Heta provided the buyer with a number of different warranties and exemptions from certain risks. As a result of the statutory compulsory conversion of CHF loans in Croatia and Montenegro, the buyer, drawing on the exemption claims in the share purchase agreement, demanded that Heta compensate the corresponding conversion damages at the end of 2015. In addition, on 31 December 2015, the buyer of Hypo Group Alpe Adria AG (HGAA) also took HETA to task for additional claims under contractual warranties and other contractual exemption obligations for risks from legal disputes with customers and other legacies.

In March 2016, Heta and the buyer came to an agreement regarding a comprehensive settlement to clean up all contractual CHF exemption claims (credit and legal risks) and other outstanding items in connection with the share purchase agreement. As a result of the settlement, the contractual liability limits that apply to the relevant warranties and exemptions, and the maximum liability of the Republic of Austria under the hedging instrument with the buyer (and thus also the fee that Heta must pay to the Republic of Austria) were reduced. For the purpose of the settlement, the buyer must also ensure that Hypo Group Alpe Adria AG (HGAA) returns to Heta an amount of EUR 150.0 million

(CHF denominated) as an early partial repayment of the credit lines provided by Heta as early as March 2016. In addition, the settlement also included an agreement regarding another reduction in the portfolio adjustment transactions that were agreed with the buyer (“Buyer Brush”) to EUR 500.0 million (not taking into account the aforementioned hedging of defaults for a non-performing retail portfolio), and the portfolio adjustments transactions that were agreed as a condition for the settlement were also implemented in March 2016. In turn, Heta waived credit lines (CHF denominated) of EUR 325.0 million vis-a-vis Hypo Group Alpe Adria AG (HGAA). The buyer's claims under the settlement were also secured by extending the already existing lien to the credit lines provided by Heta to Hypo Group Alpe Adria AG (HGAA). With regard to possible incidental costs, which are Heta's responsibility, the company provided the corresponding collateral. In the consolidated financial statements for 31 December 2015, the appropriate provisions were created both for the exemption and warranty risks resulting from the share purchase agreement, and the credit risks in connection with the “Buyer Brush”.

For further details, please see note (129.2) Sale agreement regarding the reprivatization of the SEE network.

#### 4. Negative equity as at 31 December 2015

Due to the considerable losses that have been incurred, particularly in 2014, group equity according to IFRS as at 31 December 2015 is decidedly negative at EUR -5.7 billion and, as per the notification by the Federal Minister of Finance from 1 March 2015, will not be compensated by measures implemented by the owner.

According to the view of the Executive Board, however, it is the negative equity of EUR -7.5 billion reported in the annual financial statements for Heta Asset Resolution AG as at 31 December 2015 pursuant to Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) (individual statements) that is more relevant from the creditor's point of view. In view of the accounting standards under Austrian Commercial Code (UGB) and Austrian Banking Act (BWG) that apply to the separate financial statements of Heta, the respective parameters and estimates were determined such, within the limits of the available valuation ranges, that they most closely correspond to the criteria of the most prudent valuation prescribed by section 54 and 57 BaSAG in order to avoid future losses. In addition a provision for future personnel costs and material costs in connection with the wind-down was also recognised according to Federal Act on the Recovery and Resolution of Banks (BaSAG) and the specifications of the gone concern approach. As at 31 December 2015, Heta's separate financial statements according to Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) reported total assets of EUR 9.6 billion and liabilities of EUR 17.1 billion. At EUR -7.5 billion the company is extremely over-indebted (negative equity).

Significant deviations occur as a result of the different accounting principles that are applied to the consolidated financial statements (IAS/IFRS) and the separate financial statements (Austrian Commercial Code (UGB)/Austrian Banking Act (BWG)).

In addition to the measurement differences that apply in the various financial reporting concepts, future expected losses in particular could not be anticipated in the consolidated financial statements. Such loss expectations, which are not taken into account under IFRS, result from, among others, differences in the consideration of events after the balance sheet date, operating expenses yet to be incurred, and expected losses on disposals for performing loans and real estate.

Heta's consolidated financial statements according to IFRS report EUR 1.8 billion higher equity capital (EUR -5.7 billion) than in the annual financial statements of Heta Asset Resolution AG pursuant to Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) (EUR -7.5 billion). The main differences as compared to the annual financial statements pursuant to Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) can be explained as follows:

- Measurement of own liabilities at the fair value in IFRS (EUR 0.4 billion), while these are entered on the liabilities side at the repayment value in UGB/BWG.
- Measurement difference for the measurement of provisions in connection with guarantees that have been assumed (EUR +0.1 billion).
- Future expected personnel and material costs expected for Heta's wind-down process (EUR 0.3 billion), for which a (wind-down cost) provision was recognised under UGB/BWG.
- Future expected operating losses by the subsidiaries included in the consolidated financial statements (EUR 0.6 billion), which were included in the measurement of the refinancing lines to subsidiaries under UGB/BWG.
- Future expected losses from foreign currency (EUR 0.1 billion), for which a general loan loss provision was recognised pursuant to section 57 (1) BWG under UGB/BWG due to the expected loan value adjustments.
- Future expected losses from the sale of performing loans (EUR 0.1 billion) for which a general loan loss provision was also recognised pursuant to section 57 (1) BWG.
- Recognition of a provision under UGB/BWG for negative market values from derivatives, which once had a hedging relationship to liabilities that were issued (EUR 0.2 billion).

In light of the company's particular circumstances, the Executive Board therefore considers the financial state-

ments under Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) (separate financial statements) to be a more relevant representation of a true and fair view of the assets, liabilities, financial position and profit or loss for the creditors.

## 5. Heta wind-down plan

### 5.1. Wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG)

According to section 5 GSA, the wind-down of the portfolio is to be conducted according to a wind-down plan drawn up by the Executive Board and approved by the Supervisory Board. Pursuant to the legal opinion of the resolution authority, Heta is no longer required to prepare a strict Federal Act on the Creation of a Wind-down Entity (GSA) wind-down plan as part of the Federal Act on the Recovery and Resolution of Banks (BaSAG) regime. Rather, the resolution authority will conduct its own fair, cautious and realistic assessment of the assets and liabilities of Heta, which will also form the basis for the application of wind-down instruments. It is only on this basis that - as per the legal opinion held by the resolution authority - the company must prepare a wind-down plan according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) provisions ("BaSAG wind-down plan").

In order to define a clear disposal perspective for the assets of Heta in the Federal Act on the Creation of a Wind-down Entity (GSA), recognised directives for the measurement of assets were approved with the support of external advisors and auditors, which address the intended disposition objectives and the current market conditions that must be taken into account in this context. The assets of Heta were re-measured on the basis of these directives ("AQR, Asset Quality Review"). The results of the Asset Quality Review (AQR) were already taken into account in the consolidated financial statements for 2014, which was prepared in June 2015. During the course of the preparation of the consolidated financial statements for 31 December 2015, the Asset Quality Review (AQR) measurement guidelines were adjusted to current conditions, and Heta's assets were assessed accordingly on this basis.

Heta has completed its activities for planning the portfolio wind-down on the basis of the Federal Act on the Creation of a Wind-down Entity (GSA) objectives, and published the results of these activities, in an effort to create transparency for creditors and investors, as part of a published company presentation on 20 October 2015 on the specially created platform ([www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Investor information 2015)). Another update was provided on 15 December 2015, which was also published on Heta's home page.

Because of the legal situation described above, these statements may however not be viewed as the Federal Act on the Creation of a Wind-down Entity (GSA) wind-down plan or Federal Act on the Recovery and Resolution of Banks (BaSAG) wind-down plan, but rather as the (preliminary) medium-term plan for 2016-2020. The medium-term plan was developed in accordance with the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG), and refers to the individual institute.

On 1 March 2015, the Financial Markets Authority (FMA) initially ordered that the maturities of the debt instruments issued by Heta and the liabilities, along with the dates on which the applicable interest payments must be made, would be deferred until 31 May 2016. By that date, the resolution authority is supposed to have made a decision regarding the participation of creditors and any other instruments that may be applied in this respect. Such a participation of creditors in the form of a haircut would have far-reaching implications for the medium-term plan 2016-2020. The resolution authority notified Heta that no assumptions regarding the selection and effects of possible wind-down measures taken by the Financial Markets Authority (FMA) may be included in the medium-term plan 2016-2020. Therefore, the following simplified and non-binding (i.e. purely planning-related) assumptions were made for the purpose of preparing the 2016-2020 medium-term plan:

- It is assumed that eligible liabilities in the Financial Markets Authority (FMA) ordinance will not be serviced until 2020, and that the entire amount will be left at the status of 1 March 2015 (the beginning of the moratorium). Interest expenses attributable to these liabilities will be recognised (accrued) analogous to the current payment days, but will not be paid. Default interest is not taken into account.
- The planned return flows from the reduction in Heta's financial and non-financial assets increase the cash liquidity position, since they are not used to pay the eligible liabilities. The cash liquidity is currently invested at the Austrian National Bank (OeNB).
- A steady reduction in assets (excluding cash liquidity) of approximately 80,0 % by the end of 2018 remains the intended wind-down objective. To achieve the targets, receivables and real estate are to be sold to investors mainly through individual transactions supported by portfolio transactions and the sale of entire companies.
- The planning assumptions relating to the receivables from Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) and Hypo Group Alpe Adria AG (HGAA) were examined separately, since these are still expected to remain in place after 2020 for term-related reasons. Similarly, some performing residential subsidy loans also have terms that go beyond the planning period. A decision as to how these transactions will be taken into ac-

count will be reviewed in the current financial planning for the years 2016 to 2020. Performing loans and securities with short residual terms (until 2020) are to be recovered through regular repayments, and those with longer terms are to be liquidated in the medium term by placement in the market.

Heta reached these planning-related assumptions independently for the 2016-2020 medium-term plan.

The resolution authority will conduct its own assessment pursuant to section 54 et seq. BaSAG, and to this end will draw on its own independent expert. In this context, deviations from the medium-term plan for 2016-2020, which was prepared by Heta, cannot be excluded, but rather may be expected. The resolution authority is continuously informed of the current status of the medium-term plan.

## 5.2. Development of results 2015 (compared to the medium-term plan 2016-2020)

Heta's wind-down performance in the 2015 financial year (reduction of assets) was EUR 569.8 million better than planned when compared to the 2016 budget. The performance corresponds to a 28.9 % or EUR 2.8 billion reduction in total assets (without cash reserve) compared to the 2014 financial year.

The significant reduction of EUR 2.8 billion at Heta during 2015 is primarily due to the accelerated wind down of loans and advances to customers. The gross portfolio (before provisions) decreased by EUR 1.2 billion. This accelerated wind-down of loans and advances to customers surpassed the 2015 budget by EUR 633.4 million (gross), compared to the 2014 financial year. Heta's own credit portfolio (exclusive of internal group refinancing) was reduced by EUR 309.8 million. The reduction in loans and advances to customers (gross) also surpassed the 2015 budget in the case of the HAR subsidiaries as compared to the 2014 financial year, particularly in Slovenia (EUR 118.8 million), Croatia (EUR 94.1 million) and Serbia (EUR 24.7 million). Compared to the 2014 financial year, Heta's risk provisions outperformed the 2015 budget by EUR 573.3 million. This is mainly due to the value development and the reduction in the portfolio at Heta, and in Slovenia, Croatia and Germany.

Financial assets (available for sale and fair value items) of Heta also fell by EUR 1.0 billion compared to 2014. In this context, the 2015 budget was surpassed by EUR 93.1 million compared to the 2015 financial year. The reduction was almost exclusively due to the expiry and earlier termination of the bonds, and the earlier disposal of financial assets due to the closure of the equity holding HBInt Credit Management Limited and Investment Ltd.

Derivatives at Heta were reduced by EUR 360.1 million compared to 2014, mainly due to the scheduled expiry of numerous positions and the active reduction of derivative positions (which resulted in significant profits). Compared



to the 2014 financial year, the 2015 budget was exceeded by EUR 216.6 million.

Assets on stock in line with investment properties and repossessed assets were reduced by EUR 100.2 million, which was above the expectations for the 2015 budget. The main factor that contributed to the reduction in terms of value were air planes and real estate. The largest reduction volumes that were over the budget occurred in Slovenia and Croatia, but were compensated by new additions of repossessed assets - particularly in Slovenia, Croatia and Italy. The reduction of EUR 422.0 million reported in the balance sheet is mainly due to the transfer of assets from a large real estate company and its subsidiaries (as at 31 December 2015) to Other Assets (IFRS 5, Assets held for Sale).

Loans and advances to credit institutions in the Heta Group fell by EUR 1.2 billion (gross) compared to 2014; this development is mainly due to the repayment of credit lines of a large customer, the closure of CHF syndicated accounts and a reduction in payment transaction accounts. The risk provision for credit institutions fell by EUR 346.5 million, mainly as a result of the revaluation of the Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) credit lines, and is below the expectations for the 2015 budget.

The reduction in other assets is mainly due to the sale of the Grand Hotel LAV and TERME SPA ROGASKA d.d. The sale of the "Skipper" holding was postponed to the year 2016. The transfer of the investment properties of Centrice Real Estate GmbH and its subsidiaries as at 31 December 2015 increased the portfolio of assets held for sale.

The on-going reduction on the assets side had the effect of increasing cash reserves by approximately EUR 1.9 billion to EUR 4.3 billion during the 2015 financial year - a figure that, in comparison to the year 2014, significantly surpasses the target value in the 2015 budget.

The largest portion of proceeds (cash-in) came from the sale of securities (EUR 477.0 million). Heta also received EUR 200.0 million from the repayment of a large cash loan.

The reduction in the loans and advances business at Heta generated proceeds (cash-in) of EUR 444.0 million. The largest cash-in amount, EUR 250.0 million, came from the sale of customer credit disposals, followed by the reduction in Treasury Loans (EUR 101.0 million) and the disposals from the wind-down participations (EUR 93.0 million from the sale of Grand Hotel LAV).

The HAR subsidiaries (Brush and Leasings) were able to transfer to Heta EUR 390.0 million from the proceeds (cash-in) from the wind-down of loans and assets, and financing lines.

Heta also received EUR 278.0 million in cash as a result of the closure of the investment companies Norica Investment Ltd. and HBInt Credit Management Limited.

Heta's total costs amount to EUR 206.3 million, and are EUR 21.0 million higher than expected in the 2015 budget. This is mainly due to higher expenses in the parent company, although the HAR subsidiaries (Brush and Leasings) in-

curred lower costs, particularly in Croatia, Serbia and Bulgaria.

The reduction in total costs for 2015 compared to the 2014 financial year amounts to EUR 56.4 million, and is primarily due to lower legal and consulting expenses at Heta during the 2015 financial year.

## 6. Other events

### 6.1. Repeal of the Hypo Alpe Adria Restructuring Act (HaaSanG) by the Constitutional Court of Austria (VfGH) and resulting lawsuits

To date, Heta has been served with 34 claims in which creditors challenge the constitutional legitimacy of the Hypo Alpe Adria Restructuring Act (HaaSanG) and have sued for a declaration of the receivables and for payment. In many of these civil lawsuits, the proceedings were interrupted due to appeals to the Constitutional Court of Austria requesting a review of the constitutionality of the law. With the findings from 3 July 2015, the Constitutional Court of Austria (VfGH) repealed both the Hypo Alpe Adria Restructuring Act (HaaSanG) as well as the underlying ordinance regarding the implementation of restructuring measures on the Hypo Alpe Adria Restructuring Act (HaaSanV), as unconstitutional. As a result, the liabilities which had been treated as expired in 2014 and that were derecognised through profit or loss were again recognised in the statement of financial position, and the provisions of EUR 0.9 billion, which were created in the 2014 consolidated financial statements in connection with the judgement of the court of first instance (Munich I regional court) (BayernLB (Austrian Equity Substituting Capital Act (EKEG)) procedure) from 8 May 2015 were reversed through profit or loss.

This resulted in an overall negative effect on the income statement and hence also on equity of EUR -0.8 billion (nominal) plus interest claims, which were mainly due to the re-recognition of liabilities to subordinated creditors. The renewed recognition of liabilities to BayernLB did not have a major effect on the consolidated financial statements for 31 December 2015 due to the provisions that were created in 2014.

Following the decision of the Constitutional Court of Austria (VfGH), some of the proceedings that were previously disrupted were restarted again, either officially or at the request of the plaintiffs. Plaintiffs and defendants also submitted additional briefs. With the decision of the Constitutional Court of Austria (VfGH), which repealed the act and the Ordinance issued under the act, the disputed issue in the proceedings has been restricted to the applicability of the payment moratorium for the affected liabilities, which has been in place since 1 March 2015. In these proceedings, Heta takes the position that the affected liabilities are included in the moratorium issued by the Financial Markets Authority (FMA).

At present, the proceedings appear to be characterised by cautious waiting, since most of the plaintiffs want to wait for the next decisions of the Financial Market Authority (FMA). Accordingly, the parties could agree on simply suspending many of the proceedings.

### **6.2. Claims in connection with the moratorium imposed according to the Federal Act on the Recovery and Resolution of Banks (BaSAG)**

Eleven lawsuits have been filed against Heta in Germany by investors for payment of bonds and applicable interests, which were not paid on the original payment day as a result of the moratorium issued on 1 March 2015. All of these lawsuits are pending at the Regional Court of Frankfurt. The lawsuits comprise bonds with a nominal value of EUR 2.2 billion and CHF 33.0 million.

With these claims, the plaintiffs dispute the recognition of the Financial Markets Authority (FMA) measures pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG), and request payment - despite the deferral ordered in the ordinance. According to German law, judgements of the court of first instance may against collateral be declared temporarily enforceable (section 709 Code of Civil Procedure (ZPO)), which leads to the risk that plaintiffs apply for an enforcement on the basis of a judgement of the court of first instance. A judgement ordering Heta to pay the liabilities affected by the relevant legal disputes and a possible compulsory enforcement in favour of various creditors would run counter to the wind-down measures ordered by the Financial Markets Authority (FMA) with its decision from 1 March 2015. For this reason, Heta will not only fight the potential judgements of the court of first instance, in order to settle the recognition of Federal Act on the Recovery and Resolution of Banks (BaSAG) in all EU member states, but will also initiate legal remedies to defend against enforcement measures. Such a treatment of individual creditors would oppose the principle of equal treatment of creditors under Federal Act on the Recovery and Resolution of Banks (BaSAG), the principle of the (balanced) assumption of losses by the creditors and the principle of ensuring that creditors are not put in a worse position as compared to liquidation measures taken in the course of an insolvency. As a result, on 16 March 2016 the resolution authority submitted an application to the Frankfurt regional court in charge requesting the suspension of the pending court proceedings pursuant to section 59 (1) BaSAG and alternatively requested the suspension of enforcement measures. In this context, the resolution authority is reviewing other possible legal steps designed to secure an orderly wind-down process. Finally, with regard to enforcement measures initiated by individual creditors, there is also the risk that the resolution authority applies for the commencement of insolvency proceedings to secure the equal treatment of creditors. Insolvency proceedings would lead to additional losses for creditors because a far more rapid liquidation of assets

(using the liquidation processes that apply in the respective countries with regard to insolvency proceedings) would have to be used as a basis for measurement instead of an orderly wind-down process over a period of five years (using the sales procedures commonly used for the respective assets). If such "insolvency or break-up values" are used, it would result in significantly higher losses or significantly lower proceeds.

Three legal proceedings were initiated against Heta by the State of Carinthia and the Kärntner Landes- und Hypothekenbank - Holding (KLH) in relation to legal proceedings initiated by investors against the State of Carinthia and the Kärntner Landesholding (KLH) on the basis of the deficiency guarantees ordered by state law in connection with the bonds affected by the moratorium. Heta has joined these proceedings on the side of the state and the Kärntner Landesholding (KLH) as an intervenor. Two proceedings resulted in a judgement of the first instance against the plaintiff. The plaintiff has appealed these decisions.

Two of the three submitted Federal Act on the Recovery and Resolution of Banks (BaSAG)-related submissions to the Constitutional Court of Austria (VfGH) for a review of the constitutionality of the law and the admissibility of including Heta under this law were dismissed by the Constitutional Court of Austria (VfGH) in the fall of 2015. According to a statement by the President of the Constitutional Court of Austria (VfGH) in March 2016, it is expected that the court will issue a decision on this issue during its fall session at the latest.

It is noted that in the judgement of the court of first instance by the Regional Court of Munich I in the legal proceeding regarding Austrian Equity Substituting Capital Act (EKEG) between Heta AG and BayernLB, the court noted that the measures taken by Austrian legislators and the supervisory authorities in connection with the wind-down of Heta would not be recognised in Germany, and it did not take into account the deferral ordered by the decision of the resolution authority pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG) on the basis of mainly formal arguments. This point of view, which Heta believes to be incorrect, was disputed in the grounds of appeal.

### **6.3. Company presentation for creditors**

Heta uses the company presentation to provide information about the developments of its business activities and about important events in ad-hoc notifications and financial reports. With regard to the design of its information activities, the company presentation corresponds to the requirements under Federal Act on the Recovery and Resolution of Banks (BaSAG) - specifically section 120 and 121 - and the requirements of the resolution authority.

The ordinance issued on 1 March 2015 by the Financial Markets Authority (FMA) as the resolution authority, which orders a moratorium ending on 31 May 2016 with regard to the eligible liabilities of Heta, created additional information

requirements on the part of the creditors and investors affected by the moratorium. For this reason, the Executive Board implemented a separate information platform specifically directed at creditors and investors in order to provide additional transparency and facilitate the dialogue with this group within the limits of what is permitted by law.

This platform created by Heta is available at [holding@heta-asset-resolution.com](mailto:holding@heta-asset-resolution.com) and is now available to both creditors and their representatives for submitting specific questions of general interest for this group (creditors and investors) in writing. To this end, individuals must provide proper evidence of their creditor status or confirmation of representation.

It is Heta's responsibility to make decisions regarding the date, form and contents of responses in compliance with Federal Act on the Recovery and Resolution of Banks (BaSAG) and the requirements of the resolution authority. No claim exists or is established with respect to the provision of information to creditors or investors outside of statutory (or possibly) obligations.

In an effort to provide additional transparency, Heta began to publish responses to questions submitted through the platform at [holding@heta-asset-resolution.com](mailto:holding@heta-asset-resolution.com) in the fall of 2015. The first "Information for creditors and investors" item was published on Heta's website on 20 October 2015. In addition to questions and answers ("Q&A") from the aforementioned investor dialogue, this piece also contained extensive and additional information about Heta's semi-annual report for 30 June 2015, the main items of the medium-term plan 2016-2020 for Heta as well as legal disputes and key transactions that had been or were still to be completed in the 2015 financial year.

This information was updated on 15 December 2015. In addition to other responses, this "Q&A Update" also included a copy of the interim statements of Heta in accordance with the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) (separate financial statements) as at 1 March 2015.

Heta is required to provide a number of references in connection with the aforementioned update as well as future updates or additional information for creditors and investors. In addition to the exclusion of liability, which is mentioned several times in the Q&A Updates, it is also important to note that the form in which the information is provided (as noted here) may be modified or discontinued at any time. In addition, Heta also advises investors and creditors that the Financial Markets Authority (FMA) also provides relevant information about Federal Act on the Recovery and Resolution of Banks (BaSAG) and the application of the law in its capacity as the resolution authority, and that it is the best contact point for many questions.

#### 6.4. Repurchase offer from the State of Carinthia

On the basis of the statutory authorisation pursuant to section 2a of the Financial Market Stability Act (FinStaG), the

Kärntner Ausgleichszahlungs-Fonds (K-AF) on 20 January 2016 submitted offers for those Heta debt instruments for which the State of Carinthia and also the Kärntner Landes- und Hypothekenbank - Holding (KLH) have assumed a guarantee. The repurchase offer from the Kärntner Ausgleichszahlungs-Fonds (K-AF) regarding the purchase of all debt instruments that were issued by Heta and that are subject to the legally prescribed deficiency guarantees of the State of Carinthia and the Kärntner Landesholding (KLH), were submitted on 20 January 2016 and announced publicly on the following day. The offers include a payment of 75.0 % for non-subordinated debt instruments ("senior debt instruments") and 30.0 % for subordinated debt instruments. The offers expired on 11 March 2016, and required the approval of at least two-thirds of the affected creditors of non-subordinated and subordinated debt instruments.

On 14 March 2016, the Kärntner Ausgleichszahlungs-Fonds (K-AF) announced that the offers from the creditors of the debt titles were not accepted with the majorities that would be required under section 2a (4) FinStaG for the purchase of the debt instruments covered under the offers. Therefore the conditions for the purpose of the debt instruments covered by the offers, which were identified as conditions for the transaction in the offer document, have not been met. The Kärntner Ausgleichszahlungs-Fonds (K-AF) also notified that it was not interested in purchasing any of the debt instruments under the offers.

The repurchase offer of the Kärntner Ausgleichszahlungs-Fonds (K-AF) and their non-acceptance do not have any direct effect on Heta's consolidated financial statements for 31 December 2015, since they only pertain to the level between Heta's creditors and the Kärntner Ausgleichszahlungs-Fonds (K-AF) and thus are outside of Heta's sphere.

#### 6.5. Guarantee agreement with the Republic of Austria

On 28 December 2010, a guarantee agreement was concluded between the Republic of Austria and Heta, in which the liability of the Republic of Austria as deficiency guarantor in accordance with section 1356 of the Austrian Civil Code (ABGB) was agreed. The Republic of Austria's guarantee relates to a precisely specified portion of receivables of Heta's portfolio, and is limited to EUR 200.0 million ("maximum guarantee amount"). In return for the assumption of this guarantee by the Republic of Austria, a commission of 10.0 % p.a., calculated on the basis of the nominal amount of the guaranteed partial amount of the receivable, was agreed. The agreement was supplemented and amended with the first addendum from April 2011 and the second addendum from August 2013. In this context, the guarantee (now pursuant to section 1346 ABGB) was extended to 30 June 2017, and certain collateralised receivables were replaced with other already existing receivables of the bank, while the maximum guarantee amount was left unchanged at EUR 200.0 million. Furthermore, the drawdown process was

adapted, and in particular the process for verifying the drawdown preconditions was revised. As part of the extension of the guarantee, the ability to assert claims was modified to the effect that this only became possible as of May 2014.

Guarantee commission payments were suspended on 1 March 2015 due to the moratorium.

The guarantee was utilised by 31 December 2015 for a total volume of EUR 60.7 million. In December 2015, the Republic of Austria for the first time acknowledged the existence of the drawdown preconditions for one case, and submitted a payment of EUR 11.2 million during the same month. In Heta's view, this means that the Austrian government is of the opinion that the ordinance and the associated deferral of the obligation to pay the commission did not have the effect of changing the general validity and continued existence of the guarantee. Therefore payments for the already drawn instances and possible future utilisation instances should only depend on the existence of the defined drawdown preconditions. The guarantee may now be viewed as valid since an acknowledgement of the guarantee can be assumed on the basis of the situation that has been described - regardless of the moratorium.

Therefore the impairments created in connection with the receivables "subject to the guarantee" will be reversed in the amount that is secured by the guarantee, and a recoverable cash flow will be assumed when calculating the risk provisions for those loan cases that are secured with the guarantee. In addition, the fee that is expected to be incurred until 2017 was also allocated to a provision for the full amount.

## 6.6. Winding down investment companies and portfolio sales

### 6.6.1. Sales activities

Additional progress was already made during the 2015 financial year during the wind-down of investment holdings. In addition to the winding down of investment companies and portfolios, Heta also focused on the reduction of assets (primarily real estate).

For the purpose of achieving the best and quickest possible process for the wind-down and liquidation of the properties, "Fit for Sale" activities and priorities were set, and the relevant tasks were also transferred to the countries. These are used to prepare the sales-relevant documentation, and to warrant the evaluation and implementation of value retention measures for real estate. The relevant group guidelines were developed and rolled out across the group with the objective of standardising the process. These measures are also designed to significantly accelerate the process required for the wind-down procedure.

For the purpose of ensuring the accelerated reduction of Heta assets in the future, a project team was set up at the beginning of 2014, which is concerned with the structured

preparation of planned portfolio sales, with the objective of preparing non-performing loans (NPL) portfolios and offering them on the market. The project involved the development of a standardised "Data Tape" and the definition of minimum requirements for a data room, with the final objective of recommending possible portfolios that are subsequently subjected to a structured sale process.

In this context, there are several projects in the preparation stage, or for which a marketing process has already been initiated. They include the "DRAVA" project, which consists of a virtually unsecured non-performing loans (NPL) portfolio from the countries Croatia, Bosnia, Montenegro, Serbia, Slovenia and Austria. The "PATHFINDER" project consists of a non-performing loans (NPL) portfolio, but secured loans to Croatian borrowers. Industry-specific portfolios, such as the financing of photovoltaic facilities in Germany, are also set to be sold in the near future.

### 6.6.2. Disposal of participations and assets

The wind-down of the investment portfolio was continued during the 2015 financial year, with the result that the level of complexity at Heta was reduced accordingly.

In addition to a large number of individual transactions, the following key participations or assets were also sold in 2015:

- Sale of Slovenian Terme Spa ROGASKA d.d. to the best bidder following the wholesale transfer of all supplier contracts and employees, and registration in the land register in March 2015,
- Transfer of Croatian Grand Hotel LAV d.o.o., including Grand Marina Lav d.o.o., after a preparation period of more than two years, on 14 October 2015,
- The sale agreements for the Macedonian group leasing company Heta Asset Resolution Leasing DOOEL Skopje were signed in December 2015 (signing), the closing is expected to be completed in the first half of 2016.

The sales procedures for a large tourism project could not be completed, despite efforts that have spanned several years. Following the completion of technical and financial due diligence carried out by the interested parties, several binding offers have been submitted, which are currently being negotiated. The Heta Executive Board expects that the transaction will be completed by mid-2016.

The sale of the wholly-owned subsidiary Centrice Real Estate GmbH (Centrice) and its subsidiaries was publicly tendered in August 2015. A well-known investment bank was engaged to assist with this project as an M&A advisor, in order to support the sales process and secure a global search for investors. Centrice has already been prepared for this sale project over the course of the last two years. During the course of this process, 31 performing real estate properties in Slovenia, Croatia, Serbia, Bosnia-Herzegovina and

Macedonia were combined in this management holding company. The public tender has elicited the corresponding investor interest, and the sales process is proceeding very satisfactorily. Following a number of expressions of interest, the commercially best offers were selected from the available non-binding offers in 2015. The data room for the final due diligence phase was opened in mid-November 2015. Following the receipt of binding offers at the beginning of March 2016, additional discussions and negotiations will be commenced following an in-depth review. The sales process should be completed quickly, but in all cases within the next six months.

### 6.6.3. Closure of securities investment companies (minority companies)

Norica Investment Ltd., domiciled in Jersey (Channel Islands), was established in 2008 together with a 49.0 % co-investor (as a minority shareholder). The purpose of the company was to buy, sell, lend and hold certain financial investments (securities).

HBInt Credit Management Limited and its downstream subsidiary units Carinthia Ltd. and Carinthia II Ltd. are also domiciled in Jersey (Channel Islands) and were established in 2005 together with a 49.0 % co-investor (as the minority shareholder). The business purpose of the two companies concerned the purchase, sale and holding of certain investments.

Due to the fact that Heta is no longer subject to the equity capital requirements as a result of the deregulation, a key business purpose of Norica Investment Ltd. and HBInt Credit Management Limited no longer applies, and it was agreed with the respective co-investor that the companies would be wound down. With the involvement of the resolution authority and the co-investor, the liquidation resolutions of the shareholders for Norica Investment Ltd. and HBInt Credit Management Limited were adopted on 26 November 2015 and 15 December 2015 respectively. The liquidation process was commissioned and at this time it is expected that it will be completed at the latest in the third quarter of the next financial year (2016). The corresponding shareholder resolutions and the Shareholding Structure Termination Deed, along with the shareholder agreement regarding the sale of the existing investments form the primary legal basis for the dissolution of the companies.

### 6.7. Legal Quality Review

A group-wide review of relevant and pending passive proceedings was held as part of the Legal Quality Review (LQR) project.

The focus of this project was to identify the chances of success and, in the same vein, to determine the need to create or increase/reverse risk provisions. Another objective of the Legal Quality Review (LQR) was to investigate the proceedings with regard to the strategic direction, and to obtain an independent recommendation for future process

steps and adjustments to the legal strategy. Approximately 850 passive court proceedings are pending in the jurisdictions of Austria, Bosnia, Bulgaria, Croatia, Germany, Hungary, Italy, Serbia, Montenegro and Slovenia.

The result of the Legal Quality Review also provides important information for the development of a strategy for the efficient and advantageous completion of these proceedings - a strategy that will be required during the wind-down process for Heta.

### 6.8. Organisational changes at Heta Asset Resolution AG, transformation into a wind-down unit pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA)

The decision of the European Commission, which foresees the reprivatisation of the SEE network and the implementation of the statutory requirements for the wind-down of Heta according to the Federal Act on the Creation of a Wind-down Entity (GSA), led to an urgent need for restructuring at the level of the parent company. The transformation process for restructuring the former bank structures into a wind-down unit is proceeding as planned during the 2015 financial year.

The Target Operating Model (TOM) of Heta reflects the reorganisation of the company into a sales organisation in compliance with all statutory requirements in order to achieve the best possible sale result in line with the portfolio wind-down process implemented by the wind-down company, with the goal of continuously reducing the portfolio and implementing these activities at the operating level. The concept for the model has been developed and the implementation process has gotten off to a successful start - during the course of which the required adaptation of sale processes was completed. As a result, portfolios have already been placed for sale in the market; specifically, one real estate package is at an advanced stage in the sales process, and the preparations for additional portfolios are almost complete. The infrastructure that is required for the sale has also been established. The relevant IT systems and tools have been adapted to ensure the optimum and quickest possible implementation of the disposals on a technical level. Other useful measures were also installed in view of warranting the required data quality.

Another focus area in addition to the sales process was the redefinition and standardisation of processes by eliminating typical bank structures and streamlining the underlying rules and regulations. This optimisation is also reflected in the newly created organisational structure.

Moreover, the responsibilities for the management of the various group companies in the countries were also restructured. The newly-introduced allocation of duties for management guarantees a clear focus on the wind-down and sales process. Accordingly, a concept to measure the wind-down progress was developed, and the reporting environment was optimised and gradually integrated into daily

work routines. As part of the Legal Entity Optimization (LEO) project, the linkages between the companies were analysed with the goal of simplifying or reducing the structures, in order to ensure an optimum legal and management wind-down strategy that is complementary to the business wind-down strategy.

### 6.9. Forensic investigation of the past

Since its implementation into Heta's line organisation, the Forensics division has been concerned with examining past activities and in particular with determining the causes for the losses in value that occurred before the emergency nationalisation. Following the amalgamation of the Forensics and Compliance units into Group Compliance & Fraud Management - under new management - most of the activities during the 2015 financial year centred on the restructuring of the portfolio and the definition of clear priorities in terms of working through the process. Additional activities included the prioritisation of cases with a high probability of generating cash flows, the installation of a group-wide controlling system and the establishment of clear communication activities and an interface for courts and federal authorities, along with the integration of Fraud Management and Compliance into the sale process, in order to warrant the fraud-free wind-down of assets and compliance with Federal Act on the Recovery and Resolution of Banks (BaSAG).

The pending court proceedings were divided with the internal Group Legal department with regard to responsibility and further processing. All capital-related issues, such as preferred shares and the situation surrounding BayernLB, were allocated to Group Legal. Loan-related cases are processed by Group Compliance & Fraud Management.

By December 2015, a total of 125 cases (180 individual cases) were prepared and reported to the relevant public prosecutors in Austria and abroad. In addition, four civil proceedings against former decision-makers and third parties are currently pending at civil courts in Austria for a total value in dispute of approximately EUR 4.0 million. The insights gained during the forensic investigation of past activities and the cases derived from the same have so far resulted in 13 convictions, including six binding convictions with multi-year prison terms.

### 6.10. Parliamentary Commission of Inquiry

On 16 June 2015, and on behalf of the President of the National Council as the Chairperson of the Commission of Inquiry to investigate the political responsibility for the events surrounding Hypo Group Alpe Adria (Hypo Commission of Inquiry), the Parliament Directorate (Parlamentsdirektion) submitted a request to Heta for voluntary submission of certain files and documents.

In principle, Heta is not legally obliged to forward documents and information to the parliamentary commission of inquiry. In the interest of complete transparency, the execu-

tive bodies of Heta have signalled their willingness to respond to this request, whereby documents are forwarded in protection of the justified interests of the company (particularly those regarding on-going court and disposition proceedings) and its employees (data protection), and in adherence to bank secrecy. Because of the large volume of documents that has requested, the documents are submitted in parts. The largest part of requested documents, insofar as it can be provided in accordance with the aforementioned restrictions, has already been forwarded to the commission of inquiry. The contents of the documents were prepared in compliance with the aforementioned restrictions (such as data protection, bank secrecy, on-going proceedings), and were forwarded with blacked out text.

As part of the already completed questioning of persons with information, Heta issued, at the request of the affected persons, declarations to release them from the confidentiality obligation that applies to former and active employees/advisors. In general, Heta cannot issue declarations releasing persons from absolute bank secrecy, since it is still subject to the relevant statutory restrictions. Accordingly, Heta is obliged to advise of these stringent restrictions when it provides releases to persons with information. Heta may release persons from the obligation to keep operating and trade secrets in confidence. Also excluded from the releases that have been issued so far are on-going court and disposition proceedings, so as not to negatively affect Heta's position in these proceedings.

### 6.11. Audit procedure and error detection by the Austrian Financial Market Authority (FMA)

The audit procedure carried out by the Austrian Financial Reporting Enforcement Panel (OePR/AFREP) since 2013 was completed on 10 April 2015 with the announcement of the audit results.

With regard to the consolidated financial statements for 31 December 2013, it was noted that the risk provisions on loans and advances were understated by at least EUR 8.1 million. With regard to the semi-annual financial report published on 30 June 2014, the Austrian Financial Reporting Enforcement Panel (OePR/AFREP) found that the risk provisions on loans and advances were understated by at least EUR -3.8 million. It furthermore noted that the provisions entered in connection with the transfer of the SEE bank network on 30 June 2014 and the corresponding effect on results was overstated by EUR 1.2 billion, since the criteria for entering a provision for the expected loss on disposal were not in place on 30 June 2014. Instead, and to the extent permitted by the relevant IFRS standards, the assets side of the group would have had to be re-assessed with regard to the assets of the SEE network.

Since Heta did not agree with the Austrian Financial Reporting Enforcement Panel's (OePR/AFREP) findings regarding the recognition of this provision, the procedure was continued by the Financial Markets Authority (FMA). The

following errors were noted in the decision from 19 November 2015:

- The consolidated semi-annual financial statements for 30 June 2014 report EUR 7.4 million in receivables from a group of affiliated customers. Notwithstanding the existence of objective information indicating a reduction in the value of the underlying receivables on 30 June 2014, an impairment test was not carried out, and an impairment was not applied. This constitutes a breach of IAS 39.58 in connection with IAS 39.63, which specifies an obligation to determine possible information that would indicate a reduction in the value of financial assets or groups of the same for each closing date, and further that in such cases a value adjustment in the amount of the difference between the carrying amount of the assets and the present value of the expected future cash flows must be recognised.
- The consolidated interim semi-annual financial statements for 30 June 2014 report EUR 16.1 million in loans and advances to affiliated customers. The loans and advances are collateralised with shares in a listed company, for which current price quotations could be observed. As part of the receivables valuation process, the collateral was taken into account at the proportionate carrying amount of the equity capital less a lump-sum discount. This constitutes a breach of IAS 39.AG84 in connection with IAS 39.I.G.E.4.8, according to which the measurement of a financial asset whose value has been reduced must take into account the fair value of the collateral.
- Because of that, the “risk provisions on loans and advances to customers” item in the semi-annual financial statements for 30 June 2014 is understated by at least EUR -3.8 million.
- Hypo SEE Holding AG was included in the financial statements of Heta by way of full consolidation. The related assets and debt, income and expenses are reported together with those of the parent company and the other companies that belong to the group. This constitutes a breach of IFRS 5, according to which special disclosure provisions in the statement of comprehensive income (IFRS 5.33 to 36A) and in the balance sheet (IFRS 5.38 to 40) as well as special information obligation in the notes (IFRS 5.41 to 42) apply to discontinued operations and groups of dispositions, which are classified as held for sale.

In addition, Heta notes that the errors that were identified relate to the semi-annual financial report for 30 June 2014. According to the relevant provisions of the International Financial Reporting Standards (IAS 8.44), there is no requirement to retroactively correct the affected interim consolidated financial statements. The incorrect reporting

period is not included in future consolidated financial statements, neither as a reference period nor in the form of opening balances, and must therefore not be adjusted during the current reporting period.

The error report pursuant to section 5 (2) Accounting Control Act (RL-KG) can be found on Heta's home page at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investoren → Veröffentlichungen → Veröffentlichungen 2015).

## 6.12. Rating

In November 2011, the former Hypo Alpe-Adria-Bank International AG resigned its institutional rating. All state and federally guaranteed bonds as well as the covered bond ratings remain unaffected by this step and will continue to be rated.

Information on the individual bond ratings and all associated Moody's publications is published on Heta's home page at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor relations → Investor Information → Rating).

## 7. Business development in Heta

### 7.1. Development of results

For the 2015 financial year, Heta reports an after-tax group result before minority interests of EUR -496.2 million (2014: EUR -7,418.0 million). This development of results was driven mainly by the repeal of the Hypo Alpe Adria Restructuring Act (HaaSanG) and the associated regulation Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV) by the Constitutional Court of Austria (VfGH), which led to the renewed recognition of liabilities and thus to a corresponding charge on the result in the amount of EUR -822.5 million. The over-indebtedness of the balance sheet, along with the necessity to maximise cash reserves, result in an immediate negative impact on Heta's earnings position. Therefore total liabilities (of which the majority is subject to interest) of EUR 16.9 billion are accompanied by assets of EUR 11.2 billion, of which EUR 4.3 billion are held in the form of balances at the central bank to which negative interest is applied. Without additional measures, this situation will lead to the steady deterioration of the earnings position and thus to a continuous increase in negative equity. The payments attributable to the time after the moratorium went into effect continue to be recognised as expenses but are not paid. The net interest income of the group rose from EUR 47.7 million to EUR 52.9 million compared to the comparative period of the previous year, which corresponds to an increase of EUR 5.2 million or 10.9 %.

**Net interest result\***

in EUR m

47.7	31.12.2014
52.9	31.12.2015

\*) In 2015, comparative periods were reduced from four to one previous period, since a comparison with previous periods is no longer meaningful due to the conversion to a gone-concern measurement assumption in 2014.

The wind-down portfolio continues to be reduced, while the financing business was discontinued completely. Beside the significant increase in non-interest-bearing assets during the past few years, the interest result for the current financial year was also negatively affected by the large amount of non-performing loans (NPL). In accordance with IFRS, interest on these loans is only collected on the basis of the present value of the net receivables (gross exposure less specific risk provisioning) ("unwinding"). The interest result also contains expenses from the guarantee commission in the amount of EUR -53.3 million for the subordinated bond of EUR 1.0 billion that was issued in December 2012 with a guarantee from the Republic of Austria, even if it was not paid on account of the payment moratorium imposed by the Financial Markets Authority (FMA) that took effect on 1 March 2015. The interest result for 2015 was also burdened by the fact that the liquid assets held at the Austrian National Bank (OeNB) were subject to negative interest rates ranging from -0.2 % to -0.3 %. The negative interest on cash balances resulted in a charge of EUR -6.3 million (2014: EUR -2.1 million) for the year 2015. The main reason for the increase in interest income and net interest income is due to the refinancing lines to former subsidiaries, for which risk-adequate interest rates could be collected once the measurement process took into account the fact that interest rates were set too low at the time these lines were first recognised.

The net fee and commission income for the financial year was negative at EUR -39.3 million (2014: EUR -19.0 million). Fee and commission expenses also include the guarantee commissions for a credit guarantee from the Republic of Austria in the amount of EUR -17.6 million (2014: EUR -17.6 million).

The result from financial assets that are not measured at the fair value in the income statement amounted to EUR 3.5 million on the reporting day 31 December 2015 (2014: EUR 12.3 million).

The result from the application of the Hypo Alpe Adria Restructuring Act (HaaSanG) in the amount of EUR -1,709.0 million shows the effect from the renewed recognition of the liabilities that were derecognised in 2014, following the decision of the Constitutional Court of Austria (VfGH) from 3 July 2015 to repeal the Hypo Alpe Adria Re-

structuring Act (HaaSanG) and Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV). The related provision, which was created in 2014 on the basis of the judgement of the court of first instance by the Munich I regional court regarding BayernLB's Austrian Equity Substituting Capital Act (EGEK) proceedings, counters this effect with EUR 886.8 million, and is shown in other operating result.

The trading result reports a loss of EUR -147.7 million on the reporting day (2014: EUR 12.6 million). This is mainly due to a negative foreign currency result as the result of the removal of the cap on the Swiss franc at the beginning of 2015, and the associated rise in the CHF compared to the Euro.

The result from hedge accounting is virtually zero at EUR -0.2 million, given the high effectiveness between the underlying transaction and the hedge, and since the contrary market values from the underlying transaction and hedge of the fair value hedge almost cancel each other out. The value of the previous year was EUR -3.0 million.

At EUR 1.5 million as at the reporting day of 31 December 2015, the result from financial assets designated at the fair value through profit or loss (fair value option) reports a much lower profit than in the previous year (EUR 225.3 million). This decline is mainly due to the lower measurement result from own issues (own liabilities).

The operating income from investment properties rose to EUR 39.0 million during the financial year (2014: EUR 22.7 million). This result is due to the net balance of income and current depreciation and other expenses from investment properties, as well as the disposal result.

In the 2015 financial year, the other operating result amounted to EUR 763.5 million. While last year's result was negative at EUR -1,012.4 million due to the recognition of a provision for the expected loss on disposal from the transfer of Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) and the SEE network, the result improved during the 2015 financial year mainly due to the income from the release of provision for anticipated-claims by creditors, which were created in connection with the judgement of the court of first instance in the BayernLB Austrian Equity Substituting Capital Act (EKEG) proceedings (EUR 886.8 million). They are accompanied by expenses from additionally payable fees in connection with the sale of the SEE network to the Republic of Austria in the amount of EUR 124.1 million, and the costs for allocation to additional provisions in the amount of EUR -75.0 million pertaining to a retail portfolio.

Compared to last year, EUR 793.0 million in risk provisions on loans and advances were released (2014: EUR -4,168.5) as a result of successful liquidations, the use of a credit guarantee as recoverable collateral and positive measurement effects. In addition, risk provisions for the former Italian subsidiary bank HBI were also released, since the owner of Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) was successful in his efforts to stabilise Hypo Alpe-Adria-Bank S.p.A., Udine (HBI).



The impairments with regard to non-financial assets (investment properties and repossessed assets) amounted to EUR -47.3 million in the current financial year, compared to EUR -709.8 million in the previous year's period.

On the cost side, expenses fell by EUR 56.4 million to EUR -206.3 million compared to the previous year. Personnel expenses declined by EUR 16.5 million from EUR -99.8 million to EUR -83.2 million, mainly due to the reduction in the workforce. In the 2015 financial year, more than 150 employees transferred from Heta to Hypo Group Alpe Adria AG (HGAA) in line with the transfer of business. At EUR -117.8 million, administrative expenses declined significantly over the past year (EUR -155.5 million), even though administrative expenses are burdened by legal and advisory costs in particular.

Depreciation and amortisation on tangible and intangible assets amounted to EUR -5.2 million (2014: EUR -7.4 million).

Taking into account the result from companies accounted for at equity in the amount of EUR 1.7 million (2014: EUR -4.9 million), the result before tax for 2015 from continued operations is EUR -498.5 million (2014: EUR -4,189.9 million).

Following the consideration of taxes on income of EUR 2.3 million (2014: EUR -7.4 million), the result after-tax from continued operations is EUR -496.2 million (2014: EUR -4,197.2 million).

Last year, the annual result from discontinued operations in the amount of EUR -3,220.8 million contained EUR -709.9 million from the transfer of the former Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A., Udine (HBI), and EUR -2,510.9 million from the sale of Hypo Group Alpe Adria AG (HGAA). No such operations were discontinued in the 2015 financial year, therefore no results were reported in this context.

The total result after tax for 2015 is EUR -496.2 million (2014: EUR -7,418.0 million).

## 7.2. Development of the statement of financial position

The payment moratorium imposed by the Financial Markets Authority (FMA) on 1 March 2015, which created a situation in which almost all of Heta's liabilities can no longer be serviced, has the effect of "freezing" the liabilities side and hence also total assets.

However, in the 2015 financial year, total assets of the group fell from EUR 12.0 billion (2014) to EUR 11.2 billion. This decline of -0.8 billion is mainly due to the closure of the securities investment operations in Jersey, in which Heta was a 51.0 % shareholder. Because of the full consolidation process, all of the assets of these companies were previously reported in the consolidated statement of financial position. The assets belonging to the respective minority shareholders were transferred to the same following the closure in 2015, and were therefore removed from the consolidated

financial statements. The resulting reduction in total assets is EUR -0.5 billion.

Total assets also declined due to the decrease in market values from derivative financial instruments. This decline is mostly due to the fact that the remaining terms of these contracts are steadily declining.

Cash and balances at central banks increased by EUR 1.9 billion during the 2015 financial year to EUR 4.3 billion. This increase was mainly due to four factors: the active collection of loans, the recovery of loans and advances to customers, loan collateral and real estate, the wind-down of securities investments, as well as transfers from the expanded liquidity holdings (loans to credit institutions) to short-term investments at the Austrian National Bank (OeNB). These investments are subject to negative interest rates that ranged from -0.2 % to -0.3 % during the 2015 financial year.

Loans and advances to credit institutions declined compared to 31 December 2014 (EUR 3.9 billion), and decreased to EUR 2.7 billion (2015). This item includes money market transactions as well as the receivables from Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) and Hypo Group Alpe Adria AG (HGAA). The decrease was primarily due to regrouping activities for money market transactions, as liquid assets invested at other credit institutions in Euro and foreign currencies were transferred to the cash reserve account at the Austrian National Bank (OeNB), among other things. The decrease was also due to the closure of the securities investment companies in Jersey, which reported EUR 0.3 billion in cash investments at third-party banks as at 31 December 2014.

The financing provided to the bank network in south-eastern Europe (SEE), which formerly belonged to the group, amounted to EUR 2.1 billion as at 31 December 2015. The measurement of this receivable also takes into account potential utilisation from warranties and exemptions, which were submitted to the buyer by way of contract during the course of the sale. No material changes occurred during the 2015 financial year with respect to the resulting net receivable.

Loans and advances to credit institutions also include the loans to the former group company Hypo Alpe-Adria-Bank S.p.A. (HBI). While the risk provisions created for these lines as at 31 December 2014 anticipated government-led settlement proceedings, the relevant risk provisions could be reduced in 2015 due to the stabilisation of Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) that was achieved by the owner.

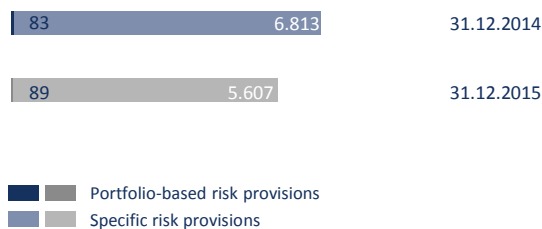
Net loans and advances to customers (gross amount after consideration of risk provisions on loans and advances) fell from EUR 2.8 billion to EUR 2.4 billion, which corresponds to a decrease of EUR 0.4 billion or around -13.4 %. (Gross) loans and advances to customers declined from EUR 8.7 billion to EUR 7.6 billion, a change of approximately -13.6 %.

### Total assets/net loans and advances to customers\* in EUR bn



Risk provisions on loans and advances amounted to EUR -5.7 billion as at 31 December 2015, which represents a decrease of EUR 1.2 billion compared to the previous year's figure of EUR -6.9 billion. The decrease in the risk provision is due to successful disposals, the use of a credit guarantee as recoverable collateral and positive measurement effects.

### Development of risk provisions on loans and advances\* in EUR m



Derivative financial instruments that include the positive market values from derivative transactions on the assets side, and that are reported in a collective balance sheet item, are below the level of the previous year at EUR 0.6 billion (2014: EUR 1.0 billion). This decline is due to lower market values and the wind-down of the derivative portfolio.

Financial assets in the category "designated at fair value through profit or loss" (FVO) decreased marginally during the reporting period from EUR 0.5 billion in the previous year to EUR 0.2 billion. The balance sheet value for available-for-sale financial instruments (AfS) also declined during the 2015 financial year from EUR 1.1 billion to EUR 0.4 billion, mainly as a result of the closure of the securities investment companies in Jersey as well as repayments and disposals in Heta's securities holdings portfolio.

Investment properties amounted to EUR 0.4 billion as at 31 December 2015, which represents a reduction of EUR -0.4 billion compared to the previous year. The reduction is primarily due to the reclassification into the item assets classified as held for sale at the end of 2015.

On the liabilities side, liabilities to credit institutions increased during the reporting period, from the previous

year's value of EUR 2.8 billion to EUR 3.4 billion. This increase is mainly due to those liabilities to BayernLB which had to be derecognised in 2014 due to the Hypo Alpe Adria Restructuring Act (HaaSanG) and Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV), and subsequently had to be recognised again following the decision of the Constitutional Court of Austria (VfGH) regarding the repeal of this special legislation and the associated regulation.

During the 2015 financial year, liabilities to customers remained virtually unchanged compared to 31 December 2014.

Liabilities evidenced by certificates declined during the 2015 financial year by EUR -1.2 billion or -13.1 % to EUR 7.6 billion; the change is mainly due to the reclassification of liabilities issued through Pfandbriefbank (Österreich) AG into a separate balance sheet item.

Provisions amounted to EUR 0.5 billion (2014: EUR 1.4 billion). The provision in connection with the BayernLB Austrian Equity Substituting Capital Act (EKEG) proceedings, which was created in 2014, was reversed through profit or loss at EUR 0.9 billion, since the underlying liabilities were again recognised following the repeal of Hypo Alpe Adria Restructuring Act (HaaSanG) and Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV). The contractual claims in connection with the SEE sale to Finanzmarktbeihilfung Aktiengesellschaft des Bundes (FIMBAG), which were recognised as a provision over EUR 0,2 billion on 31 December 2014, were no longer required due to the exemption claims that occurred in the meantime. Instead, the exemption and warranty risks resulting from the sale agreement are directly deducted from the loans to Hypo Group Alpe Adria AG (HGAA). In the context of the hedging instrument granted by the Republic of Austria to the buyer of the SEE network, Heta also created a provision for the future applicable fee of EUR 0.1 billion.

The subordinated capital increased by EUR 0.8 billion compared to the previous year, and amounts to EUR 2.0 billion by the end of 2015. The increase is mainly due to the repeal of the Hypo Alpe Adria Restructuring Act (HaaSanG) and Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV) by the Constitutional Court of Austria (VfGH), as a result of which EUR 0.8 billion (nominal) in subordinated liabilities once again had to be recognised in the balance sheet.

Compared to 31 December 2014, negative equity of EUR -4.7 billion declined to EUR -5.7 billion (2015), and thus highlights the significant over-indebtedness of the group in terms of capital. Overall, assets of EUR 11.2 billion are accompanied by liabilities and provisions of EUR 16.9 billion.

### 7.3. Key profit indicators relevant to the wind-down process

Since Heta's business purpose is the value-friendly and risk-minimising wind-down of its assets, those key profit indicators that are used for internal management purposes cannot be compared to the financial key performance indicators

that are normally used by credit institutions. Rather, Heta conducts its management activities in accordance with key indicators that are used to measure, in particular, the success of the wind-down process, the resulting wind-down of liquid assets (proceeds or cash-in) and the costs incurred in this context. These key indicators are regularly calculated on both an absolute and relative basis, and are reported at the operating and strategic level. The starting point for presenting the success of the wind-down of the entire portfolio is 31 December 2014.

During the 2015 liquidation year, Heta was able to significantly surpass the level of proceeds when comparing the net carrying value with the figures in the 2015 budget. As a highlight, cash resources rose by EUR 1,913.8 million from EUR 2,365.3 million to EUR 4,278.0 million. This development is primarily due to the sustainable and value-oriented wind-down of securities and receivables portfolios at Heta and the subsidiaries. The wind-down process in the segment of repossessed assets (real estate and moveable assets) was more difficult however. The planned wind-down objectives was not achieved across the group in 2015, and a larger proportion than planned was generated through write-downs.

The costs spent to achieve the proceeds (cash-in) were proportionate to the wind-down volume in the 2015 budget. The costs resulting from the recovery of loans and assets (operating expenses in the income statement) in relation to the proceeds (cash-in) surpassed the figures in the budget by 41.7 % (after taking into account the CHF/EUR item).

## 8. Analysis of non-financial key performance indicators - Human Resources

Qualified and motivated employees who have shown a considerable level of commitment and responsibility are a decisive success factor for Heta.

### Active employees Figures of 2014 and 2015

1.805	31.12.2014
1.329	31.12.2015

A total of 1,805 employees (FTE) worked in the HETA network as at 31 December 2014; this figure had declined to 1,329 by 31 December 2015. The significant reduction (476) in the number of employees (FTE) is mainly due to the transfer of employees to Hypo Group Alpe Adria AG (HGAA) (previously SEE-Holding AG) in Austria and the sale of a hotel operation in Croatia that was previously included in the consolidated financial statements.

The Heta companies have continued to implement efficient employee measures and the on-going restructuring

process. The turnover rate remained high during the year, increasing from 7.3 % in 2014 to 11.8 % in 2015.

### Support for wind-down activities

At the beginning of 2015, the Human Resources teams focused on the transition of employees to the SEE Holding. Following the successful completion of the privatisation of the SEE banking network, the focus shifted to the personnel in the wind-down and sale-oriented “core” areas. In this context, the HR teams implemented team development and change management measures, among others, with the objective of supporting and promoting individual employees and groups that were affected by the organisational change process. In addition, the personnel teams also concentrated on providing support to investor relations during the 2015 financial year.

### Development of remuneration

Strict compensation rules apply in the entire group. A stop on all types of variable compensation as well as the continuous monitoring of employee expenses were also introduced.

## 9. Internal control system for accounting procedures

Heta has an internal control system (ICS) for accounting procedures, in which appropriate structures and procedures are defined and implemented.

Heta’s internal control system (ICS) is based on the COSO framework (Committee of the Sponsoring Organisations of the Treadway Commission), whereby the Executive Board has independently determined the scope and direction of the internal control system (ICS) on the basis of the specific requirements of the organisation.

The internal control system (ICS), as a component of the company’s risk management system, has the following general objectives:

- Safeguarding and implementing the business and risk strategies as well as group policies
- Effective and efficient use of all of the organisation’s resources in order to achieve the targeted wind-down objectives
- Ensuring reliable financial reporting
- Supporting adherence to all the relevant laws, rules and regulations.

The particular objectives with regard to the accounting procedures for the set-up of the consolidated financial statements are that the internal control system (ICS) ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. It ensures that accounting procedures and standards (regulated in the group IFRS handbook) and the internal group policy on IFRS and accounting reporting under the Austrian

Commercial Code (UGB) and the Austrian Banking Act (BWG), which are mandatory for all companies consolidated in the financial statements, are upheld. The aforementioned group policy specifies the organisation and process of financial reporting as regards accounting procedures.

The internal control system (ICS) is based on:

- The complete documentation of all relevant processes in Group Accounting and Reporting
- Working instructions and documentation of individual workflows
- The complete presentation of all relevant risks and their respective control mechanisms as part of process documentation
- Independently operating control mechanisms and measures in the formal organisational structure and workflow management (programmed controls in the IT system)
- Observance of the principles of separation of duties and dual control
- Internal audit – as a separate organisational unit - which is concerned with monitoring all group business areas.

The internal audit department periodically assesses the reliability, propriety and lawfulness of the accounting process and the financial reporting.

- Assessment of the appropriateness of the organisational structure and workflow management at the level of the individual institution and group level (Heta)
- Assessment of the presence of an adequate internal control system
- Assessment of generally accepted accounting principles

In this way, the internal control system of Heta ensures that:

- The chart of accounts and structure of financial reporting conforms to national and international standards and to the internal requirements of Heta
- The business activities of Heta are correctly and appropriately documented and reported
- All relevant records are systematically submitted in a traceable manner
- All data required for financial reporting is documented in a traceable manner
- The accounting processes prevent the assets of Heta from being used, sold or acquired without the appropriate approval
- All subsidiaries and group units involved in producing financial reports are capable of fulfilling this function in terms of both levels of training and staff capacity

- The responsibilities related to the accounting processes for the set-up of the consolidated financial statements are clearly and unambiguously set out
- Access to the IT systems which are crucial to the accounting process (VB91, Lotus Notes financial accounting database, SAP) is restricted in order to avoid misuse
- All relevant legal provisions are adhered to.

The processes, policies and control procedures that are already implemented at the group companies are subject to ongoing evaluation and development.

The group subsidiaries draw up their financial statements on the basis of local accounting regulations and transmit their data – which is prepared according to IFRS across the group - using a standard, group-wide reporting tool (package). They are responsible for complying with the group policies valid throughout the group and for the proper and timely execution of the processes and system. The local group subsidiaries are supported throughout the whole group accounting process by central contact persons in Group Accounting & Reporting.

Management at the subsidiaries is responsible for the implementation and monitoring of the local internal control system (ICS) and confirms its compliance on a semi-annual basis.

Data submitted by the group subsidiaries is assessed in the Group Accounting & Reporting division for plausibility and is then entered into the Cognos Controller consolidation software. The consolidation steps (which include consolidation of expenses and earnings, consolidation of capital and consolidation of debt) are carried out directly in the system, followed by the elimination of any intra-group profits. The related coordination activities, supervision of required time frames, processes and contents and the performance of system controls and manual reviews also form a part of this process. Finally, the notes and the group management report are produced for the reporting dates 30 June and 31 December.

Throughout the year, internal financial reporting is performed by Group Financial Controlling on a monthly basis. Detailed reports and analyses as well as periodic target/ actual comparisons and forecasts are also produced. The budgeting process includes a wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA).

An interim financial report on the first six months is prepared in accordance with the Stock Exchange Act (BoerseG), which conforms to the requirements of IAS 34.

### 9.1. Internal control system related activities in the 2015 financial year

Heta's organisational structure changed significantly during the 2015 financial year as a result of the transformation process into a wind-down unit.

The process structures and control mechanisms were adjusted accordingly. The process of evaluating the control mechanisms focused on the sale processes and the impairment and measurement processes for loans and collateral.

## 9.2. Planned internal control activities for the 2016 financial year

Heta's new strategy and the adjustments and processes resulting from the wind-down process will be continued during the 2016 financial year. These activities will be accompanied by a steadily changing process environment.

It is anticipated that in 2016 the internal control system will be continuously enhanced and adjusted to the conditions inherent in the new processes. In this context, the focus will remain on the key processes of the wind-down unit.

## 10. Public Corporate Governance Code

The Austrian Federal Public Corporate Governance Code (B-PCGK) contains measures and provisions that define a high degree of corporate governance at state-owned and state-oriented companies. Heta considers this code as an important reference guide; accordingly, it has implemented compliance with the provisions of the Austrian Federal Public Corporate Governance Code (B-PCGK) into its statutes via a resolution by the general shareholders' meeting in July 2013.

Concrete measures include the adaptation of the internal rules and procedures of the Supervisory Board and Executive Board to the strict provisions of the Austrian Federal Public Corporate Governance Code (B-PCGK), which now serve as the basis for the business practices of these executive bodies. On this basis, the provisions of the Austrian Federal Public Corporate Governance Code have been gradually adopted as they are implemented in the respective statute-related documents of the various group companies.

As an additional consequence, Heta has also committed to report on compliance with the code on an annual basis. Compliance with its provisions is supposed to be audited by an external specialist every five years. This audit will be performed for the first time in 2016, for the 2015 financial year.

## 11. Research and development

Heta does not conduct any research and development activities of its own.

## 12. Other disclosures

Information in accordance with section 267 of the Austrian Commercial Code (UGB) with regard to events after the balance sheet date (in the notes under note (138) Events after the balance sheet date) and the risk report including

the notes on the application of risk management targets and methods for the use of financial instruments, are presented in the notes to the consolidated financial statements

## 13. Forecast

In 2015, Heta's Executive Board was replaced; the Board will be responsible for a full year of activities in 2016 - a year that is again expected to be characterised by significant changes in the general environment: Following the decision of the resolution authority, which was issued on 1 March 2015 and had the effect of suspending repayments of all eligible liabilities until at least 31 May 2016, it is expected that the same authority will arrive at a new decision in 2016, at the latest when this moratorium expires. The general conditions that will result from this second ordinance will have a significant effect on the extent to which and the time at which the proceeds from disposals may be used to satisfy the claims of the creditors.

Other important factors in addition to the effects from the ordinance include a number of lawsuits and pending court proceedings, which present cost factors that are difficult to ascertain, and that may at times have an enormous impact on the success of the liquidation process. At this time, there are several pending lawsuits by Heta creditors, which are directed against the payment stop that was imposed by the Federal Act on the Recovery and Resolution of Banks (BaSAG) and the resulting decision of the resolution authority from 1 March 2015.

With regard to the core sales endeavours, the course set for 2016 is very clear: As the result from proceeds surpassed the 2015 budget by a significant amount, the company continues to set ambitious goals for 2016. It plans to sell two large companies and two large portfolios in addition to the continued wind-down activities. These transactions would contribute to the consistent implementation of the medium-term plan 2016-2020 that was announced in the fall of 2015, and which envisions a cash resource target of EUR 6.3 billion by 2020. Moreover, the company will also review the eligibility of other companies in a "Fit4Sale" project.

The continued reduction in assets will also lead to a corresponding reduction in group companies and employee numbers. It is planned that by the end of 2016, the group's workforce will have decreased to 830 employees. A social plan that was developed with the works council in the past will ensure that these required reduction measures are implemented in a socially-compatible manner. In addition, internal projects will be implemented with the objective of addressing the reduced size and complexity of the group, and to promote the on-going integration of the subsidiaries into centralised and division-based management. In that sense, the year 2016 will again focus on cost- and structurally-efficient wind-down operations.

The economic environment that has been forecast for 2016 may not be viewed as supportive in this context. Of Heta's markets, only Macedonia and Montenegro are expected to register growth rates that are above the EU-28 average, while important countries such as Slovenia, Italy and Serbia are expected to fall below the average. The environment for banks and the loan-sales-business in the Adriatic region, which is of particular importance to Heta, must also be described as tense going into 2016. At this time, only a few markets have the required infrastructure for non-performing loans (NPL) dispositions - both from a legal and investor point of view. At the same time, studies confirm that more banks in the regions are cleaning up their balance sheets, so that competition for portfolio dispositions will increase.

It should be noted that section 67 of the Insolvency Act (IO, grounds for opening insolvency proceedings regarding over-indebtedness under insolvency law) does not apply to Heta in accordance with section 7 (1) GSA. In its medium-term planning activities (see also note (3) Wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG)), which must be prepared by the Executive Board, the Board does not provide for interest or capital repayments with regard to the company's debts. Therefore the contents and time-related aspects of the wind-down plan that must be prepared by the resolution authority pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG), and which forms the basis for the subsequent wind-down procedure, may deviate from Heta's medium-term plan, but must nevertheless ensure that Heta's ability to pay is maintained during the wind-down process. In addition, the orderly wind-down of Heta pursuant to

Federal Act on the Recovery and Resolution of Banks (BaSAG) will also depend on whether circumstances that put the wind-down process pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG) objectives and principles at risk will occur in the future.

The large number of pending legal disputes presents another factor of uncertainty for the 2016 financial year. A large number of claims have been filed against Heta in Germany and Austria with respect to the decision of the Financial Markets Authority (FMA) regarding the wind-down pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG). From the viewpoint of the Executive Board, the actions taken by the creditors have considerable negative effects for the creditors themselves, because Heta incurs considerable costs as a result of these claims, which will have a very negative effect on the wind-down result and hence the assets to be distributed. Since the claims brought forward by some creditors are solely designed to secure special advantages at the expense of other creditors, Heta will not only fight any resulting judgement of the court of first instance, but will also employ legal remedies to defend against enforcement.

Finally, there is also a risk, in connection with the enforcement measures taken by individual creditors, that the resolution authority will apply for insolvency proceedings regarding Heta in order to warrant the equal treatment of creditors. If such a situation should arise, it would significantly increase the amount of losses that will be incurred by the creditors.

(Sources: WKO, EU Commission, OECD)

Klagenfurt am Wörthersee, 17 March 2016  
Heta Asset Resolution AG

THE EXECUTIVE BOARD

Wirt.-Ing. Sebastian  
Prinz von Schoenaich-Carolath  
(Chairman)

Mag. Martin Handrich  
(Deputy Chairman)

Mag. Arnold Schiefer  
(Member)

Mag. Alexander Tscherteu  
(Member)

# **Consolidated Financial Statements**

as at 31 December 2015

# I. Consolidated statement of comprehensive income

## Income statement

EUR m

	Note	1.1. - 31.12.2015*	1.1. - 31.12.2014*
Interest and similar income	(44)	574.1	546.6
Interest and similar expenses	(45)	-521.2	-498.9
<b>Net interest income</b>		<b>52.9</b>	<b>47.7</b>
Fee and commission income	(46)	2.3	5.8
Fee and commission expenses	(47)	-41.6	-24.8
<b>Net fee and commission income</b>		<b>-39.3</b>	<b>-19.0</b>
Gains/losses on financial instruments that are not measured at fair value	(48)	3.5	12.3
Result from the resolution/application of HaaSanG	(49)	-1,709.0	1,675.3
Result from trading	(50)	-147.7	12.6
Result from hedge accounting	(51)	-0.2	-3.0
Result from financial investments – designated at fair value through profit or loss	(52)	1.5	225.3
Operating income from investment properties	(53)	39.0	22.7
Other operating result	(54)	763.5	-1,012.4
<b>Operating income</b>		<b>-1,035.8</b>	<b>961.6</b>
Impairment of financial assets	(55)	789.2	-4,174.1
thereof financial assets – at costs (risk provision)		793.0	-4,168.5
thereof financial assets– available-for-sale		-3.8	-5.7
Impairment of non financial assets	(56)	-47.3	-709.8
<b>Operating income after impairment</b>		<b>-293.9</b>	<b>-3,922.3</b>
Personnel expenses	(57)	-83.2	-99.8
Other administrative expenses	(58)	-117.8	-155.5
Depreciation and amortisation on tangible and intangible assets	(59)	-5.2	-7.4
<b>Operating expenses</b>		<b>-206.3</b>	<b>-262.7</b>
<b>Operating result</b>		<b>-500.2</b>	<b>-4,185.0</b>
Result from companies accounted for at equity	(60)	1.7	-4.9
<b>Result before tax from continued operation</b>		<b>-498.5</b>	<b>-4,189.9</b>
Taxes on income	(61)	2.3	-7.4
<b>Result after tax from continued operation</b>		<b>-496.2</b>	<b>-4,197.2</b>
<b>Result after tax from discontinued operations</b>		<b>0.0</b>	<b>-3,220.8</b>
<b>Result after tax</b>		<b>-496.2</b>	<b>-7,418.0</b>
thereof attributable to non-controlling interests	(62)	11.6	17.3
thereof from continued operations		11.6	17.3
thereof from discontinued operations		0.0	0.0
thereof attributable to equity holders of parent (result after tax and non-controlling interest)		-507.8	-7,435.3
thereof from continued operations		-507.8	-4,214.5
thereof from discontinued operations		0.0	-3,220.8

\*) The values in the consolidated financial statements as at 31 December 2015 and 31 December 2014 are based on the gone concern premise.



## Other comprehensive income

EUR m

	1.1. - 31.12.2015*	1.1. - 31.12.2014*
<b>Result after tax</b>	<b>-496.2</b>	<b>-7,418.0</b>
Remeasurement of the net defined benefit liability	0.2	0.4
Remeasurement of the net defined benefit liability from discontinued operations	0.0	0.0
Deferred tax relating to items that will not be reclassified to profit or loss	0.0	0.0
<b>Items, that will not be reclassified to profit or loss</b>	<b>0.2</b>	<b>0.4</b>
Available-for-sale-reserve	13.4	8.0
Gains/losses on available-for sale evaluation	11.6	21.1
Effects of deferred taxes	0.0	-0.2
Gains/losses on available-for sale disposal (reclassification)	-2.0	-15.9
Effects of deferred taxes	0.0	0.4
Gains/losses on available-for sale impairment (reclassification)	3.8	3.4
Effects of deferred taxes	0.0	0.2
Gains/losses from discontinued operation	0.0	-1.2
Effects of deferred taxes from discontinued operations	0.0	0.2
Foreign exchange differences (change in foreign currency reserve)	-4.4	114.1
<b>Items, that will be reclassified to profit or loss</b>	<b>9.0</b>	<b>122.1</b>
<b>Total other comprehensive income</b>	<b>9.2</b>	<b>122.5</b>
<b>Total comprehensive income</b>	<b>-487.0</b>	<b>-7,295.5</b>
thereof attributable to non-controlling interests	12.6	16.7
thereof from continued operations	12.6	16.7
thereof from discontinued operations	0.0	0.0
thereof attributable to equity holders of parent	-499.6	-7,312.3
thereof from continued operations	-499.6	-4,235.9
thereof from discontinued operations	0.0	-3,076.3

\*) The values in the consolidated financial statements as at 31 December 2015 and 31 December 2014 are based on the gone concern premise.

## II. Consolidated statement of financial position

EUR m

	Note	31.12.2015*	31.12.2014*
<b>ASSETS</b>			
Cash and balances at central banks	(63)	4,278.0	2,365.3
Loans and advances to credit institutions	(64)	2,691.1	3,938.5
Risk provisions on loans and advances to credit institutions	(66)	-490.7	-837.2
Loans and advances to customers	(65)	7,550.3	8,739.1
Risk provisions on loans and advances to customers	(66)	-5,165.4	-5,984.3
Derivative financial instruments	(67)	596.2	956.3
Financial assets – designated at fair value through profit or loss	(68)	205.2	489.2
Financial assets – available-for-sale	(69)	395.9	1,106.1
Investments in companies accounted for at equity	(70)	3.8	2.0
Investment properties	(71)(73)	405.4	789.6
Tangible assets	(72)(73)	27.1	42.8
Tax assets	(61)	40.5	44.8
thereof current tax assets		40.4	20.7
thereof deferred tax assets		0.1	24.1
Assets classified as held for sale	(74)	431.7	99.8
Other assets	(75)	190.9	309.3
Risk provisions on loans and advances on other assets	(66)	-6.4	-30.6
<b>Total assets</b>		<b>11,153.5</b>	<b>12,030.8</b>
<b>EQUITY AND LIABILITIES</b>			
Liabilities to credit institutions	(76)	3,400.0	2,845.3
Liabilities to customers	(77)	1,509.8	1,575.5
Liabilities Pfandbriefbank	(78)	1,241.9	0.0
Liabilities evidenced by certificates	(79)	7,600.1	8,750.8
Derivative financial instruments	(80)	480.2	789.8
Provisions	(81)	462.7	1,445.9
Tax liabilities	(61)	3.8	33.3
thereof current tax liabilities		1.9	30.4
thereof deferred tax liabilities		1.9	2.8
Liabilities included in disposal groups classified as held for sale	(82)	13.3	4.1
Other liabilities	(83)	156.9	130.4
Subordinated capital	(84)	2,005.1	1,155.4
Hybrid capital	(85)	0.2	0.4
Negative equity	(86)	-5,720.6	-4,700.1
thereof attributable to equity holders of parent		-5,720.6	-5,221.1
thereof attributable to non-controlling interests		0.0	521.0
<b>Total equity and liabilities</b>		<b>11,153.5</b>	<b>12,030.8</b>

\*) The values in the consolidated financial statements as at 31 December 2015 and 31 December 2014 are based on the gone concern premise.

### III. Group statement of changes in equity

EUR m

	Issued capital	Participation capital	Additional paid-in capital	Available-for-sale-reserve	Foreign currency translation	Cumulative results	Owners of the parent	Non-controlling interests	Total
<b>Equity as at 1.1.2015</b>	<b>2,419.1</b>	<b>1,075.1</b>	<b>0.0</b>	<b>-18.8</b>	<b>9.9</b>	<b>-8,706.4</b>	<b>-5,221.1</b>	<b>521.0</b>	<b>-4,700.1</b>
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reclassification of minority shareholder	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-512.6	-512.6
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-15.4	-15.4
Total comprehensive income	0.0	0.0	0.0	12.5	-4.4	-507.7	-499.6	12.6	-487.0
Result after tax	0.0	0.0	0.0	0.0	0.0	-507.8	-507.8	11.6	-496.2
Other comprehensive income	0.0	0.0	0.0	12.5	-4.4	0.1	8.2	1.0	9.2
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-5.6	-5.6
<b>Negative equity as at 31.12.2015</b>	<b>2,419.1</b>	<b>1,075.1</b>	<b>0.0</b>	<b>-6.2</b>	<b>5.5</b>	<b>-9,214.1</b>	<b>-5,720.6</b>	<b>0.0</b>	<b>-5,720.6</b>

EUR m

	Issued capital	Participation capital	Additional paid-in capital	Available-for-sale-reserve	Foreign currency translation	Cumulative results	Owners of the parent	Non-controlling interests	Total
<b>Equity as at 1.1.2014</b>	<b>1,669.1</b>	<b>1,139.5</b>	<b>250.0</b>	<b>-27.3</b>	<b>-104.2</b>	<b>-1,586.0</b>	<b>1,341.1</b>	<b>517.7</b>	<b>1,858.8</b>
Capital increases	750.0	0.0	0.0	0.0	0.0	0.0	750.0	0.0	750.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-13.3	-13.3
Total comprehensive income	0.0	0.0	0.0	8.6	114.1	-7,434.9	-7,312.3	16.7	-7,295.5
Result after tax	0.0	0.0	0.0	0.0	0.0	-7,435.3	-7,435.3	17.3	-7,418.0
Other comprehensive income	0.0	0.0	0.0	8.6	114.1	0.4	123.0	-0.6	122.5
Other changes	0.0	-64.4	-250.0	0.0	0.0	314.6	0.2	-0.3	0.0
<b>Negative Equity as at 31.12.2014</b>	<b>2,419.1</b>	<b>1,075.1</b>	<b>0.0</b>	<b>-18.8</b>	<b>9.9</b>	<b>-8,706.3</b>	<b>-5,221.0</b>	<b>520.9</b>	<b>-4,700.1</b>

For further information on equity, please refer to note (86) Negative equity.

## IV. Group statement of cash flows

EUR m

	2015	2014
<b>Result after tax from continued operation</b>	<b>-496.2</b>	<b>-4,197.2</b>
<b>Result after tax from discontinued operations</b>	<b>0.0</b>	<b>-3,220.8</b>
<b>Result after tax</b>	<b>-496.2</b>	<b>-7,418.0</b>
<b>Non-cash items included in profit and reconciliation to cash flows from operating activities:</b>		
Gains/losses from the sale of subsidiaries	-4.1	3,264.0
Result from the resolution/application of HaaSanG	1,709.0	-1,675.3
Depreciation and amortisation of tangible fixed assets and financial investments	58.9	603.0
Financial assets	2.3	9.4
Intangible, tangible assets and investment properties	56.5	593.6
Change in risk provisions	-874.6	4,159.7
Change in provisions	-895.3	1,387.4
Gains (losses) from disposals of tangible fixed assets, financial assets and investment properties	-26.0	-16.1
Financial assets	-5.0	-13.1
Intangible, tangible assets and investment properties	-21.0	-3.0
<b>Subtotal</b>	<b>-528.3</b>	<b>304.6</b>
<b>Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:</b>		
Loans and advances to credit institutions and customers	2,126.1	-350.1
Financial assets	994.4	55.0
Trading assets	0.0	7.3
Other assets	388.7	277.0
Liabilities to credit institutions and customers	-343.9	1,316.5
Liabilities Pfandbriefbank	1,241.9	0.0
Liabilities evidenced by certificates	-1,150.6	-1,501.9
Trading liabilities	0.0	0.0
Provisions	-85.3	-79.9
Other liabilities from operating activities	-277.8	159.0
<b>Cash flows from operating activities</b>	<b>2,365.2</b>	<b>187.7</b>
Proceeds from the sale of:	136.0	41.5
Financial assets and participations	5.0	19.5
Tangible assets, investment properties and intangible assets	131.0	21.9
Payments for purchases of:	-58.8	-159.7
Financial assets and participations	0.0	-6.4
Tangible assets, investment properties and intangible assets	-58.8	-153.3
Payments from the purchase of subsidiaries	6.8	-734.1
Payments in connection with the recapitalization of affiliated, non-consolidated companies (>50 %)	-4.0	-0.3
Other changes	0.0	-28.5
<b>Cash flows from investing activities</b>	<b>80.0</b>	<b>-881.1</b>
Capital contributions/disbursements	0.0	750.0
Reclassification of minority shareholder	-512.6	0.0
Subordinated capital and other financing activities	0.0	40.1
Dividends paid	-15.4	-13.3
thereof dividends paid to owners of the parent	0.0	0.0
thereof dividends paid to non controlling interest	-15.4	-13.3
<b>Cash flows from financing activities</b>	<b>-528.0</b>	<b>776.8</b>

	2015	2014
<b>Cash flows for taxes, dividends and interests</b>	<b>12,888.5</b>	<b>10.0</b>
Payments for taxes on income	-19.3	9.0
Payments for interests	-226.5	-425.4
Dividends received	0.0	0.0
Interests received	309.7	426.5

	2015	2014
<b>Cash and cash equivalents at end of previous period (1.1.)</b>	<b>2,365.3</b>	<b>2,312.7</b>
Cash flows from operating activities	2,365.2	187.7
Cash flows from investing activities	80.0	-881.1
Cash flows from financing activities	-528.0	776.8
Effect of exchange rate changes	-4.7	-30.8
<b>Cash and cash equivalents at end of period (31.12.)</b>	<b>4,278.0</b>	<b>2,365.3</b>

For further information on the statement of cash flows, please refer to note (87) Statement of cash flows.

## V. Notes to the consolidated financial statements

### Accounting policies and basis of consolidation

#### (1) The company<sup>3</sup>

Heta Asset Resolution AG (the former Hypo-Alpe-Adria-Bank International AG, “Heta” in short), was founded in 1896 as a Landes- und Hypothekenbankanstalt, and operates as the parent company of the Heta group (formerly Hypo Alpe Adria). Since 30 December 2009, it has been wholly owned by the Republic of Austria. It is registered in the commercial register (Firmenbuch) of the Commercial Court of Klagenfurt under company registration number FN 108415i. The registered office and headquarters of the group are located at Alpen-Adria-Platz 1, 9020 Klagenfurt am Wörthersee, Austria.

The banking license granted to the former Hypo Alpe-Adria-Bank International AG by the Austrian Financial Market Authority (FMA) in accordance with the Austrian Banking Act (BWG) was terminated with the decision by the Austrian Financial Market Authority (FMA) from 30 October 2014. The company was continued as a partially-regulated wind-down entity in accordance with the Federal Act on the Creation of a Wind-down Entity (Federal Act I 2014/51, GSA). Since then, the company's purpose has been concentrated on the full wind-down of its assets and participations. Within this context, it is also authorised, on the basis of the legal concession under the Federal Act on the Creation of a Wind-down Entity (GSA), to continue to enter into banking or leasing transactions that serve this purpose. According to section 3 (4) GSA, the company is subject to some of the provisions of the BWG and accordingly has assumed certain reporting and notification duties vis-a-vis the Austrian National Bank (OeNB) and the Austrian Financial Market Authority (FMA). The Austrian Financial Market Authority (FMA) continues to be the regulatory authority in charge, which pursuant to section 8 GSA is obliged to verify compliance with the applicable provisions of the Austrian Banking Act (BWG). In compliance with the requirements under the Federal Act on the Creation of a Wind-down Entity (GSA), a resolution of the general shareholders' meeting of 29 October 2014 amended the statutes to the effect that an obligation to create the decision to dissolve after the statutory wind-down objectives have been attained was implemented.

Following the announcement of a significant asset coverage shortfall on 27 February 2015, the Republic of Austria notified Heta that it would no longer provide any capital and liquidity support. In view of these circumstances, the Austrian Financial Market Authority (FMA) announced a decision on 1 March 2015 pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG). As part of this decision, a moratorium was placed on all of Heta's “eligible liabilities” until 31 May 2016 in preparation for the application of the instrument involving the participation of creditors.

#### (2) Legal information and important events in 2015

##### 2.1. Decision of EU Commission from 3 September 2013

On 3 September 2013, the Commission of the European Union (EU-Commission) reached a final decision in the state aid investigation that had been under way since 2009.

The decision provided for the division of the company into marketable, reprivatisable units of the South-East European Network (SEE network) and the wind-down unit. A reprivatisation process was stipulated for the banks of the SEE network in Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro; it had to be completed by the end of 2015 (Closing). Furthermore, the former Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A. had to be allocated to the wind-down segment during the second half of 2013. The wind-down unit is subject to new business restrictions and in particular the requirement that assets must be wound down in a manner that preserves assets and values.

Compliance with the restructuring plan and the imposed requirements is monitored by an independent trustee appointed by the European Commission, the “Monitoring Trustee”.

##### 2.2. Hypo Alpe Adria Restructuring Act (HaaSanG)

The Hypo Alpe Adria Restructuring Act (HaaSanG) went into force on 1 August 2014, and designated the Financial Market Authority (FMA) as the authority responsible for implementation of the restructuring measures provided for in the law.

With the announcement of the Financial Markets Authority (FMA) Ordinance (HaaSanV) on 7 August 2014, the termination and deferment of Heta's liabilities listed in the Financial Markets Authority (FMA) regulation took effect, which means that repayment sums, interest or other ancillary fees owed by the company, where applicable, were automatically reduced to zero. The payment date for certain “disputed liabilities” was postponed to 30 June 2019 at the earliest, according to the Hypo Alpe Adria Restructuring Act (HaaSanG). In accordance with section 3 of the Hypo Alpe Adria Restructuring Act (HaaSanG), the subordinated liabilities as well as all collaterals including guarantees for such liabilities expired.

<sup>3</sup> Effective 31 October 2014, the company operating as “HYPO ALPE-ADRIA-BANK INTERNATIONAL AG” was renamed “HETA ASSET RESOLUTION AG”. It continues to function as the parent company of the Heta Group (formerly “Hypo Alpe Adria”). The name “Heta” will be used consistently in these notes.

The expiration of liabilities comprised a total volume of around EUR 1.6 billion, of which subordinated liabilities of third-party investors accounted for EUR 0.8 billion and liabilities to the Bayerische Landesbank (BayernLB) accounted for EUR 0.8 billion. All of the liabilities covered under Hypo Alpe Adria Restructuring Act (HaaSanG) and the Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV) in the amount of EUR 1.6 billion were derecognised on 7 August 2014.

On 3 July 2015, the Constitutional Court of Austria (VfGH) repealed the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Ordinance issued by the Financial Market Authority (FMA) on the Hypo Alpe Adria Restructuring Act (HaaSanV) on this legal basis, without mention of a repair period. This meant that the liabilities that were derecognised in 2014 now had to be recognised again for accounting purposes in 2015. For additional information, please refer to note (128.2) Repeal of the Hypo Alpe Adria Restructuring Act (HaaSanG) by the Constitutional Court of Austria (VfGH) and resulting lawsuits.

### 2.3. Federal Act on the Creation of a Wind-down Entity (GSA)

The license granted to the former Hypo Alpe-Adria-Bank International AG by the Austrian Financial Market Authority (FMA) to conduct banking activities according to the Austrian Banking Act (BWG) was terminated by the resolution of the Austrian Financial Market Authority (FMA) of 30 October 2014. Preconditions were that Heta no longer undertakes any deposit transactions and no longer holds any qualified participations – within the meaning of the Capital Requirements Regulation (CRR) – in credit institutions or financial securities firms. These preconditions were met following the restructuring.

As a wind-down unit pursuant to section 3 GSA, Heta continues to possess a legal concession to undertake banking operations. On the basis of the legal concession and pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA), certain banking operations continue to be implemented during the course of the wind-down activities.

Heta's responsibility as a wind-down unit consists of winding down its assets, which it must liquidate in a manner that is orderly, active and to the best possible advantage. The wind-down unit may only undertake transactions that are suited to winding down the portfolio. In addition, the wind-down unit may render certain transition services to former group companies. Pursuant to section 3 (4) GSA, Heta is subject to a limited extent to the provisions of the Austrian Banking Act (BWG) but not the minimum capital regulations. The Financial Market Authority (FMA) continues to be the responsible regulatory authority and is obligated, pursuant to section 8 GSA, to assess compliance with the applicable provisions of the Austrian Banking Act (BWG).

Following the resolution of the general shareholders' meeting on 29 October 2014, the company's statutes were amended in view of the transformation into a wind-down unit; the name of the parent company was also amended, from "HYPO ALPE-ADRIA-BANK INTERNATIONAL AG" to "HETA ASSET RESOLUTION AG". The company's business purpose was restricted to - with the exception of those specified in Federal Act on the Creation of a Wind-down Entity (GSA) - transactions that are required to fulfil the company's mandate (complete reduction of the portfolio as quickly as possible).

Article 2.4 of the amended statutes provides that a resolution on dissolution is passed as soon as the portfolio is completely wound down. This amendment was entered in the commercial register on 31 October 2014 and is effective as of that date. As this amendment relates exclusively to the name of the company and not the re-establishment of the company, this does not affect the legal person of the company itself or any of its contractual obligations.

### 2.4. Imposition of wind-down measures by the Financial Market Authority (FMA)

In order to fulfil the statutory requirements under section 3 (1) of the Federal Act on the Creation of a Wind-down Entity (GSA), Heta conducted a group-wide review of the assets relevant to the portfolio wind-down, a so-called "Asset Quality Review" (AQR), in the first quarter of 2015. The objective of the Asset Quality Review (AQR) was to subject all Heta assets that are relevant to the portfolio wind-down to a valuation taking into account the wind-down objectives.

While at the time of the initial interim results from the Asset Quality Review (AQR) on 27 February 2015, the company was still able to pay its debts and liabilities as they came due, the Executive Board saw objective and concrete indications pursuant to section 51 (1) (3) Federal Act on the Recovery and Resolution of Banks (BaSAG) that the company would no longer be able to pay its debts and liabilities on time in the near future. As a result, Heta's Executive Board immediately notified the Supervisory Board of the asset coverage shortfall in the range of EUR -4.0 billion to EUR -7.6 billion (special report according to the Federal Act on the Creation of a Wind-down Entity (GSA)). The Executive Board subsequently informed its sole shareholder, the Republic of Austria, of the shortfall, and inquired whether the government, against the background of this new information and the validity of the Federal Act on the Recovery and Resolution of Banks (BaSAG), would be prepared to compensate the existing asset coverage shortfall and the liquidity gaps expected in 2016 and 2017 with the appropriate measures. On the same day, the company also submitted a precautionary notice according to Federal Act on the Recovery and Resolution of Banks (BaSAG) to the resolution authority in charge, the Financial Market Authority (FMA), and asked to have a corresponding decision issued if the company's owner should fail to make a binding statement about suitable measures. Subsequently, the Austrian Minister of Finance notified the Austrian Financial Market Authority (FMA) and the company on 1 March 2015 that no further measures will be implemented for Heta under the Financial Market Stability Act (FinStaG).

On the same day, the wind-down authority issued a resolution on the arrangement of wind-down measures in accordance with the Federal Act on the Recovery and Resolution of Banks (BaSAG). As part of this decision, a moratorium was placed on all “eligible liabilities” of Heta until 31 May 2016 according to section 58 (1) (10) BaSAG, in preparation for the application of the instrument involving the participation of creditors. For additional information, please refer to the ordinance of the Financial Market Authority (FMA) from 1 March 2015, which was published on the FMA homepage ([www.fma.gv.at](http://www.fma.gv.at)) The ordinance can also be found on Heta’s homepage at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Press → Austrian Baking Restructuring and Resolution Act (BaSAG)).

An appeal against the decision from the resolution authority could be submitted within three months after it was released (1 March 2015), but this is without suspensory effect. Affected investors have announced that they will take their own legal steps against Heta. The ordinance is based on the Federal Act on the Recovery and Resolution of Banks (BaSAG), which was used to implement the European directive on bank restructuring in Austria. For this reason, Heta believes that the ordinance should also be recognised in another EU member state. It is noted that a request to hear a complaint is currently pending at the Constitutional Court of Austria (VfGH) regarding a review of the constitutionality of the Federal Act on the Recovery and Resolution of Banks (BaSAG).

According to a statement by the President of the Austrian Constitutional Court (VfGH) in March 2016, it is expected that the court will issue a decision on this issue during its fall session at the latest.

## 2.5. Changes to the Executive Board and the Governance structure

The Financial Market Authority (FMA) is the resolution authority for Austria pursuant to section 3 (1) Federal Act on the Recovery and Resolution of Banks (BaSAG). The resolution authority must consider the wind-down objectives during the application of the wind-down instruments and the exercise of its wind-down powers. In line with its powers, the resolution authority can also dismiss or replace the executive bodies of the wind-down institutes and take direct control of the institutes. In the case of Heta, the authority has decided that the business activities will continue to be carried out by the company’s executive bodies.

At the organisational level, the Executive Board of the parent company was replaced completely, whereby the new members of the Executive Board were appointed in February and September 2015. The Heta Executive Board consists of Wirt.-Ing. Sebastian Prinz von Schoenaich-Carolath (Chairman) and the members Mag. Martin Handrich, Mag. Alexander Tscherteu and Mag. Arnold Schiefer.

The resolution authority is entitled to extensive supervisory, controlling and reporting rights, some of which were implemented through a separate governance structure. The new governance structure of Heta was developed during the first six months of 2015 together with the authority. Subsequently, the required changes were implemented in Heta’s statutes and the internal rules of procedure for the Supervisory Board and the Executive Board.

The amended statutes were adopted at the general shareholders’ meeting of Heta on 29 June 2015. The resolution authority has the right to have its representatives attend the committee meetings of the company’s executive bodies. In addition, a series of major transactions and decisions are subject to the non-prohibition of the resolution authority, before they can be implemented. An advisory board consisting of external experts which were appointed by the resolution authority was also established. It provides recommendations to the resolution authority. The advisory board is a committee of the resolution authority and not an executive body of the company. The authority is also entitled to an escalation right, pursuant to which the treatment of all decisions, including those that must in principle not be submitted to the authority pursuant to the provisions of the internal rules of procedure, can be deleted by the authority.

At the same time, the forensic investigation of the past as an express business purpose of Heta was deleted from the statutes. However, it was agreed with the authority that the investigation of forensic cases that have so far not been finalised in line with the forensic investigation of the past will be continued taking into account efficiency and practical aspects.

## 2.6. Agreements relating to the former majority owner BayernLB

At the end of 2012, BayernLB sought a declaratory judgement from the Munich I regional court in relation to the financing lines that in the company’s view are subject to the Austrian Equity Substituting Capital Act (EKEG), and may therefore neither be serviced by interest payments nor repaid. The company submitted a comprehensive statement of defence against the application and contested the order sought in its entirety; it also challenged, in the form of counterclaims, the repayments made by Heta to BayernLB until the time the suit was filed. In a hearing on 8 May 2015, the Munich I regional court verbally announced a judgement of the court of first instance and accepted virtually the entire order sought by BayernLB (for details, please see note (128.3.2) Judgement of the Munich I regional court regarding equity substitution loans from Bayerische Landesbank). Heta was ordered to pay, and the requested claims for recovery of the credit lines which had in the meantime been repaid to BayernLB were dismissed in their entirety. Because of the imminent action by BayernLB, the liabilities to BayernLB (nominal EUR 0.8 billion), which are covered by the Hypo Alpe Adria Restructuring Act (HaaSanG) and hence were



included in the retirement from the balance sheet in 2014, were allocated to a provision in the amount of EUR 0.9 billion in the 2014 consolidated financial statements.

The Memorandum of Understanding (MoU) signed by the Republic of Austria and the Free State of Bavaria, according to which Heta and BayernLB were invited to review whether they wished to end the legal dispute between the two parties on the basis of the Memorandum of Understanding (MoU), was announced in July 2015.

It remained up to Heta's executive bodies to decide whether to approve a settlement regarding the pending Austrian Equity Substituting Capital Act (EKEG) proceedings and the "action for misrepresentation" (*Irrtumsklage*) in view of the conditions and impacts on Heta. On 21 September 2015, Heta announced its willingness to conclude the settlement with BayernLB as per the Memorandum of Understanding (MoU). BayernLB decided against a comprehensive settlement with Heta. Therefore the proceedings are continued by Heta without any restrictions, and are to be completed with a legally binding decision by the German courts with jurisdiction. To this end, Heta submitted timely its grounds of appeal to the Munich upper regional court (OLG) on 1 February 2016.

However, BayernLB also declared its willingness, in the form of a unilateral settlement declaration, to make certain concessions to Heta regarding its claims in the Austrian Equity Substituting Capital Act (EKEG) proceedings. These include the waiver of pursuing the executive enforcement of the judgement of the court of first instance and limiting the participation of BayernLB in the wind-down of Heta (under certain conditions, such as BayernLB attaining the status of senior creditor etc.) to just EUR 2.4 billion plus interest (regardless of a possibly higher amount awarded in favour of BayernLB). Heta's claims against BayernLB from the counterclaim were not restricted, and continue to be pursued by Heta in the courts. With the exception of the claims from the Austrian Equity Substituting Capital Act (EKEG) proceedings and certain derivative transactions between BayernLB and Heta, all mutual claims between BayernLB and Heta have been cleared up.

The Memorandum of Understanding (MoU) does not include Heta's possible claims against the Republic of Austria. These are not affected by the agreements that have been entered into.

During the course of the action for misrepresentation (*Irrtumsklage*), the Republic of Austria requested, during the last quarter of the 2014 financial year, an adjustment to the share purchase agreement (emergency nationalisation agreement) and the related term sheet which was concluded between the Republic of Austria and BayernLB. These proceedings ended in line with the Memorandum of Understanding (MoU) between the Republic of Austria and Bayern LB and Heta, which was implemented on 11 November 2015, and the Republic of Austria withdrew its action with a release of claims. For further information, please refer to note (128.3) Information regarding BayernLB.

In the consolidated financial statements for 31 December 2015, the liabilities to BayernLB are entered at approximately EUR 2.8 billion (nominal amount plus interest claims) on the basis of the original credit agreements and taking into account the judgement of the court of first instance by the Munich I regional court, while the settlement value resulting from the Memorandum of Understanding (MoU) would be approximately EUR 2.5 billion (nominal amount EUR 2.4 billion plus interest of at least 5 % as of 1 March 2015). For further information, please refer to note (128.3.1) Memorandum of Understanding (MoU) between the Republic of Austria and the Free State of Bavaria and review of the MoU by Heta.

## 2.7. Development of the credit engagement vis-a-vis the former Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A.

In meeting the statutory requirements of the Federal Act on the Creation of a Wind-down Entity (GSA) and the HBI-Bundesholdinggesetz, Heta had transfer all its shares in Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) to HBI-Bundesholding AG (HBI-BH) on the basis of the share purchase agreement from 8 September 2014. In addition to temporarily maintaining the existing financing for Heta in favour of (HBI) in the amount of approximately EUR 1.7 billion (nominal amount of the refinancing lines), Heta also committed, in line with the carve-out process, to provide an emergency liquidity facility of up to EUR 300.0 million in the event of the outflow of HBI deposits.

As a result of the Federal Act on the Recovery and Resolution of Banks (BaSAG) moratorium that went into force on 1 March 2015, Heta was no longer able to meet its obligation to provide an emergency liquidity facility, which resulted in the steady deterioration of HBI's liquidity situation, since it was not able to compensate the continued outflow of deposits without external support. In addition, HBI, in its local annual financial statements for 31 December 2014, which were submitted in June 2015, has made significant additional impairments with regard to our extended loans, which caused the company to fall below the minimum tier 1 capital ratio. The share purchase agreement concluded with HBI-BH included a provision that HBI-BH would be responsible for maintaining the tier 1 minimum capital ratio for HBI (currently 11.5 %) as required by the regulatory authority as of the closing of the agreement; however, in view of the increased risk provisions at HBI, HBI-BH asserted warranty claims from the share purchase agreement against Heta. In addition, it also referred to the failure to meet the obligation to provide the "Emergency Liquidity Facility".

The fact that HBI-BH itself does not have sufficient funds and no conclusive assessment could be made whether and at which amount the owner of HBI-BH - the Republic of Austria - would institute capital measures to provide HBI-BH with the corre-

sponding resources created a situation in which the Banca d'Italia was likely to commence regulatory proceedings because of the failure to comply with the equity capital requirements and liquidity provisions.

In order to avoid additional damages to Heta as a result of the official measures in Italy, the Republic of Austria, HBI-BH and Heta concluded a term sheet regarding the financing and equity capitalisation of HBI on 29 June 2015. According to this agreement, HBI-BH provided HBI with EUR 196.0 million in liquidity in 2015, including EUR 100.0 million in the form of equity capital and EUR 96.0 million in the form of subordinated loans. In turn, Heta agreed to provide a new loan of EUR 100.0 million for the possible financing of outflows of customer deposits, and to waive up to EUR 630.0 million in existing receivables, of which a waiver for a partial amount of EUR 280.0 million was already implemented during the first six months of 2015. In return, HBI-BH promised to deliver to Heta each financial benefit from its relationships with HBI up to the amount of the proclaimed waiver, in line with a recovery agreement. To secure Heta's claims, HBI-BH committed to pledge its shares in HBI in favour of Heta. For additional details, please refer to note (129.1) Agreement with the Austrian government and HBI-Bundesholding AG regarding the capitalisation and liquidity for Hypo Alpe-Adria S.p.A.

During the second half of 2015, HBI repaid receivables of approximately EUR 140.0 million to Heta, and a revised wind-down plan for HBI was submitted by HBI-BH in December. The revised wind-down plan identified additional capital requirements for the time until the end of 2017 in order to comply with Italian capital provisions, which leads to the requirement of additional waivers of receivables in the amount of EUR 96.0 million on the part of HBI-BH, and up to EUR 350.0 million on the part of Heta. The purpose of the waivers provided by Heta is to ensure compliance with the capital ratios prescribed for HBI by Banca d'Italia, and were authorised by the resolution authority on 23 December 2015 with a non-prohibition.

The assessment of the recoverability of the refinancing lines approved by Heta in the past, which was carried out on 31 December 2015, is mainly based on the wind-down plan for HBI as submitted by HBI-BH. A large portion of the risk provisions created for 31 December 2014 were reversed in 2015 as a result of the stabilisation of HBI.

## 2.8. Completion of the sale of the SEE network

On 17 July 2015, Heta and the consortium of bidders, consisting of the US fund Advent International (Advent) and the European Bank for Reconstruction and Development (EBRD), completed the closing for the share purchase agreement from 22 December 2014 regarding the sale of all shares in Hypo Group Alpe Adria AG (HGAA AG or "SEE Network") (Closing). The closing was preceded by a "pre-closing" on 30 June 2015, where the parties confirmed the existence and compliance with all of the major closing conditions that had been agreed. The remaining conditions precedent were confirmed during the closing on 17 July 2015. In line with the pre-closing, the resolution authority also approved the implementation of the closing by way of a non-prohibition.

A number of amendments to the transaction and financing documents were agreed to by buyer before the closing. These changes also related to commercial aspects, including the reduction of the maximum total volume of possible portfolio adjustment transactions after the closing ("Buyer Brush"), during the course of which Heta was required to assume corporate and public sector loans, along with assets not essential to the banking business, from Hypo Group Alpe Adria AG (HGAA) by the end of March 2016 at the historic net carrying amounts as at 31 December 2014. This total volume was reduced from EUR 800.0 million to EUR 600.0 million. In turn, a hedge for defaults in relation to a non-performing EUR 100.0 million (net exposure) retail portfolio of Hypo Group Alpe Adria AG (HGAA) was arranged for an amount of up to EUR 75.0 million. For the purpose of protecting the buyer's warranty, exemption and other claims from the share purchase agreement from 22 December 2014, which was required as a condition for the closing, the Republic of Austria had to provide the buyer with guarantees of EUR 1.7 billion in line with a "hedging instrument". The fee that was agreed for this purpose, and which must be paid by Heta, is 1.27 % of the assessment basis of EUR 1.7 billion as at 31 December 2015.

In the share purchase agreement, Heta provided the buyer with a number of different warranties and exemptions from certain risks. As a result of the statutory compulsory conversion of CHF loans in Croatia and Montenegro, the buyer, drawing on the exemption claims in the share purchase agreement, demanded that Heta compensate the corresponding conversion damages at the end of 2015. In addition, on 31 December 2015, the buyer of Hypo Group Alpe Adria AG (HGAA) also took Heta to task for additional claims under contractual warranties and other contractual exemption obligations for risks from legal disputes with customers and other legacies.

In March 2016, Heta and the buyer came to an agreement regarding a comprehensive settlement to clean up all contractual CHF exemption claims (credit and legal risks) and other outstanding items in connection with the share purchase agreement. As a result of the settlement, the contractual liability limits that apply to the relevant warranties and exemptions, and the maximum liability of the Republic of Austria under the hedging instrument with the buyer (and thus also the fee that Heta must pay to the Republic of Austria) were reduced. For the purpose of the settlement, the buyer must also ensure that Hypo Group Alpe Adria AG (HGAA) returns to Heta an amount of EUR 150.0 million (CHF denominated) as an early partial repayment of the credit lines provided by Heta as early as March 2016. In addition, the settlement also included an agreement regarding another reduction in the portfolio adjustment transactions that were agreed with the buyer ("Buyer Brush") to EUR

500.0 million (not taking into account the aforementioned hedging of defaults in relation to a non-performing retail portfolio), and the portfolio adjustments transactions that were agreed as a condition for the settlement were also implemented in March 2016. In turn, Heta waived credit lines (CHF denominated) of EUR 325.0 million vis-a-vis Hypo Group Alpe Adria AG (HGAA). The buyer's claims under the settlement were also secured by extending the already existing lien to the credit lines provided by Heta to Hypo Group Alpe Adria AG (HGAA). With regard to possible incidental costs, which are Heta's responsibility, the company provided the corresponding collateral. In the consolidated financial statement for 31 December 2015, the appropriate provisions were created both for the exemption and warranty risks resulting from the share purchase agreement, and the credit risks in connection with the "Buyer Brush".

For further details, please see note (129.2) Sale agreement regarding the reprivatization of the SEE network.

### **(3) Wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG)**

According to section 5 GSA, the wind-down of the portfolio is to be conducted according to a wind-down plan drawn up by the Executive Board and approved by the Supervisory Board. Pursuant to the legal opinion of the resolution authority, Heta is no longer required to prepare a strict Federal Act on the Creation of a Wind-down Entity (GSA) wind-down plan as part of the Federal Act on the Recovery and Resolution of Banks (BaSAG) regime. Rather, the resolution authority will conduct its own fair, cautious and realistic assessment of the assets and liabilities of Heta, which will also form the basis for the application of wind-down instruments. It is only on this basis that - as per the legal opinion held by the resolution authority - the company must prepare a wind-down plan according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) provisions ("BaSAG wind-down plan").

In order to define a clear disposal perspective for the assets of Heta in the Federal Act on the Creation of a Wind-down Entity (GSA), recognised directives for the measurement of assets were approved with the support of external advisors and auditors, which address the intended disposition objectives and the current market conditions that must be taken into account in this context. The assets of Heta were re-measured on the basis of these directives ("AQR, Asset Quality Review"). The results of the Asset Quality Review (AQR) were already taken into account in the consolidated financial statements for 2014, which was prepared in June 2015. During the course of the preparation of the consolidated financial statements for 31 December 2015, the Asset Quality Review (AQR) measurement guidelines were adjusted to current conditions, and Heta's assets were assessed accordingly on this basis.

Heta has completed its activities for planning the portfolio wind-down on the basis of the Federal Act on the Creation of a Wind-down Entity (GSA) objectives, and published the results of these activities, in an effort to create transparency for creditors and investors, as part of a company presentation on 20 October 2015 on the specially created platform ([www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Investor information 2015)). Another update was provided on 15 December 2015, which was also published on Heta's homepage.

Because of the legal situation described above, these statements may however not be viewed as the Federal Act on the Creation of a Wind-down Entity (GSA) wind-down plan or Federal Act on the Recovery and Resolution of Banks (BaSAG) wind-down plan, but rather as the (preliminary) medium-term plan for 2016-2020. The medium-term plan 2016-2020 was developed in accordance with the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG), and refers to the individual institute.

On 1 March 2015, the Financial Market Authority (FMA) initially ordered that the maturities of the debt instruments issued by Heta and the liabilities, along with the dates on which the applicable interest payments must be made, would be deferred until 31 May 2016. By that time, the resolution authority is supposed to have made a decision regarding the participation of creditors and any other instruments that may be applied in this respect. Such a participation of creditors in the form of a haircut would have far-reaching implications for the medium-term plan 2016-2020. The resolution authority notified Heta that no assumptions regarding the selection and effects of possible wind-down measures taken by the Financial Market Authority (FMA) may be included in the medium-term plan 2016-2020. Therefore, the following simplified and non-binding (i.e. purely planning-related) assumptions were made for the purpose of preparing the 2016-2020 medium-term plan:

- It is assumed that eligible liabilities in the Financial Market Authority (FMA) ordinance will not be serviced until 2020, and that the entire amount will be left at the status that existed on 1 March 2015 (the beginning of the moratorium). Interest expenses attributable to these liabilities will be recognised (accrued) analogous to the current payment days, but will not be paid. Default interest is not taken into account.
- The planned return flows from the reduction in Heta's financial and non-financial assets increase the cash liquidity position, since they are not used to pay the eligible liabilities. The cash liquidity is currently invested at the Austrian National Bank (OeNB).

- A steady reduction in assets (excluding cash liquidity) of approximately 80 % by the end of 2018 remains the intended wind-down objective. To achieve the targets, receivables and real estate are to be sold to investors mainly through individual transactions supported by portfolio transactions and the sale of entire companies.
- The planning assumptions relating to the receivables from Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) and Hypo Group Alpe Adria AG (HGAA) were examined separately, since these are still expected to remain in place after 2020 for term-related reasons. Similarly, some performing residential subsidy loans also have terms that go beyond the planning period. A decision as to how these transactions will be taken into account will be reviewed in the current financial planning for the years 2016 to 2020. Performing loans and securities with short residual terms (until 2020) are to be recovered through regular repayments and those with longer terms are to be liquidated in the medium term by being placed on the market.

Heta reached these planning-related assumptions independently for the 2016-2020 medium-term plan.

The resolution authority will conduct its own assessment pursuant to section 54 et seq. BaSAG, and to this end will draw on its own independent expert. In this context, deviations from the medium-term plan for 2016-2020, which was prepared by Heta, cannot be excluded, but rather can be expected. The resolution authority is continuously informed of the current status of the medium-term plan.

#### **(4) Repurchase offer from the State of Carinthia**

On the basis of the statutory authorisation pursuant to section 2a of the Federal Act on Financial Market Stability (FinStaG), the Kärntner Ausgleichszahlungs-Fonds (K-AF) on 20 January 2016 submitted offers for those Heta debt instruments for which the State of Carinthia and also the Kärntner Landes- und Hypothekenbank - Holding (KLH) have assumed a guarantee. The repurchase offer from the Kärntner Ausgleichszahlungs-Fonds (K-AF) regarding the purchase of all debt instruments that were issued by Heta and that are subject to the legally prescribed deficiency guarantees of the State of Carinthia and the Kärntner Landes- und Hypothekenbank - Holding (KLH), were submitted on 20 January 2016 and announced publicly on the following day. The offers include a payment for 75.0 % for non-subordinated debt instruments ("senior debt instruments") and 30.0 % for subordinated debt instruments. The offers expired on 11 March 2016, and required the approval of at least two-thirds of the affected creditors of non-subordinated and subordinated debt instruments.

On 14 March 2016, the Kärntner Ausgleichszahlungs-Fonds (K-AF) announced that the offers from the creditors of the debt titles were not accepted with the majorities that would be required under section 2a (4) FinStaG for the purchase of the debt instruments covered under the offers. Therefore the conditions for the purpose of the debt instruments covered by the offers, which were identified as conditions for the transaction in the offer document, have not been met. The Kärntner Ausgleichszahlungs-Fonds (K-AF) also notified that it was not interested in purchasing any of the debt instruments under the offers.

The repurchase offer of the Kärntner Ausgleichszahlungs-Fonds (K-AF) and their non-acceptance do not have any direct effect on Heta's consolidated financial statements for 31 December 2015, since they only pertain to the level between Heta's creditors and the Kärntner Ausgleichszahlungs-Fonds (K-AF) and thus are outside of Heta's sphere.

#### **(5) Effects of Federal Act on the Recovery and Resolution of Banks (BaSAG) and the haircut on the consolidated financial statements**

On 1 March 2015, the resolution authority (FMA) issued a decision ordering resolution measures according to Federal Act on the Recovery and Resolution of Banks (BaSAG), pursuant to which all so-called "eligible liabilities" of Heta were placed under a moratorium until 31 May 2016 in accordance with section 58 (1) (10) BaSAG in preparation for the application of the instrument which involves the participation of creditors.

The resolution authority, in exercise of its sole decision-making powers according to Federal Act on the Recovery and Resolution of Banks (BaSAG), will define the possible participation of creditors and in particular the amount and date on which the affected liabilities will be serviced in the future. Details regarding the form of the haircut are not known at this time. It can however be expected that such a participation of creditors, in compliance with the rank of the respective liabilities under insolvency law, will lead to a reduction in nominal values and the relevant interest claims.

The accounting consideration of such a reduction follows immediately after the effective date of a decision issued by the resolution authority, and will therefore have the corresponding effects on the balance sheet and income statement for the 2016 financial year.

In the consolidated financial statements for 31 December 2015, all of the liabilities that are covered by the ordinance and which are subject to the payment moratorium continue to be reported as liabilities in the balance sheet, regardless of whether they became due in 2015 pursuant to the contractual provisions. These liabilities are measured in consideration of accrued interest, whereby the relevant contractually agreed interest rate is used as a basis. Liabilities in foreign currency are measured in application of the European Central Bank (ECB) average rate on 31 December 2015. Because of the deferral effect that is legally imposed as per Federal Act on the Recovery and Resolution of Banks (BaSAG), no default interest is entered for the time period 1 March 2015 to 31 December 2015.

## **(6) General information regarding the consolidated financial statements**

On 17 March 2016, the Heta Executive Board released the consolidated financial statements for 31 December 2015 for publication by forwarding the same to the Supervisory Board. It is the responsibility of the Supervisory Board to review the consolidated financial statements and to indicate whether it approves the consolidated financial statements for 31 December 2015. The consolidated financial statements will be published in the Wiener Zeitung and at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com), Investor Relations → Financial reports & presentations). It will be disclosed in the commercial register and at Heta's address at 9020 Klagenfurt am Wörthersee, Alpen-Adria-Platz 1..

## **(7) Measurement basis: Gone concern assumption**

A group-wide measurement process for the assets that are relevant to the portfolio wind-down was initiated once the Federal Act on the Creation of a Wind-down Entity (GSA) went into full force at the end of October 2014 following Heta's transfer into a partially-regulated but not insolvency-proof wind-down unit. This measurement reflects the short- to medium-term intention in saturated markets within a wind-down period of five years, based on the assumption that 80 % of assets would be wound down by 2018.

After the initial interim results of the Asset Quality Review (AQR) were announced, which indicated an asset coverage shortfall between EUR -4.0 billion and EUR -7.6 billion, which was thus above the still available state aid range for capital measures approved by the EU Commission for EUR 2.9 billion, along with the expected implications for the company's capital and liquidity situation, Heta's owner, the Republic of Austria, announced on 1 March 2015 that no further measures would be taken with regard to Heta under the Federal Act on Financial Market Stability (FinStaG). Subsequently the FMA (resolution authority) issued a decision on 1 March 2015 ordering wind-down measures according the Federal Act on the Recovery and Resolution of Banks (BaSAG). This decision placed all so-called "eligible liabilities" of Heta under a moratorium until 31 May 2016.

Based on the amended business purpose, the implications of the Federal Act on the Creation of a Wind-down Entity (GSA), which calls for mandatory self-liquidation after the statutory wind-down objectives have been achieved, the complete disposal of units conducting new business, the over-indebtedness of the company and the Federal Act on the Recovery and Resolution of Banks (BaSAG) ordinance by the resolution authority, the Executive Board no longer had a basis for continuing to prepare the 2014 consolidated financial statements on the basis of the going concern premise. As a result, the consolidated financial statements for 31 December 2014 are based on the gone concern premise; this subsequently also applies to the consolidated financial statements for 31 December 2015.

It should be noted that section 67 of the Insolvency Act (IO, grounds for opening insolvency proceedings regarding over-indebtedness under insolvency law) does not apply to Heta in accordance with section 7 (1) GSA. In its medium-term planning activities (see also note (3) Wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG)), which must be prepared by the Executive Board, the Board does not provide for interest or capital repayments with regard to the company's debts. Therefore the contents and time-related aspects of the wind-down plan that must be prepared by the resolution authority pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG), and which forms the basis for the subsequent wind-down procedure, may deviate from Heta's medium-term plan, but must nevertheless ensure that Heta's ability to pay is maintained during the wind-down process. In addition, the orderly wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) will also depend on whether circumstances that put the wind-down process pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG) objectives and principles at risk will occur in the future.

## (8) Applicable accounting policies

The consolidated financial statements of Heta as at 31 December 2015 were drawn up in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU and include comparative figures for 2014. Please refer to note (9) Use of estimates and assumptions/main estimate uncertainties with regard to estimates and assumptions in accordance with the International Accounting Standard (IAS) 8. The consolidated financial statements of Heta as at 31 December 2015 were prepared based on the special conditions of a gone concern assumption in conformity with section 245a of the Austrian Commercial Code (UGB) and section 59a of the Austrian Banking Act (BWG) in accordance with Regulation (EC) No. 1606/2002 (the IAS Directive) of the European Parliament and the Council of 19 July 2002, on the basis of the IFRS and the International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) as well as their interpretations by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretation Committee (IFRIC).

The consolidated financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes, which also include segment reporting. The statement of financial position is generally structured by decreasing liquidity. Amounts due or realisable within twelve or more than twelve months after the reporting date pursuant to statutory maturities are described in Note (105) Remaining maturity. They are based on contractually agreed maturities and do take into account the implications of the decision of the resolution authority (FMA) of 1 March 2015 for the maturity of certain liabilities. For further details see note (2) Legal information and important events in 2015.

The consolidated financial statements of Heta are based on the reporting packages of all fully consolidated subsidiaries prepared in accordance with group standards and IFRS. All fully consolidated subsidiaries have drawn up their financial statements for the period ended 31 December. As required by IFRS 10, Heta applies uniform accounting principles throughout the group. The consolidated financial statements are generally prepared in line with the cost principle. The exceptions to this are derivative financial instruments and financial investments available-for-sale, as well as financial investments and liabilities which have been designated for measurement under the fair value principle. The carrying amounts of assets and liabilities shown in the statement of financial position, which are underlying transactions related to fair value hedges and would otherwise be recognised at amortised cost, are adjusted for changes in fair value which arise from hedged risks for effective hedging relationships.

Since the consolidated financial statements of Heta as at 31 December 2014, the measurement of assets and liabilities takes into account both the gone concern assumption (see note (7) Measurement basis: Gone concern assumption) as well as the requirements of the Federal Act on the Creation of a Wind-down Entity (GSA) and Federal Act on the Recovery and Resolution of Banks (BaSAG), provided they comply with international accounting standards (IAS/IFRS).

All figures in the consolidated financial statements are expressed in millions of euros (EUR m); the euro is the functional currency. The tables may contain rounding differences.

## (9) Use of estimates and assumptions/main estimate uncertainties

The consolidated financial statements contain values that have been calculated on the basis of discretionary decisions, estimates and assumptions. Significant estimate uncertainties exist in particular with regard to the calculation of the credit risk provisions, the calculation of the fair value, the measurements of equity investments, the measurement of legal risks and provisions, the recognition of deferred taxes for tax loss carry forwards, the treatment of latent tax risks, defined benefit plans and leasing contracts.

The assessment of the recoverability of problematic loans and leasing receivables includes an estimate regarding the amount, duration and probability of the expected repayments. This assessment is based on a detailed analysis of carefully devised assumptions, which however are subject to uncertainties. A different assessment of these assumptions may lead to markedly different valuations of the credit risk provisions. Therefore actual loan defaults may deviate from the credit risk provisions reported in these consolidated financial statements. Reference is hereby made to note (26) Risk provisions on loans and advances with regard to the methodological basis for the credit risk provisions.

With respect to financial instruments that are accounted for at the fair value and for which there is no active market, the fair value is calculated on the basis of measurement models. The applied input parameters - where available - relate to observable market-based data. Where this is not possible, the fair value must be calculated on the basis of estimates. Additional details regarding the measurement of financial instruments can be found in note (17) Financial instruments: Recognition and measurement (IAS 39).

The measurement of equity investments in non-consolidated companies mainly refers to real estate project companies. The value of these real estate project companies is verified regularly on the basis of the expert opinions, whereby these meas-

urements are based on cash flow forecasts developed on the basis of project- and market-specific terms and discounted interest rates.

Deferred tax assets for losses carried forward are only recognised when it is likely that future tax profits will be generated, which would allow for utilisation. Estimates are based on the respective business plans that in turn are based on a time horizon ending in 2020. Deferred tax assets that are utilised past this planning period are not recognised. With regard to the members of Heta's domestic tax group and the wind-down companies abroad, losses carried forward were not entered on the assets side due to the history of losses. Deferred taxes were only entered on the assets side if the intrinsic value is guaranteed regardless of future tax profits and if collection by the end of the planning horizon (2020) is considered likely. With regard to tax risks, such items are recognised in accordance with the recognition obligation pursuant to IAS 37. Deferred tax risks that are deemed unlikely to occur or the amount of which cannot be reliably estimated are not recognised as a provision or contingent liability.

With regard to the measurement of subsidiaries that are classified as held for sale under IFRS 5, these are recognised on the basis of the lower value of the book value and fair value less disposal costs. The fair value is calculated on the basis of available offers or, in the event that no binding offer was available by the balance sheet date, on the basis of the Heta-specific measurement guidelines; deviations from the actual sale price cannot be excluded.

In view of the continuing economic weakness in south-eastern Europe, it is also possible that additional provisions will have to be created for the existing loan and leasing portfolio. Accordingly, the uncertainties associated with the estimates and assumptions may lead to results that will require adjustments to the book values for the affected assets or provisions/debt in future periods.

## (10) Application of new and amended standards and EU Directives

The followed new or amended standards and interpretations according to IFRS and IAS, which were issued by the IASB and adopted by the European Union (EU), were applied by Heta for the first time in the 2015 financial year:

Standard	Description	Compulsory for annual period
Collective Standard	IFRS December 2013 (Improvements 2011-2013)	Annual Improvements IFRS 1, IFRS 3, IFRS 13, IAS 40 2015
IFRIC 21	Levies	Recognition of a liability for a levy 2015

The standards that must be applied by Heta to the consolidated financial statements for 31 December 2015 are described below.

The IASB has released a **collective standard (IFRS December 2013 – Improvement 2011-2013)**, which must be applied since 1 January 2015, and which includes the standards noted below. **IFRS 1** “First-time Adoption of International Financial Reporting Standards” includes a definition of IFRS 1.7 “all IFRS effective at the end of the reporting period”. It clarifies that companies that are preparing financial statements pursuant to IFRS for the first time have the choice between applying the existing and currently valid IFRS or the new or revised IFRS that are not yet mandatory - insofar as their earlier use is permitted. **IFRS 3** “Business Combinations”, with regard to the scope of exception for joint ventures, is expanded with the clarification that the accounting of the establishment of all types of joint arrangements is excluded from the financial statements of the joint arrangement itself. **IFRS 13** “Fair Value Measurement” includes a clarification regarding the application scope of the “portfolio exception”, whereby this concerns portfolios that are accounted for in accordance with IAS 39 “Financial Instruments” or IFRS 9 “Financial Instruments”. The amendment of **IAS 40** “Investment Property” includes the clarification that the provisions of IFRS 3 are authoritative with regard to the question whether the purchase of investment properties constitutes a business combination.

The interpretation **IFRIC 21** “Levies” is concerned with the accounting of obligations to the public sector, and provides guidelines as to when a liability must be recognised with regard to levies that are imposed by the government.

The adaptations of IAS/IFRS do not relate to Heta's situation, and therefore have no effect on the consolidated financial statements for 31 December 2015.

The following new or amended standards and interpretations according to IFRS and IAS, which were issued by the IASB and adopted by the European Union (EU), were not yet mandatory as at 31 December 2015. The group also did not opt for the early application of these standards in the 2015 financial year; they will be applied at Heta as of the compulsory dates.

Standard	Description	Compulsory for annual period	
IFRS 11	Joint Arrangements	Accounting for acquisitions of interests in joint operations	2016
IAS 19	Employee Benefits	Accounting for employee contributions	2016
Collective Standard	IFRS December 2013 (Improvements 2010-2012)	Annual Improvements IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 7, IAS 16/IAS 38, IAS 24	2016
IAS 16, IAS 38	Property, Plant and Equipment and Intangible Assets	Methods of depreciations and amortisation	2016
IAS 16 and IAS 41	Property, Plant and Equipment and Agriculture	Agriculture	2016
IAS 27	Separate Financial Statements	Equity method as an accounting option	2016
IAS 1	Presentation of Financial Statements	Statement initiative	2016
Collective Standard	IFRS September 2014 (improvements 2012-2014)	Annual improvements IFRS 5, IFRS 7, IAS 19, IAS 34	2016

The amendment to **IFRS 11** "Joint Arrangements" clarifies the accounting of acquisitions of interests in joint operations if this constitutes a business. Where interests are acquired in joint operations that constitute a business according to IFRS 3, all principles regarding the accounting of business combinations from IFRS 3 and other standards must be applied, as long as they are not contrary to the guidelines in IFRS 11.

**IAS 19** "Employee Benefits" clarifies the allocation of contributions from employees or those of third parties, which are linked to periods of service. In general, contributions from employees (or third parties) must be taken into account by the affected company, if it accounts for defined-benefit plans. In addition, relief is provided if the amount of the contributions is independent of the number of years in service.

The **collective standard (IFRS December 2013 – Improvement 2010-2012)**, which has been compulsory since 1 February 2015, includes amendments to the standards noted below: **IFRS 2** "Share-based Payment" clarifies the definition of "vesting conditions" and "market condition". The amendment also includes expanded definitions for "performance condition" and "service condition", which were previously part of the defined "vesting conditions". **IFRS 3** "Business Combinations" clarifies the accounting of conditional purchase price payments for acquisitions; these considerations must be classified as an asset or debt, and must be measured at the fair value on each reporting date. **IFRS 8** "Operating Segments" refers to the information in the notes regarding the aggregation of business segments and the obligation to provide various reconciliations of the segment assets to the group assets if the segment assets are reported regularly. The amendment of **IFRS 13** "Fair Value Measurement" relates to the option of measuring short-term receivables and liabilities without a defined interest rate and discounting at their invoice amount, as long as the effects from the lack of discounting are not material. **IAS 16** "Property, Plant and Equipment" clarifies the proportional adjustment of accumulated depreciation when using the revaluation model. **IAS 24** "Related Party Disclosures" includes a definition of related parties - these provide company management services for the reporting unit or parent company of the reporting unit - and their influence on the interpretation of the term "key management personnel". **IAS 38** "Intangible Assets" clarifies the proportional adjustment of accumulated amortisation when using the revaluation model.

The amended **IAS 16** "Property, Plant and Equipment" and **IAS 38** "Intangible Assets" also clarify the acceptable depreciation and amortisation methods. To this end, guidelines are provided, which consist of methods that can be used to depreciate and amortise tangible and intangible assets. They also include a discussion of revenue-based depreciation and amortisation methods. The amendments to standards **IAS 16** and **IAS 41** had the effect of transferring bearer plants into the application scope of IAS 16.

As a result of the amendments to **IAS 27** "Consolidated and Separate Financial Statements", the equity method may again be applied as an accounting option for investment in subsidiaries, joint ventures and associates in an investor's separate financial statements, in addition to accounting at acquisition costs or accounting in accordance with IFRS 9 "Financial Instruments" (or IAS 39 "Financial Instruments").

As a result of the information initiative relating to **IAS 1** "Presentation of Financial Statements", a number of recommendations, such as avoiding an excessive degree of detail so that useful information is not concealed, and meaningful cross references between connected sections of parts of reports, were integrated into the standard.



The **collective standard (IFRS September 2014 - Improvement 2010-2014)**, which was published by the IASB, is compulsory as of the financial years that begin on or after 1 July 2016. It contains amendments to the standards noted below. **IFRS 5** “Non-current Assets Held for Sale and Discontinued Operations” includes additional guidelines for cases in which a company decides to transfer an asset to shareholders as a distributions of non-cash assets. This leads to a need to reclassify the asset from the category “held for sale” to the category “held for distribution” and vice versa. **IFRS 7** “Financial Instruments: Disclosures” clarifies, with the goal of providing additional guidance, when and if a servicing contract through a portfolio of sold financial assets constitutes a continuing involvement. **IAS 19** “Employee Benefits” is expanded with a clarification regarding the “required currency equivalence of the interest rate with the commitment from the pension scheme”. **IAS 34** “Interim Financial Reporting” specifies that other selected information must be included in the notes for the interim financial statements in addition to the disclosure of important business transactions and events.

The recommendations to improve the presentation of financial statements, which were processed in line with IAS 1, were taken into account in the entire consolidated financial statements for 31 December 2015. The amended standard IFRS 8 in relation to the detailed presentation of discretionary decisions regarding the aggregation of segments according to certain criteria was taken into account and applied to the consolidated financial statements for 31 December 2015 (see note (43) Segment reporting). The remaining new or amended standards and interpretations according to IFRS and IAS, which were issued by the IASB and adopted by the European Union (EU), will not have an effect on future consolidated financial statements, based on the information available today.

The following new and amended standards and interpretations, which were issued by the IASB and not yet adopted by the EU, were not applied at an earlier date. The date of expected mandatory application is indicated below:

Standard	Description	(estimated) compulsory for annual period
IFRS 9	Financial instruments	Accounting for financial instruments 2018
IFRS 14	Regulatory Deferral Accounts	first-time adopters to IFRS 2016
IFRS 15	Revenue from Contracts with Customers	Recognition of revenues 2018
IFRS 16	Leases	Accounting for leases 2019
IFRS 10, IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures	Sold or contribution of assets 2016
to IFRS 10, IFRS 12, IAS 28	Consolidated Financial Statements, Disclosure of Interests in Other Entities	Use of consolidation exceptions year unknown
IAS 7	Cash flow statement	Disclosure of changes in payables from financing operations 2017
IAS 12	Taxes on income	Recognition of Deferred Tax Assets for Unrealised Losses 2017

On 24 July 2014, the IASB published the final version of the amended standard **IFRS 9** “Financial Instruments”, which consists mainly of changes pertaining to the classification and measurement of financial instruments, but also regulations in connection with impairments and hedge accounting. With this final version, the accounting of financial instruments, which has hitherto been performed under IAS 39 “Financial Instruments: Recognition and Measurement”, can now be entirely replaced by accounting according to IFRS 9.

In the future, there will only be the following three measurement categories, instead of the current four measurement categories under **IAS 39** (see note (17) Financial instruments: Recognition and measurement (IAS 39)) according to **IFRS 9**: “at amortised cost” (“AC category”), “fair value through other comprehensive income” (“FVTOCI category”) and “fair value through profit or loss”. The classification of financial assets depends on the entity’s business model for managing the financial assets and the characteristics of the contractual cash flows of the financial asset that is to be assessed.

In general, a uniform impairment model applies to all instruments in the application scope - it must be applied to “AC category financial assets”, “FVTOCI category financial assets”, financial guarantees in the application scope of **IFRS 9** (except for the voluntary measurements at the fair value recognised as income or expense), leasing receivables in the application scope of IAS 17 “Leases” and contract assets in the application scope of **IFRS 15** “Revenue from Contracts with Customers”. Restricted simplifications are provided for receivables from leases, contract assets and trade receivables. A measurement “at amortised cost” is only permitted if the payment flows associated with the financial instrument have the character of interest and capital repayments, and furthermore the financial instrument is held in a business model for the sole purpose of generating contrac-

tual cash flows. A measurement “fair value through other comprehensive income” is only applied if the payment flows associated with the financial instrument have the character of interest and capital repayments, and furthermore the financial instrument is held in a business model for the purpose of generating income from contractual cash flows and also the sale of financial instruments. Financial assets that cannot be attributed to this category must be measured at “fair value through profit and loss” according to IFRS 9. The impairment model is changed to a model in which companies, during the first-time recognition of financial assets, must enter a risk provision in the amount of the credit default that is expected within the next 12 months. Based on the recommendations, the transfer to the new impairment model must be done retrospectively, i.e. the adjustment effect must be entered in equity during the transfer. An adjustment to the previous year's figures is not provided for, but may be done on a voluntary basis if certain conditions are met.

IFRS 9 also contains new provisions for the accounting of hedging relationships, with the objective of ensuring that accounting activities are brought in line with risk management activities. In general, some of the restrictions to the current regulations were removed, leading to a greater selection of hedging instruments and hedged transactions for the accounting of hedging relationships.

IFRS 9 goes into force for financial years that begin on or after 1 January 2018. Until now, the European Union has not adopted any of the IFRS 9 sections, therefore Heta is not applying any of these sections at an earlier date.

The effect of the amended **IFRS 14** is that first-time adopters of IFRS who enter regulatory deferral account balances in accordance with their previous accounting principles are permitted to continue doing so after the transition to IFRS. This standard concerns an interim solution until the IASB completes its longer-term fundamental project on price-regulated business transactions.

The amendments to **IFRS 10** and **IAS 28** clarify the reporting of gains from transactions with associates or joint ventures. In the case of transactions with an associate or joint venture, the extent of the gain will depend on whether the sold or contributed assets constitute a business activity.

The amendment of **IAS 7** “Statement of Cash Flows” in line with the disclosure initiative pursues the objective that a company must provide information that enables the recipients of financial statements to assess changes in liabilities from financial debt. In this vein, the IASB also requires the disclosure of additional information regarding changes to debt capital as a result of financing activities.

In the future, and with regard to joint ventures, the amended standards **IFRS 10**, **IFRS 12** and **IAS 28** are supposed to address a number of situations that arise from the consolidation exemption for investment companies.

The new **IFRS 15** “Revenues from Contracts with Customers” stipulates when and at what amount revenues must be recognised by an IFRS reporting entity. All IFRS adopters are required to apply this standard.

It is expected that the application of IFRS 9 will have a significant impact on the classification and measurement of financial instruments and reporting; however, further analysis is required before a reliable assessment of these effects can only be provided. Similarly, the extent to which the new standard IFRS 15 will result in additional action or an impact on/change to future consolidated financial statements can also only be assessed after an analysis. The disclosure initiative regarding IAS 7 will have an effect on the consolidated financial statements in the future. During the course of the cash flow statement, information regarding changes to debt capital as a result of financing activities will be considered in detail. The new or amended standards and interpretations according to IFRS and IAS, which were issued by the IASB and adopted by the European Union (EU), will not have an effect on future consolidated financial statements.

With regard to the reporting of non-financial corporate aspects, some companies will have to comply with additional regulatory requirements in the future. In general, non-financial performance indicators and corporate aspects must already be included in the management report according to section 241 of the Austrian Commercial Code (UGB). The Austrian Commercial Code (UGB) contains only very vague information regarding the legal requirements for the management report - details and more specific information is provided by the Austrian Financial Reporting and Auditing Committee (AFRAC) in its statement on this issue. In addition, the Austrian Corporate Governance Code contains specific requirements for disclosing various information; additionally, companies have often prepared voluntary sustainability reports or integrated reports designed to offer investors better insights into the company's situation.

Non-financial corporate aspects are becoming more important, and regulatory decision-makers have reacted accordingly to this development. The legal requirement to include non-financial performance indicators in the management report was already introduced with the Financial Reporting Amendment Act of 2004 (ReLÄG 2004). The extension of reporting to non-financial issues was continued with the regulatory amendments for the disclosure of non-financial company-specific information with the EU Directive 2014/95/EU, which was adopted in November 2014. It stipulates the “disclosure of non-financial information affecting diversity by certain large companies and groups”. Heta is affected by the application scope of the EU directive because it is a group in the public interest. This means that Heta must publish the non-financial statement either separately or as a part of the management report for the 2017 financial year.

As a result of the new EU directive, additional information, such as a description of the business model and the concepts that are pursued, along with the due diligence processes and descriptions of key issues related to the company's business activities (e.g. environmental, social and employee issues, protection of human rights, etc.), must be provided in the management report or a separate report, in addition to the non-financial information from the management report. To provide this information, Heta will rely on various frameworks (e.g. Global Reporting Initiatives), as recommended by the EU - a statement from the EU on this issue is expected by the end of 2016.

## (11) Scope of consolidation

### 11.1. Change in the scope of consolidation

The consolidated financial statements include 15 (2014: 15) domestic and 57 (2014: 63) foreign companies, including Heta. The development of the scope of consolidation is as follows:

	2015		2014	
	Fully consolidated	Equity method	Fully consolidated	Equity method
<b>Start of period (1.1.)</b>	<b>74</b>	<b>4</b>	<b>84</b>	<b>2</b>
Newly included in period under review	0	0	9	2
Merged in period under review	0	0	0	0
Excluded in period under review	-6	0	-19	0
Reclassified	0	0	0	0
<b>End of period (31.12.)</b>	<b>68</b>	<b>4</b>	<b>74</b>	<b>4</b>
thereof Austrian companies	13	2	13	2
thereof foreign companies	55	2	61	2

For additional information, please refer to note (137) Scope of consolidation. No companies were included in the consolidated financial statements for the first time in the 2015 financial year.

The following eleven companies were included in the consolidated financial statements for the first time in the 2014 financial year:

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
Tridana d.o.o.	Ljubljana	100.0	Fully consolidated	Materiality
HETA 2014 Tanácsadó Kft	Budapest	100.0	Fully consolidated	Foundation
HYPO Alpe-Adria-Leasing, družba za financiranje d.o.o. (ehem. HYPO CB d.o.o.)	Ljubljana	100.0	Fully consolidated	Materiality
Saraxe Beteiligungsverwaltungs GmbH	Vienna	100.0	Fully consolidated	Materiality
HYPO PREP d.o.o.	Ljubljana	100.0	Fully consolidated	Materiality
O-CENTER d.o.o.	Maribor	100.0	Fully consolidated	Materiality
HYPO GALERIJA d.o.o.	Zagreb	100.0	Fully consolidated	Materiality
SKORPIKOVA PSOLOVNI CENTAR d.o.o.	Zagreb	100.0	Fully consolidated	Materiality
Prep Management d.o.o.	Ljubljana	100.0	Fully consolidated	Materiality
LANDTRUST DOO BEOGRAD	Belgrade	50.0	Equity method	Materiality
HYPO PARK DOBANOVCI DOO BEOGRAD	Belgrade	50.0	Equity method	Materiality

During the 2015 financial year, a total of six (2014: 19) fully-consolidated subsidiaries, but no (2014: 0) company accounted for at equity were excluded from the scope of consolidation.

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
HBInt Credit Management Limited, Jersey Island	St.Helier - Jersey	51.0	Fully consolidated	Immateriality
Carinthia I Limited	St.Helier - Jersey	51.0	Fully consolidated	Immateriality
Carinthia II Limited	St.Helier - Jersey	51.0	Fully consolidated	Immateriality
Norica Investments Limited	St.Helier - Jersey	51.0	Fully consolidated	Immateriality
GRAND HOTEL LAV d.o.o.	Podstrana	100.0	Fully consolidated	Sale
TERME SPA ROGASKA D.D.	ROGAŠKA SLATINA	100.0	Fully consolidated	Immateriality

The consistent wind-down of Heta's investment portfolio continued in the 2015 financial year. In this context, the sale of GRAND HOTEL LAV d.o.o. was completed during the second half of 2015. The sale resulted in a result of approximately EUR -3.6 million, which must still be taken into account. Companies whose importance to Heta was reduced or became insignificant due to reduced business activities or a planned liquidation, are excluded from the scope of consolidation:

Norica Investments Limited was founded in 2008 together with a co-investor for the purpose of buying, selling, lending and holding certain investments. Because of the Federal Act on the Recovery and Resolution of Banks (BaSAG) measures and Heta's deregulation, the original business purpose no longer applied and thus it was agreed with the co-investor that the company would be wound down. With regard to Norica Investments Limited, the two owners of the company decided to wind down the company on 26 November 2015. Following the distribution of investments to the investors, the company is now in liquidation.

HBInt Credit Management Limited holds the participations in the two investment companies Carinthia I Limited and Carinthia II Limited. Because of the Federal Act on the Recovery and Resolution of Banks (BaSAG) measures and Heta's deregulation, the original business purpose no longer applied and thus it was agreed with the co-investor that the company would be wound down. The assets were sold and the cash resources were paid back. With regard to Carinthia I Limited and Carinthia II Limited, the two owners of the company decided to wind down the company on 15 December 2015. Following the distribution of investments to the investors, the company is now in liquidation. Details regarding Norica Investments Limited and HBInt Credit Management Limited can be found under note (12.3) Closure of securities investment companies (minority companies). All assets of TERME SPA ROGASKA D.D. were sold in March 2015, and the employees were transferred to the new owners. The equity remaining in the company was paid back to the owner in December 2015, and the liquidation was completed on 23 December 2015. For additional details, please refer to note (12.2) Disposal of participations and assets.

The following 19 subsidiaries were excluded from the scope of consolidation during the 2014 financial year:

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
HYPO ALPE-ADRIA-LEASING TOV	Kiev	100.0 %	Fully consolidated	Sale
Hypo Alpe-Adria Jersey Limited	St. Helier - Jersey	100.0 %	Fully consolidated	Immateriality
Hypo Alpe-Adria (Jersey) II Limited	St. Helier - Jersey	100.0 %	Fully consolidated	Immateriality
HYPO ALPE-ADRIA-BANK S.P.A.	Udine	100.0 %	Fully consolidated	Sale
HYPO SERVICE S.R.L.	Tavagnacco	100.0 %	Fully consolidated	Sale
Saraxe Beteiligungsverwaltungs GmbH	Vienna	100.0 %	Fully consolidated	Merger
ZAJEDNIČKI INFORMACIJSKI SUSTAVI d.o.o.	Zagreb	100.0 %	Fully consolidated	Immateriality
<b>HGAA GROUP</b>				
HYPO GROUP ALPE ADRIA AG (former Hypo SEE Holding AG)	Klagenfurt/WS	100.00 %	Fully consolidated	Sale
HYPO ALPE-ADRIA-BANK d.d.	Zagreb	100.00 %	Fully consolidated	Sale
HYPO ALPE-ADRIA-LEASING d.o.o.	Zagreb	100.00 %	Fully consolidated	Sale
HYPO ALPE-ADRIA-INVEST d.d.	Zagreb	100.00 %	Fully consolidated	Sale
HYPO ALPE-ADRIA-BANK d.d.	Ljubljana	100.00 %	Fully consolidated	Sale
HYPO Alpe-Adria-Leasing, družba za financiranje d.o.o. (former HYPO CB d.o.o.)	Ljubljana	100.00 %	Fully consolidated	Sale
HYPO ALPE-ADRIA-BANK AD BEOGRAD	Belgrade	100.00 %	Fully consolidated	Sale
HYPO ALPE-ADRIA-BANK d.d.	Mostar	100.00 %	Fully consolidated	Sale
HYPO-ALPE-ADRIA-INVEST d.o.o. Mostar	Mostar	100.00 %	Fully consolidated	Sale
Hypo Alpe-Adria-Bank A.D. Banja Luka	Banja Luka	99.80 %	Fully consolidated	Sale
Hypo Alpe-Adria-Leasing d.o.o. Banja Luka	Banja Luka	100.00 %	Fully consolidated	Sale
HYPO ALPE-ADRIA-BANK A.D. PODGORICA	Podgorica	100.00 %	Fully consolidated	Sale

## 11.2. Subsidiaries with material non-controlling interests

At the end of 2015, two companies with material non-controlling interests were included in Heta's scope of consolidation.

The ownership portion of the non-controlling interests can be described as follows:

Company	Registered office	2015	2014
HBInt Credit Management Limited	St. Helier - Jersey	49.0 %	49.0 %
Norica Investments Limited	St. Helier - Jersey	49.0 %	49.0 %

These companies were removed from Heta's scope of consolidation at the end of 2015. For additional information, please refer to note (11.1) Change in the scope of consolidation. HBInt Credit Management Limited holds the participations in the two investment companies Carinthia I Limited and Carinthia II Limited, also domiciled in St. Helier (Jersey).

For the 2015 financial year, the following profits/losses prior to the elimination of intragroup income and expenses must be allocated to these two companies:

EUR m

	HBInt Credit Management Limited	Norica Investments Limited
<b>Net interest income</b>	<b>3.0</b>	<b>8.9</b>
Gains/losses on financial instruments that are not measured at fair value	1.6	0.4
Result from trading	0.0	0.0
Result from financial investments – designated at fair value through profit or loss	1.1	0.0
Other operating result	0.0	0.0
<b>Operating income</b>	<b>5.7</b>	<b>9.3</b>
Income from write-ups for financial assets	18.5	0.0
<b>Operating income after impairment</b>	<b>24.2</b>	<b>9.3</b>
Other administrative expenses	0.0	-0.7
<b>Operating expenses</b>	<b>0.0</b>	<b>-0.7</b>
<b>Operating result</b>	<b>24.2</b>	<b>8.6</b>
<b>Result before tax from continued operation</b>	<b>24.2</b>	<b>8.6</b>
<b>Result after tax from continued operation</b>	<b>24.2</b>	<b>8.6</b>

The following profits/losses were allocated in 2014:

EUR m

	HBInt Credit Management Limited	Norica Investments Limited
<b>Net interest income</b>	<b>5.4</b>	<b>14.1</b>
Gains/losses on financial instruments that are not measured at fair value	-7.1	0.0
Result from trading	0.0	-1.2
Result from financial investments – designated at fair value through profit or loss	4.7	0.0
Other operating result	0.1	0.0
<b>Operating income</b>	<b>3.1</b>	<b>12.9</b>
Impairment of financial assets	-11.8	0.0
<b>Operating income after impairment</b>	<b>-8.7</b>	<b>12.9</b>
Other administrative expenses	-0.4	-0.3
<b>Operating expenses</b>	<b>-0.4</b>	<b>-0.3</b>
<b>Operating result</b>	<b>-9.1</b>	<b>12.6</b>
<b>Result before tax from continued operation</b>	<b>-9.1</b>	<b>12.6</b>
<b>Result after tax from continued operation</b>	<b>-9.1</b>	<b>12.6</b>

As at 31 December 2015, non-controlling interests will be allocated EUR 12.0 million of the group result (2014: EUR -4.3 million) with regard to HBInt Credit Management Limited, Jersey, whereby the non-controlling interests does not participate in administrative expenses. The annual result of Norica Investments Limited, Jersey, which is attributable to the non-controlling interests, is EUR -0.4 million after the distribution of investments (2014: EUR 21.6 million).

The dividends paid to non-controlling interests at HBInt Credit Management Limited amount to EUR 0.9 million (2014: EUR 3.1 million) and EUR 14.5 million at Norica Investment Limited, taking into account the special dividend (2014: EUR 10.1 million).

HBInt Credit Management Limited, Jersey, and Norica Investments Limited were excluded from Heta's scope of consolidation in the 2015 financial year (for additional details, please refer to note (11.1) Change in the scope of consolidation). As a result, no assets and liabilities are reported for HBInt Credit Management Limited and Norica Investments Limited in the consolidated financial statements for 31 December 2015.

The assets and liabilities of the two companies as at 31 December 2014 were represented as follows:

EUR m

	HBInt Credit Management Limited	Norica Investments Limited
Loans and advances to credit institutions	198.5	99.9
Risk provisions on loans and advances to credit institutions	0.0	0.0
Loans and advances to customers	109.1	171.7
Risk provisions on loans and advances to customers	-18.5	0.0
Derivative financial instruments	0.0	0.0
Financial investments – designated at fair value through profit or loss	184.1	239.8
Financial investments – available-for-sale	47.5	0.0
Other liabilities	-0.2	0.0
<b>Equity</b>	<b>520.4</b>	<b>511.3</b>

The statement of cash flows for HBInt Credit Management Limited and Norica Investments Limited for the 2015 financial year is as follows:

EUR m

	HBInt Credit Management Limited	Norica Investments Limited
<b>Cash and cash equivalents at end of previous period (1.1.)</b>	<b>0.0</b>	<b>0.0</b>
Cash flows from operating activities	548.1	517.7
Cash flows from investing activities	0.0	0.0
Cash flows from financing activities	-548.1	-517.7
<b>Cash and cash equivalents at end of period (31.12.)</b>	<b>0.0</b>	<b>0.0</b>

The statement of cash flows for the 2014 financial year was as follows:

EUR m

	HBInt Credit Management Limited	Norica Investments Limited
<b>Cash and cash equivalents at end of previous period (1.1.)</b>	<b>0.0</b>	<b>0.0</b>
Cash flows from operating activities	10.2	10.1
Cash flows from investing activities	-7.1	0.0
Cash flows from financing activities	-3.1	-10.1
<b>Cash and cash equivalents at end of period (31.12.)</b>	<b>0.0</b>	<b>0.0</b>

### 11.3. Investments in joint ventures

Heta holds a 50 % interest in Heta-BA Leasing Süd GmbH, which is classified as a joint venture according to IFRS 11. This company functions purely as a holding company with subsidiaries that are located in Croatia and Slovenia and that process real estate lease agreements. The group's investment in Heta-BA Leasing Süd GmbH is included in the consolidated financial statements using equity consolidation.

The reconciliation of the financial information pursuant to the Austrian Commercial Code (UGB) with the carrying amount of the investment in Heta-BA Leasing Süd GmbH as at 31 December is as follows:

EUR m

	2015	2014
Current asset	4.5	0.8
Non-current assets	2.0	2.0
Provisions	0.0	0.0
<b>Equity</b>	<b>6.5</b>	<b>2.8</b>
Percentage interest	50.0 %	50.0 %
<b>Carrying amount of the investment</b>	<b>3.3</b>	<b>1.4</b>

Current assets include payment instruments of EUR 4.5 million (2014: EUR 0.8 million).

The income statement of Heta-BA Leasing Süd GmbH as at 31 December of the financial year is as follows:

EUR m

	2015	2014
Other operating expenses	0.0	0.0
Financial expenses	3.8	0.0
<b>Profit from ordinary activities</b>	<b>3.7</b>	<b>0.0</b>
Taxes on income	0.0	0.0
<b>Net income</b>	<b>3.7</b>	<b>0.0</b>
Attributable to equity holders of parent	1.9	0.0

Heta has a 20 % stake in Hypo Park Dobanovci d.o.o. Beograd. It also has a 50 % voting share in Hypo Park Dobanovci d.o.o. Beograd. The reconciliation of the financial information with the carrying amount of the investment in Hypo Park Dobanovci d.o.o. Beograd as at 31 December is as follows:

EUR m

	2015	2014*
Current asset	0.1	0.1
Non-current assets	1.5	10.4
Current liability	-14.6	-14.6
Provisions	-10.0	-8.6
<b>Equity</b>	<b>-23.0</b>	<b>-12.8</b>
Percentage interest	20.0 %	20.0 %
<b>Carrying amount of the investment</b>	<b>0.0</b>	<b>0.0</b>

\*) figures from the previous year were adjusted

The income statement of Hypo Park Dobanovci d.o.o. Beograd for the last two financial years is as follows:

EUR m

	2015	2014
Other operating expenses	0.0	-0.1
Financial expenses	-1.5	-2.6
<b>Profit from ordinary activities</b>	<b>-1.5</b>	<b>-2.6</b>
Taxes on income	0.0	0.0
<b>Net loss according UGB/BWG</b>	<b>-1.5</b>	<b>-2.6</b>
Attributable to equity holders of parent	-0.3	-0.5



The reconciliation of the financial information with the carrying value of the 50 % investment in Landtrust d.o.o. Beograd for the past two financial years is as follows:

EUR m

	2015	2014
Current asset	0.0	0.0
Non-current assets	1.2	2.0
Current liability	-0.1	-0.1
Provisions	0.0	0.0
<b>Equity</b>	<b>1.0</b>	<b>1.9</b>
Percentage interest	50.0 %	50.0 %
<b>Carrying amount of the investment</b>	<b>0.5</b>	<b>0.7</b>

The income statement of Landtrust d.o.o. Beograd as at 31 December is as follows:

EUR m

	2015	2014
Other operating expenses	0.0	0.0
Financial expenses	0.0	0.0
<b>Profit from ordinary activities</b>	<b>0.0</b>	<b>0.0</b>
Taxes on income	0.0	0.0
<b>Net income/loss</b>	<b>0.0</b>	<b>0.0</b>
Attributable to equity holders of parent	0.0	0.0

#### 11.4. Shares in associated companies

Bergbahnen Nassfeld Pramollo AG operates ski lifts in Carinthia, and is included in the consolidated financial statements via equity consolidation at 29.5 %. The reporting day for the financial statements is different from that of the group, since the balance sheet is prepared as at the 30 April reporting day.

The reconciliation of the financial information according to the Austrian Commercial Code (UGB) with the carrying amount of the investment in Bergbahnen Nassfeld Pramollo AG is as follows:

EUR m

	30.4.2015	30.4.2014
Current asset	2.5	2.3
Non-current assets	37.3	36.4
Current liability	-4.5	-6.2
Non-current liability	-11.2	-10.9
Provisions	-0.3	-0.3
<b>Equity</b>	<b>23.8</b>	<b>21.3</b>
Percentage interest	29.5 %	29.5 %
<b>Carrying amount of the investment</b>	<b>0.0</b>	<b>0.0</b>

The income statement for Bergbahnen Nassfeld Pramollo AG is as follows:

EUR m

	1.5.2014 - 30.4.2015	1.5.2013 - 30.4.2014
Revenues	12.5	13.4
Own work capitalized	0.1	0.1
Other income	1.2	1.4
Cost of materials	-4.8	-4.7
Personnel expenses	-0.2	-0.2
Depreciation and amortisation	-3.6	-3.6
Other operating expenses	-4.2	-4.3
Financial expenses	-0.6	-0.6
<b>Profit from ordinary activities</b>	<b>0.5</b>	<b>1.6</b>
Extraordinary result	0.3	0.0
Taxes on income	-0.1	-0.1
<b>Net income/loss</b>	<b>0.7</b>	<b>1.5</b>
Attributable to equity holders of parent	0.2	0.5

## (12) Winding down investment companies and portfolio sales

### 12.1. Sales activities

Additional progress was already made during the 2015 financial year during the wind-down of investment holdings. In addition to the winding down of investment companies and portfolios, Heta focused on the reduction of assets (primarily real estate).

For the purpose of achieving the best and quickest possible process for the wind-down and liquidation of the properties, "Fit for Sale" activities and priorities were set, and the relevant tasks were also transferred to the countries. These are used to prepare the sales-relevant documentation, and to warrant the evaluation and implementation of value retention measures for real estate. The relevant group guidelines were developed and rolled out across the group with the objective of standardising the process. These measures are also designed to significantly accelerate the process required for the wind-down procedure.

For the purpose of ensuring the accelerated reduction of Heta assets in the future, a project team was set up at the beginning of 2014, which is concerned with the structured preparation of planned portfolio sales, with the objective of preparing non-performing loans (NPL) portfolios and offering them on the market. The project involved the development of a standardised "Data Tape" and the definition of minimum requirements for a data room, with the final objective of recommending possible portfolios that are subsequently subjected to a structured sale process.

In this context, there are several projects in the preparation stage, or for which a marketing process has already been initiated. They include the "DRAVA" project, which consists of a virtually unsecured non-performing loans (NPL) portfolio from the countries Croatia, Bosnia, Montenegro, Serbia, Slovenia and Austria. The "PATHFINDER" project consists of a non-performing loans (NPL) portfolio, but secured loans to Croatian borrowers. Industry-specific portfolios, such as the financing of photovoltaic facilities in Germany, are also set to be sold in the near future.

### 12.2. Disposal of participations and assets

The wind-down of the investment portfolio was continued during the 2015 financial year, with the result that the level of complexity at Heta was reduced accordingly.

In addition to a large number of individual transactions, the following key participations or assets were also sold in 2015:

- Sale of Slovenian Terme Spa ROGASKA d.d. to the best bidder following the wholesale transfer of all supplier contracts and employees, and registration in the land register in March 2015,
- Transfer of Croatian Grand Hotel LAV d.o.o., including Grand Marina Lav d.o.o., after a preparation period of more than two years, on 14 October 2015,
- The sale agreements for the Macedonian group leasing company Heta Asset Resolution Leasing DOOEL Skopje were signed in December 2015 (signing), the closing is expected to be completed in the first half of 2016.

The sales procedures for a large tourism project could not be completed, despite efforts that have spanned several years. Following the completion of technical and financial due diligence carried out by the interested parties, several binding offers

have been submitted, which are currently being negotiated. The Heta Executive Board expects that the transaction will be completed by mid-2016.

The sale of the wholly-owned subsidiary Centrice Real Estate GmbH (Centrice) and its subsidiaries was publicly tendered in August 2015. A well-known investment bank was engaged to assist with this project as an M&A advisor, in order to support the sales process and secure a global search for investors. Centrice had already been prepared for this sale project over the course of the last two years. During the course of this process, 31 performing real estate properties in Slovenia, Croatia, Serbia, Bosnia-Herzegovina and Macedonia were combined in this management holding company. The public tender has elicited the corresponding investor interest, and the sales process is proceeding very satisfactorily. Following a number of expressions of interest, the commercially best offers were selected from the available non-binding offers in 2015. The data room for the final due diligence phase was opened in mid-November 2015. Following the receipt of binding offers at the beginning of March 2016, additional discussions and negotiations will be commenced following an in-depth review. The sales process should be completed quickly, but in all cases within the next six months.

### 12.3. Closure of securities investment companies (minority companies)

Norica Investment Ltd., domiciled in Jersey (Channel Islands), was established in 2008 together with a 49,0 % co-investor (as a minority shareholder). The purpose of the company was to buy, sell, lend and hold certain financial investments (securities).

HBInt Credit Management Limited and its downstream subsidiary units (Carinthia Ltd. and Carinthia II Ltd.) are also domiciled in Jersey (Channel Islands) and were established in 2005 together with a 49,0 % co-investor (as the minority shareholder). The business purpose of the two companies concerned the purchase, sale and holding of certain investments.

Due to the fact that Heta is no longer subject to the equity capital requirements as a result of the deregulation, a key business purpose of Norica Investment Ltd. and HBInt Credit Management Limited no longer applies, and it was agreed with the respective co-investor that the companies would be wound down. With the involvement of the resolution authority and the co-investor, the liquidation resolutions of the shareholders for Norica Investment Ltd. and HBInt Credit Management Limited were adopted on 26 November 2015 and 15 December 2015 respectively. The liquidation process was commissioned and at this time it is expected that it will be completed at the latest in the third quarter of the next financial year (2016). The corresponding shareholder resolutions and the Shareholding Structure Termination Deed, along with the shareholder agreement regarding the sale of the existing investments form the primary legal basis for the dissolution of the companies.

For additional details, please refer to note (11.1) Change in the scope of consolidation.

## (13) Mergers and acquisitions

There were no mergers and acquisitions of shares or companies during the 2015 financial year.

## (14) Consolidation methods

Business combinations are accounted for in accordance with IFRS 3 (Business Combinations) using the acquisition method. All identifiable assets and liabilities of the respective subsidiary are recognised at their acquisition-date fair values. The cost of a company acquisition is calculated from the total consideration transferred measured at fair value at the date of acquisition plus the non-controlling interests in the acquired company. At initial recognition, goodwill is measured at cost, which is the excess of total consideration transferred plus the amount of non-controlling interest in the acquired identifiable assets and transferred liabilities of the group. If the difference is negative after another check, the amount is recognised immediately in profit or loss. The carrying amount of goodwill is subjected to an impairment test at least once a year.

The date of first-time consolidation is the date when control is obtained. Subsidiaries acquired during the year are included in the statement of comprehensive income as from the date of acquisition. The results of subsidiaries sold during the year are included in the statement of comprehensive income until the date of disposal.

For reporting shares in joint ventures the equity method has been used for consolidation and the carrying amount determined by the equity method is shown separately in the statement of financial position. There are in total four companies included in the consolidation which have been accounted for using the equity method.

If a further interest is acquired in a company in which there was an interest of less than 100,0 % but which is already fully consolidated, any differences in value are recognised as transactions with non-controlling shareholders in equity, without impact on profit or loss.

In the course of eliminating intragroup balances, loans and receivables between consolidated subsidiaries are eliminated in full. In the same way, intragroup income and expenses are eliminated within the framework of expense and income consolidation.

Interests in equity attributable to non-group shareholders and the non-group share in profit or loss of consolidated subsidiaries are recognised separately in equity and in the income statement under the item non-controlling interest. A subsidiary's comprehensive income is recognised in non-controlling interests even if this results in a loss.

### (15) Foreign currency translation

Foreign currency conversion at Heta is performed in accordance with the provisions of IAS 21. Therefore all monetary assets and debt must be converted at the exchange rate that applies at the end of the period. Unless the monetary item forms a part of a net investment in a foreign business operation, the result from the conversion is generally recognised in the income statement under the trading result item.

Non-completed futures transactions are converted at the forward rate on the balance sheet date.

Income and expenses are converted at the average rate for the period, as long as exchange rates do not fluctuate to a significant degree. The resulting conversion differences are entered in other comprehensive income (OCI) under the currency reserves. The amount entered in other comprehensive income for a foreign business operation is reclassified into the income statement when this foreign business operation is sold.

Currency differences that are proportionately attributed to minority interests are recognised as a part of the non-controlling interests.

In the case of the two Serbian leasing subsidiaries, such as Blok 67 Associates d.o.o. Beograd, which was consolidated for the first time in 2013, the functional currency is not the local currency (RSD) but the Euro. Therefore monetary items are translated taking into account the change in the exchange rate between the Euro and the respective foreign currency. Non-monetary items are accounted for as EUR assets. The local currency forms the functional currency for all other companies.

IAS 29 "Financial reporting in Hyperinflationary Economies" is not used as it does not apply to Heta.

The following exchange rates as published by the European Central Bank (ECB) and the Austrian National Bank (OeNB) were used for the conversion of foreign annual financial statements:

Foreign currency translation Rates in units per EUR	closing date		closing date	
	31.12.2015	Average 2015	31.12.2014	Average 2014
Bosnian mark (BAM)	1.95580	1.95580	1.95580	1.95580
Croatian kuna (HRK)	7.63800	7.62110	7.65800	7.63420
Swiss franc (CHF)	1.08350	1.07520	1.20240	1.21390
Serbian dinar (RSD)	121.62610	120.77860	120.95830	117.15660
Hungarian forint (HUF)	315.98000	310.04460	315.54000	308.98690
Bulgarian lev (BGN)	1.95580	1.95580	1.95580	1.95580
Ukrainian hrywnja (UAH)	26.22310	24.01610	19.23290	15.63830
Macedonian denar (MKD)	61.59470	61.59580	61.48140	61.62310

### (16) Income/Expenses

In accordance with IAS 18, income is recognised when it is probable that the group will derive an economic benefit from it and the amount can be reliably determined, regardless of the point in time in which payment is made. Income is measured at the fair value of consideration received or to be claimed, taking into account contractually stipulated payment terms and conditions, but without taking into account taxes or other fees. Income from dividends are recognised at the time that a legal right to payment arises. The interest income and interest expense on financial instruments recognised at amortised cost and those financial investments available for sale on which interest is to be paid are recognised using the effective interest method: the effective interest rate is the rate that exactly discounts as estimated future cash payments or receipts through the expected life of the financial instruments or, if appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

### (17) Financial instruments: Recognition and measurement (IAS 39)

In accordance with IAS 39, all financial assets and liabilities must be recognised in the statement of financial position. Financial instruments are initially recognised at their fair value (usually the acquisition costs). Financial assets or liabilities which are not designated at fair value through profit or loss include transaction costs directly incurred by the acquisition of an asset

or the issue of a liability. Recognition and derecognition of derivatives and regular way contracts are recorded at Heta on the trade date.

Financial assets are derecognised when the contractual rights to the cash flows expire or when the transfer qualifies for derecognition under IAS 39. Financial liabilities are derecognised when the obligation has been paid or has expired.

Fair value is the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In general, the fair value of a financial asset is determined by reference to quoted prices on the main market. The main market is that market where the financial instrument is most active. If no quoted price is available, the quoted price of similar assets or liabilities is applied or the fair value is determined on the basis of generally accepted valuation models. If there are no market parameters available due to lack of liquidity in the market, estimates of benchmark parameters are made on the basis of similar markets and instruments and are used in standard models to measure the value of the instrument. Care is taken to select similar framework conditions such as similar creditworthiness, similar term, similar payment structure or a closely-linked market, in order to arrive at the best possible market benchmark.

When applying valuation models, fair value is determined based on observable prices and market parameters. If none can be determined, then the parameters must be estimated by experts on the basis of past experience with an appropriate risk premium applied.

For the purposes of subsequent measurement, financial assets are divided into four categories in accordance with IAS 39:

- Financial assets at fair value through profit or loss
  - a) Held for trading
  - b) Financial assets designated at fair value through profit or loss
- Held to maturity investments
- Loans and receivables
- Available-for-sale financial assets

Financial liabilities are divided into the following categories in accordance with IAS 39:

- Financial liabilities at fair value through profit or loss
  - a) Held for trading
  - b) Financial liabilities designated at fair value through profit or loss
- Other liabilities

#### **Financial assets at fair value through profit and loss**

Financial instruments that are acquired for the purpose of their sale in the short term, or that form part of a portfolio managed for short-term profit taking, i.e. securities and receivables held for trading, are classified and recognised as assets held for trading.

The positive market values of derivatives in a hedging relationship, for application in banking book management, are reported in the item derivative financial instruments and not in trading assets.

Trading assets are measured at fair value, which is their quoted price in the case of quoted instruments. Valuation techniques such as, for example, the net present value method or other appropriate methods are used to establish the fair value of financial instruments not quoted on an active market.

Gains and losses on sale, results from currency valuation and changes in fair value are reported in the result from trading. Interest income and interest expenses related to trading assets are reported in net interest income, current dividends are included in trading result.

Irrespective of any trading intention, IAS 39 allows the irrevocable classification of financial assets, upon addition, as “financial assets designated at fair value through profit or loss” (fair value option – FVO). This classification cannot, however, be reversed at a later date, even if the conditions for the designation no longer exist (IAS 39.50(b)). However, this designation is only possible if one of the following applies:

- The financial asset contains one or more separable embedded derivatives
- The fair value approach eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch)
- A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Designation in accordance with the first two criteria gives a better presentation of the financial situation and financial performance (see note (52) Result from financial assets – designated at fair value through profit and loss).

This designation cannot, however, be made for equity instruments that have no quoted market value and whose fair value cannot be determined reliably.

By classifying financial instruments in this category, hedging relationships can be reflected without meeting the rigid rules of hedge accounting.

Financial assets designated at fair value through profit or loss are measured at their fair value. In the case of quoted financial instruments, these assets are recognised at their quoted price. For non-quoted financial instruments, the fair value is established using the net present value method or by using other appropriate valuation techniques.

Realised and unrealised gains and losses are recognised in the item result from financial investments – designated at fair value through profit or loss. Interest income and interest expense from these financial instruments are included in net interest income, dividends received are included in result from financial assets – designated at fair value through profit and loss.

### **Held to maturity investments**

This category may only include non-derivative financial assets with fixed or determinable payments and fixed maturity which the group intends and is able to hold to maturity. If a financial instrument meets the definition of loans and receivables, it is classified in the category loans and receivables. They are measured at amortised cost, with premiums and discounts being spread in the accounts over the respective term by means of the effective interest method. Impairment losses reduce directly the carrying amount in the statement of financial position and are recognised in profit or loss, included in the item impairment of financial assets. Heta does not hold such positions.

### **Loans and receivables**

Loans and receivables are all non-derivative financial assets with fixed or determinable payments that are not held for trading and are not quoted in an active market. They are measured at amortised cost using the effective interest method. Impairments are disclosed separately as credit risk provisions in the item Loans and advances to credit institutions (see note (66) Risk provisions on loans and advances and provisions for credit risk) or at present value in finance lease receivables.

Originated loans, finance lease receivables, overnight loans and time deposits as well as unquoted bonds are mainly disclosed in this item. The position loans and advance to credit institutions also contains balances with central banks not daily due. Carrying amounts include accrued interest before deductions for risk provisions on loans and advances. Premiums and discounts are spread in the accounts over the respective term and are also shown in net interest income. Interest income is recognised in the item interest and similar income.

### **Available-for-sale financial assets**

This category includes all non-derivative financial assets that are not assigned to any of the aforementioned categories. Subsequent measurement is at fair value, whereby the evaluation result – after taking into account deferred taxes – are recognised in other comprehensive income (OCI) directly in equity. Upon disposal, the differential amounts to the carrying amount recorded in the available-for-sale reserve are released to profit or loss. Impairment losses and any reversals are immediately offset against the value of the asset shown in the statement of financial position. Premiums and discounts on debt instruments are spread in the accounts over the respective term by means of the effective interest method. Impairment losses are also recognised in profit or loss.

Heta has classified most bonds and other fixed-interest securities, as well as shares and other non-fixed-interest securities, as financial investments – available-for-sale. These investments are initially measured at their fair value, which corresponds to their quoted price (including transaction costs). Alternatively, the fair value is established on the basis of comparable instruments or by applying valuation techniques using market data. Recognition at nominal value is not permitted. Any accrued interest paid as part of the purchase is not classed as part of costs. Subsequent measurements are based on the fair value (without any deduction for transaction costs).

Further long-term investments as well as non-consolidated subsidiaries are classified as financial investments – available-for-sale. Equity instruments without a listed price in an active market and whose fair value cannot be reliably determined are always measured at cost less impairments.

The measurement result for this category is recognised – after consideration of deferred taxes – in other comprehensive income (OCI). Material or permanent impairment losses are recorded in profit or loss, which are recognised in the position impairment of financial assets. Reversals of impairments of debt instruments are recognised in profit or loss in the item impairment of financial assets; reversals of impairments of equity instruments are recognised only in other comprehensive income (OCI) and not in the income statement. Capital gains and losses are reported in the item gains and losses on financial

instruments that are not measured at fair value through profit or loss. The result from the currency translation of debt instruments is recognised in the result from trading and that of equity instruments in other comprehensive income (OCI).

Income from fixed-interest securities, including spread premiums and discounts are recognised as interest and similar income. Dividends and income from non-fixed-interest securities (shares, investment funds, participations, etc.) are recognised in the position gains and losses on financial instruments that are not measured at fair value through profit or loss.

For investments in equity instruments which are recognised at fair value, a significant reduction of the fair value below the cost of acquisition is an indicator of the existence of impairment. A significant factor is taken to be a reduction of the fair value by more than 20% below the historical acquisition cost or a permanent reduction in the market value for more than nine months below the historical costs of acquisition. If these limits are breached, the amount of the difference is recognised as an expense.

#### **Financial liabilities at fair value through profit or loss**

This category includes trading liabilities, liabilities related to short sales and liabilities for which the fair value option (FVO) was used. The fair value option can be applied to financial liabilities under the same conditions that apply to financial assets.

#### **Other financial liabilities**

This category encompasses financial liabilities, including liabilities evidenced by certificates, for which the fair value option was not used. As a general rule, they are recognised at amortised cost. Premiums and discounts are spread in the accounts over the respective term using the effective interest method and are reported under interest expense.

#### **Embedded derivatives**

Structured finance products are characterised by being made up of a host contract and one or more embedded derivatives. The embedded derivatives form an integral part of the agreement and may not be traded separately.

IAS 39 requires separation of the embedded derivative from the host contract if:

- The economic characteristics and risks of the embedded derivative are not closely related to those of the basic contract;
- The structured finance product is not measured at fair value with changes in fair value recognised in profit or loss;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Gains and losses of the embedded derivative are recognised in the statement of comprehensive income. Inseparable embedded derivatives are measured together with and in the same way as the host contract according to its category.

### **(18) Financial instruments: Net gains and losses**

Net gains/losses include net interest income, fair value measurements with and without impact on profit or loss, impairments and reversals, realised gains and losses from the disposal of assets and risk provisions on loans and advances.

### **(19) Classes of financial instruments according to IFRS 7**

In the scope of application of IFRS 7 there are – in addition to the financial instruments as defined by IAS 39 – financial instruments which must be recognised according to other specific standards, as well as financial instruments not recognised in the statement of financial position. All of these financial instruments must, in accordance with IFRS 7, be allocated to specific classes, which are defined according to objective criteria and take into account the characteristics of the individual financial instruments. As a result of the way in which the statement of financial position is presented, the characteristics of the financial instruments have already been taken into account. For this reason, the classes have been defined and directed at those items in the statement of financial position which contain financial instruments.

The table below shows the classes defined and used by Heta:

Type of class	Essential valuation standard			Categorie according to IAS 39
	At fair value through profit or loss	At cost	Other	
<b>Asset classes</b>				
Cash and balances at central banks			Nominal value	n/a
Loans and advances to credit institutions		x		LAR/LAC
Loans and advances to customers		x		LAR/LAC
of which: receivables from finance leasing				n/a
Trading assets	x			HFT
Derivative financial instruments	x			HFT (Fair Value Hedges)
Financial investments – afvtpl	x			FVO
Financial investments – afs			at fair value through other comprehensive income	AFS
Financial investments – htm		x		HTM
Investments in companies accounted for at equity				n/a
Other financial investments		x		
Assets of the disposal group			Net disposal value	n/a
<b>Liability classes</b>				
Liabilities to credit institutions	x	x		LAR/LAC
Liabilities to customers	x	x		LAR/LAC/FVO
Liabilities evidenced by certificates	x	x		LAR/LAC/FVO
Trading liabilities	x			HFT
Derivative financial instruments	x			HFT (Fair Value Hedges)
Liabilities included in disposal groups classified as held for sale			Net disposal value	n/a

## (20) Hedge accounting

Hedged items such as loans and advances, financial investments or financial liabilities may be measured differently to hedging derivatives, which are always classified at fair value through profit or loss. Hedge accounting in accordance with IAS 39 recognises the offsetting effects on profit or loss of changes in the fair values of hedging instruments and hedged items.

The prerequisite for the use of hedge accounting is the documentation of the hedging relationship at the inception of the hedge and an effective compensation of the risks (prospective effectiveness). Throughout the hedging period there should be continual monitoring of whether the derivatives are compensating for changes in the value of the underlying transaction effectively (retrospective effectiveness). The proportion of the change in value of the hedged item and the hedging instrument must lie within a range of 80,0 % to 125,0 %. Once the hedge is no longer effective or once the hedged item or the hedging instrument no longer exists, hedge accounting must be discontinued.

Heta only uses fair value hedges in hedge accounting. These serve to hedge changes in the market values of assets and liabilities (hedged items). The risks to be hedged concern the interest risk and the foreign currency risk. In the case of 100,0 % effectiveness, the measurement effects of hedged items and the hedging instrument are fully offset and have no impact on the income statement. In the event of ineffectiveness within the accepted range, such ineffectiveness is recognised in the result from hedge accounting.

A similar effect can be achieved for the item to be hedged – without having to fulfil the rigid rules of hedge accounting – if the fair value option (FVO) of IAS 39 is used. The adoption of the fair value option is irrevocable and requires documentation of the offsetting of risks. The prerequisites for a possible designation in the fair value option category are found in note (17) Financial instruments: Recognition and measurement (IAS 39). Positive market values of derivatives which are used for hedging are stated in derivative financial instruments on the asset side, while negative market values are stated in derivative financial instruments on the liabilities side.

All derivative hedges with issued bonds and liabilities (underlying transactions) had to be released since 31 December 2014 as the hedge is no longer effective. The hedges for securities carried under assets and loans with a term longer than



stipulated by the resolution authority for the wind down plan (31 December 2020) were released as well. The positive and negative market values from derivative financial instruments continue to be reported on the statement of financial position; the adjustments previously made to the underlying transactions (so-called "Hedge Adjustments") are recorded over the contractual remaining terms. This concerns the amortisation of the adjustment to the underlying business that exists at the time the hedge is de-designated (de-designation as the termination of a hedge). The underlying transactions are valued according to the respective valuation categories pursuant to IAS 39.

## **(21) Leasing**

The decisive factor for the classification and recognition of a lease in financial statements of a lessor is the substance of the transaction rather than ownership of the leased asset. A finance lease according to IAS 17 is a lease that transfers substantially all the risks and rewards incident to ownership of an asset to the lessee; an operate lease is a lease other than a finance lease.

The majority of the lease contracts entered into by Heta as lessor are classified as finance leases. In the statement of financial position, these are recorded under finance lease receivables at the net investment value (present value) – in this connection, please refer to notes (64) Loans and advances to credit institutions and (65) Loans and advances to customers. The receipts are split into interest income with impact on profit and loss, as well as debt repayments without impact on profit and loss.

Under operating lease agreements, the lessor presents the asset at cost less scheduled depreciation over the useful life of the asset and less any impairment loss. In the case of operating lease agreements concluded in the local currency for which repayments by the lessee were agreed in a different currency, an embedded foreign currency derivative was separated out in the event that IAS 39 criteria were met.

Except for leased real estate, leased assets are reported in other assets (thereof operating leases). Lease income less scheduled depreciation and gains and losses on disposals are recognised in other operating result. Potential impairment losses are reported in the item impairment of non-financial assets.

Real estate leased out under operating lease agreements is classified as investment property.

Assets not yet or no longer leased out are included in other assets. Impairment losses are reported in the item impairment of non-financial assets.

## **(22) Repurchase agreements**

A repurchase agreement is an agreement between two parties whereby one party sells to the other a security at a specified price for a limited period of time and at the same time undertakes to repurchase the security, upon expiry of the said term, at another specified price. Under IAS 39, the seller continues to recognise the asset in its statement of financial position if the material risks and rewards remain with the seller. The amount received is presented as a liability by the seller, whereas the buyer recognises a receivable.

## **(23) Fiduciary transactions**

In accordance with IFRS, fiduciary transactions entered into by Heta in its own name, but on the account of a third party, are not recognised in the statement of financial position. Fees are included in fee and commission income.

## **(24) Financial guarantees**

Financial guarantees are contracts that oblige the company to make compensation payments to the guarantee holder for loss incurred. This loss arises if a certain debtor does not meet his payment obligations pursuant to the contractual terms and conditions. Financial guarantees are initially recognised as liabilities at fair value less transaction costs directly related to the guarantee issued. Liabilities are subsequently measured on the basis of the best possible estimate of the amounts required for covering all current obligations as at the reporting date. If, however, fair value amounts to zero at initial recognition, it is evaluated during subsequent measurements if a provision pursuant to IAS 37 should be recognised.

## (25) Cash and balances at central banks

This item includes cash and balances daily due at central banks. These amounts are stated at nominal value. Treasury bills, eligible for refinancing with central banks are not shown in this item but, depending on their valuation category, are shown as financial assets.

## (26) Risk provisions on loans and advances

Credit default risks are accounted for by creating specific risk provisions and portfolio risk provisions and by setting aside reserves for off-balance-sheet commitments.

Specific risk provisions are created as soon as there are objective indications that a loan may not be recoverable, the size of the allowance reflecting the amount of the expected loss. Risk provisions are calculated at the difference between the carrying amount of the loan and the net present value of the estimated future cash flows, taking the respective original effective interest rate into account and considering the provided collateral.

As specific risk provisions are based on the net present value of future cash flows, the future interest income of an impaired loan is determined through the addition of accrued interest. An increase in present value on the following reporting date is recognised as interest income (unwinding). If a loan restructuring or extension agreement is concluded, the recoverability of the loan commitment is assessed. A specific risk provision must be recognised if the present value of the agreed cash flows differs from the original carrying amount of the receivable.

Portfolio risk provisions are recorded for incurred but not yet reported losses of credit portfolios at the reporting date. Calculations are carried out by grouping loans into homogeneous portfolios with comparable risk characteristics. Provisions are made on the basis of historical loss experience in consideration of the off-statement of financial position transaction. Receivables for which specific risk provisions were made are not included in the determination of the portfolio impairment.

Amounts identified as irrecoverable after the collateral has been liquidated are charged against an existing specific risk provision or directly written off. The specific risk provision is only derecognised directly or utilised if there are no further legal claims regarding the customer at the time of recognition. Recoveries of loans and advances previously written-off are recognised in profit or loss. Allocations and reversals of risk provisions and provisions for credit commitments and guarantees are recognised in the income statement under impairments of financial assets – at cost (risk provisions on loans and advances).

Section 3 (1) of the Federal Act on the Creation of a Wind-own Entity (GSA) stipulates that the portfolio be wound-down as quickly as possible within the scope of the wind-down targets. As a result, Heta developed new measurement guidelines in 2014 and on this basis performed a group-wide review of all of its assets. The values reflect the short- and medium-term intention to sell in a limited number of receptive markets in a wind-down period of five years, with the assets being reduced by 80,0 % by 2018.

In addition to loans and advances, financial instruments are measured and subjected to a recoverability test by Heta and the following indicators, which are used throughout the group, give an objective indication – whether individually or as a whole – of when impairment should be applied to a financial instrument:

- For loans and advances in the LAR (loans and receivables) category this is from that point in time at which the customer exhibits considerable financial difficulties, or at any rate if the customer is more than 90 days in default with repayment.
- The same indicators apply for investments in debt instruments (AfS) as for loans and advances carried at amortised cost. Here, however, there is an additional objective indication of the existence of impairment, namely, if there is a material reduction in fair value below the amortised cost. Heta defines a material reduction as being when the market value is more than 10,0 % below the amortised cost.

## (27) Derivative financial instruments

Positive and negative market values of derivative financial hedging instruments for underlying transactions recognised pursuant to the fair value option (FVO) as well as banking book derivatives, trading book derivatives and derivatives that meet the hedge accounting requirements of IAS 39 are reported in this item. In the income statement, the results of the measurement of FVO derivatives are recognised in the result from financial investments-designated at fair value through profit or loss, the results of the measurements of banking book derivatives and trading book derivatives are reported in the result

from trading, and those derivatives that meet the hedge accounting requirements of IAS 39 are stated in the result from hedge accounting.

### (28) Investments in companies accounted for at equity

Investments in associated companies and in joint ventures accounted for at equity are shown in a separate item in the statement of financial position.

The impact of the ongoing at-equity valuation as well as any revenue of disposal or impairment loss is shown in the item result from companies accounted for at equity.

### (29) Investment properties

Investment properties are land and buildings held to earn rental income or to benefit from expected increases in value. Provided that material parts of mixed-use property can be let or sold separately, these parts are also treated as investment properties.

Investment properties are carried at amortized cost, adopting the cost method provided for in IAS 40, with straight-line depreciation applied over the useful life for tangible assets. At each reporting date, it is determined if there are any indications of possible impairment of investment properties held by the bank. Pursuant to IAS 36, the current carrying amount is offset against the recoverable amount for this purpose. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. The determining factors for the calculation of fair value are the market-based estimates that are generally prepared by full-time experts. If market-based estimates are not available, fair value is estimated on the basis of the income approach.

Taking into account the gone concern assumption, so-called market value under special assumptions were used as the comparable figure, which is measured solely on the basis of the value that can be realised for these properties with a quick sale in saturated markets.

Current rental income, scheduled depreciation on rented buildings and gains and losses on disposals are recognised in the position operating income from investment properties. Potential impairment losses are reported in the item impairment of non-financial assets. If the reasons for the impairment cease to exist, the previously recognised impairment is written up. Write-ups are limited to the maximum carrying amount that does not exceed the amount that would have resulted from depreciation and amortisation if the asset had not been impaired in previous years. The useful life of building held as financial investments is the same as that of buildings recognised as assets.

### (30) Intangible and tangible assets

Intangible assets include goodwill arising on acquisitions, software, other intangible assets and advance payments for the acquisition of intangible assets. These assets are measured at acquisition or manufacturing cost less depreciation. Internally generated software is recognised in accordance with IAS 38, providing that the conditions for recognition pursuant to the standard are fulfilled.

Tangible assets include land and buildings and plant and equipment used by Heta for its own operations. Real estate let to third parties or purchases held for capital return is reported in investment properties. Tangible assets are measured at amortised cost.

Straight-line depreciation, based on the following annual rates, is applied over the useful life of assets:

Depreciation rate	in percent	in years
For immovable assets (buildings)	2 -4 %	25 -50 yrs
For movable assets (plant and equipment)	5 -33 %	3 -20 yrs
For software	14 -33 %	3 -7 yrs

In the case of events and circumstances that indicate impairment, the expense is recognised in profit or loss. The impairment of corporate assets used by the group for generating cash flows is tested pursuant to IAS 36. The current carrying amount is therefore offset against the recoverable amount. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. The accounting policies used to calculate the recoverable amount at Heta were adjusted 2014 taking into account the "gone concern" assumption. It is measured solely on the basis of the value that can be realised for these properties with a quick sale in saturated markets.

Scheduled depreciation is booked separately on the income statement and impairments and reversals are included in the position impairments of non-financial assets. Gains and losses from disposals are included in other operating result.

### **(31) Taxes on income**

Current and deferred tax assets and liabilities are recognised jointly in the statement of financial position as tax assets or liabilities. Current taxes are calculated in accordance with tax regulations in the respective countries.

Deferred tax assets and liabilities are determined using the liability method, which compares the tax base of the statement of financial position items with the carrying amounts pursuant to IFRS. In the case of taxable temporary differences, taxes are deferred. A deferred tax liability shall be recognised, if the reversal of taxable temporary differences will lead to an effective tax burden. For taxable temporary differences associated with shares in domestic subsidiaries, no deferred tax liabilities are recognised because no reversal of the temporary difference is expected in the foreseeable future. Deferred tax assets are recognised for taxable temporary differences, which lead to a tax credit when recovered. The tax assets and deferred tax liabilities have been offset as required by IAS 12.

Changes to the tax rate are taken into account with respect to the determination of deferred taxes, always providing that they are known at the time of establishing the consolidated financial statements. In accordance with IAS 12 long-term deferred taxes are not discounted. Deferred tax assets are recorded in respect of tax loss carry-forwards if it is deemed probable that future taxable profits will be available. This assessment is based on business plans passed by the Executive Board.

Given the history of losses and the uncertainties arising from the restructuring of Heta, there was no capitalisation of loss carry-forwards for the members of the Heta Austrian tax group as well as for the foreign wind-down companies. The recoverability of a deferred tax asset due to tax loss carry-forwards and taxable temporary differences is reviewed at the end of each reporting period.

The accrual and release of deferred tax assets or liabilities is either recognised in income statement or in other comprehensive income (e.g. revaluation reserve for available-for-sale financial instruments).

From 1 January 2005 the group taxation option was exercised, with Heta acting as the lead company. The group taxation agreement drawn up to this end contains the rights and duties of the lead company and group members as well as the compulsory ruling on tax reconciliation as laid down by section 9 (8) of the Austrian Corporation Tax Act (KStG). This includes, in particular, the procedure for making the group taxation application, the determination of the individual group members' tax results, rights/duties to receive/provide information, elimination from the group, dissolution and duration of the group. The tax contribution method applied is essentially based on charges and any advantage arising is distributed to group members by means of a fixed charge/credit rate.

### **(32) Assets classified as held for sale**

According to IFRS 5, an asset held for sale is defined as an asset whose carrying amount can only be realised through a disposal as opposed to ongoing usage. Key conditions pursuant to IFRS 5.7 and 5.8 which cumulatively lead to classification are:

- Direct availability, i.e. the asset is available for immediate sale in its current state at customary conditions usually applied in selling such assets
- Concrete intention to sell, active search for a buyer
- High probability of sale
- Sale within twelve months

If investments, which had previously been accounted for at equity in the consolidated financial statements, are classified as assets held for sale, the equity method should be discontinued at this point and the assets assessed in accordance with IFRS 5.

If the prerequisites are fulfilled, the asset classified as held for sale shall be assessed at the end of the reporting period according to the special rules of IFRS 5 and measured at the lower of carrying amount and fair value less costs to sell.

In the statement of financial position, the assets classified as held for sale and the liabilities associated therewith shall each be shown in a separate main item. In the income statement, it is not compulsory to report the associated expenses and income separately. Detailed information can be found on this in note (74) Assets classified as held for sale.

### (33) Other assets

The main items in other assets include deferred expenses, receivables other than those arising from banking activities, short-term real estate projects, moveable lease assets let under operating lease agreements and certain short-term lease assets.

Receivables other than those arising from banking activities mainly include receivables from goods and services, receivables from tax authorities relating to taxes other than income taxes. Deferred items and other receivables arising from non-banking activities are recognised at their nominal values.

Together with completed real estate projects, the item other assets also includes building projects under construction. These assets are measured at acquisition or manufacturing cost. Impairment is applied if the carrying amount on the reporting date exceeds the net realisable value, or if a restriction of the utilisation possibilities has resulted in a reduction in value or impairment. In accordance with IAS 23, borrowing costs incurred during the manufacturing period must be recognised as part of the value of the acquired asset. Gains and losses from disposals, as well as valuation losses, are included in other operating result.

Other assets also include operating leases leased or not leased out as at the reporting date, as well as returned assets awaiting the signing of a new contract or pending sale (remarketing). They are measured at amortised cost less impairment losses to reflect the gone-concern assumption. The Market Value Under Special Assumptions (MV usa) is used as a reference value, which is measured solely on the basis of the value that can be realised for these properties with a quick sale in saturated markets. The measurement result is shown in the income statement in impairments of non-financial assets.

### (34) Liabilities

Liabilities to credit institutions and customers, including liabilities evidenced by certificates, are recognised at amortised cost unless they are designated at fair value through profit or loss. Costs of issues as well as premiums and discounts for liabilities evidenced by certificates are spread over the term of the debt.

When using hedge accounting, the fair value changes of the underlying transactions attributable to the hedged risk are recognised in profit or loss.

### (35) Long-term employee provisions

Heta has both defined contribution plans and defined benefit plans. In the former case, a fixed contribution is paid to an external provider. These payments are recognised under personnel expenses in the income statement. Except for these, there are no further legal or other obligations on the part of the employer. Therefore, no provision is required. Defined benefit plans exist in respect of retirement and severance obligations as well as provisions for anniversary payments. These schemes are mostly unfunded, i.e. all of the funds required for coverage remain within the company. Plan assets are only available for a limited level of retirement provisions.

Provisions for long-term employee benefits are measured in accordance with IAS 19 – Employee Benefits, using the projected unit credit method. The determination of the value of the future commitment is based on an actuarial expert opinion prepared by independent actuaries. The value shown in the statement of financial position is stated as the present value of the defined benefit obligation. In accordance with the new IAS 19 rules, actuarial gains and losses are recognised in other comprehensive income (OCI) in equity without impact on profit or loss. The most important parameters upon which the actuarial calculation for Austrian employees is based are as follows: an underlying interest rate of 2.0 % (2014: 2.15 %) as at 31 December 2015, as well as the consideration of wage and salary increases of the active employees at a rate of 3.0 % p.a. (2014: 2.3 %) and an increase in pay to already retired former employees at a rate of 2.0 % p.a. and a fluctuation deduction of 0.0 % (2014: 6.0 %). The basic biometric data are taken from the Generations Life Expectancy Tables of the Austrian Actuarial Society (AVO) 2008 P for employees.

Expenses to be recognised in profit or loss are divided into service costs (which are reported in personnel expenses), as well as interest costs (which are reported in interest and similar expenses); actuarial gains and losses are recognised in other comprehensive income (OCI) in equity without impact on profit or loss.

Provisions for long-term employee benefits are calculated taking into account the wind-down of Heta. As a result, long-term employee benefits for this period take into account the medium term plan 2016-2020.

**(36) Provisions for credit commitments and guarantees**

Provisions for credit commitments and guarantees are created for risks arising in particular from impending draw-downs on framework agreements or as a provision against liability assumed for customer transactions. Provisions for both individual cases and those at portfolio level are accrued.

Changes to provisions for credit commitments and guarantees to be recognised in profit or loss are shown in the income statement under impairment of financial assets – at cost (risk provisions on loans and advances).

**(37) Restructuring provisions**

Provisions are only recorded for restructuring if the general criteria for accruing provisions in accordance with IAS 37.72 are fulfilled. In particular, the company has a constructive obligation, as evidenced by the existence of a detailed and formal restructuring plan and the announcement of the measures set out in it to those affected.

Provisions for restructuring were set aside for all of those employees in the wind-down unit who will all have to be laid off in the coming years; provisions were only set aside if the employees are eligible for termination or settlement payments within the scope of redundancy programs.

The cost associated with the restructuring measures is reported in note (54) Other operating result.

**(38) Other provisions**

Other provisions are accrued if a past event is likely to translate into a present obligation towards a third party, if the assertion of the relevant claim is probable and if the amount of the claim can be determined reliably. If the effect is significant, long-term provisions are discounted. Provisions for uncertain liabilities and impending losses are measured on a best-estimate basis in accordance with IAS 37.36 et seq.

Additions to and releases from other provisions are shown in the corresponding expense item.

**(39) Other liabilities**

This item includes deferred income. Accruals and deferrals are stated at nominal value, while liabilities are stated at amortised cost.

**(40) Subordinated capital**

Subordinated capital includes subordinated liabilities as well as supplementary capital. Subordinated liabilities involve liabilities evidenced or not by certificates and in the event of liquidation or insolvency, creditors are only satisfied after all other creditors as specified in the contracts.

For further information on subordinated capital, see note (130) Servicing of subordinated capital.

**(41) Hybrid capital**

As a general rule, hybrid capital (as defined by the Austrian banking supervision regulations) is provided for the entire term of the enterprise. It differs from common subordinated capital in that it is ranked below subordinated capital. In accordance with IFRS, hybrid capital is classified as debt in the consolidated financial statements due to the fact that coupons are essentially compulsory.

**(42) Negative equity (including non-controlling interests)**

In principle, equity evidences the residual interest in the assets of an entity after deduction of all liabilities or obligations which cannot be terminated by the investor.

Subscribed capital represents the amounts paid in by shareholders in accordance with the memorandum of articles of association. Amounts of participation capital issued are reported separately.

The cumulative gain or loss includes the cumulated gain or loss made by the group with the exception of the share of gain or loss to which external parties are entitled.

The item available-for-sale reserve includes the valuation results – after deductions for deferred taxes – arising from available-for-sale financial assets.

Non-controlling interests in the equity of subsidiaries in accordance with IAS 1 are presented as a separate item within equity.

Pursuant to section 7 (1) of the Federal Act on the Creation of a Wind-down Entity (GSA), section 67 of the Austrian Insolvency Law (IO, insolvency on account of over-indebtedness) does not apply to Heta. In the medium-term plan 2016-2020 (see also note (3) Wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG) which must be prepared by the Executive Board, the Board does not provide for interest or capital repayments with regard to the company's debts. The wind-down plan that must be prepared by the resolution authority pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG), and which forms the basis for the subsequent wind-down procedure, may deviate from Heta's medium-term plan in terms of time- and content-related aspects, but must nevertheless ensure that Heta's ability to pay is maintained during the wind-down process. In addition, the orderly wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) will also depend on whether circumstances that put the wind-down process pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) objectives and principles at risk will occur in the future.

## Notes to the income statement

### (43) Segment reporting

The IFRS 8 "Operating Segments" standard forms the basis for segment reporting activities. In this vein, segment reporting is based on the information that is continuously provided to the Group Executive Board, which acts as the main decision-making body pursuant to IFRS 8.7 (so-called "management approach"). Therefore the segment structure may deviate from the organisation categories that are used in the income statement. Heta's business structure forms the basis for segment reporting activities.

The Heta segments have been defined on the basis of business- and reference value-specific indicators. The function performed by the respective subsidiary units is the authoritative factor for assessing the business-specific indicators. In this context, a basic distinction is made between "operating subsidiaries", subsidiaries held for sale as well as units with a "holding function". Reference value-specific designations are made mainly on the basis of financial size. Reference values from the income statement, such as total earnings or sales revenues, were not used for definition purposes, since wind-down units generate only minimal regular earnings (or interest income).

The "Holding" segment includes those subsidiaries that perform a holding function or that are held for sale. The subsidiaries with a holding function include the parent company Heta and interim holdings such as "HAR GmbH" and "Cedrus". Measured by total assets (excluding cash and IC items), the "Holding" segment is the largest Heta segment at EUR 5.5 billion - although the majority of this total is attributed to the group parent Heta (EUR 4.9 billion).

The operating subsidiaries include those leasing and "Brush" units that are active in the SEE region (Slovenia, Croatia, Serbia, Bosnia & Herzegovina and Montenegro), Italy and other countries (Austria, Germany, Hungary, Bulgaria and Macedonia). Individual countries are shown as separate segments, since separate management has been established for each "operating country" and therefore a clear division of responsibilities exists. Measured by total assets, "Slovenia" is the largest segment with EUR 583.8 million, followed by the total from "other countries" (EUR 327.0 million), Italy (EUR 325.6 million) and Croatia (EUR 239.5 million). Those operating subsidiaries with less than EUR 200.0 million in loans and advances to customers, or whose reported loans and advances to customers make up less than 2.5 % of the total loans and advances to customers in the group, were allocated to the "Others" segment.

The "Consolidation" segment includes effects from the consolidation between the various business segments.

The current consolidated (interim) financial statements also include the segments "SEE network" (bank network in south-eastern Europe) and "HBI" (former Italian subsidiary Hypo Alpe-Adria-Bank S.p.A., Udine). During the course of the carve-out process in October 2014, the SEE network was transferred to Finanzmarkt-beteiligung Aktiengesellschaft des Bundes (FIMBAG), and HBI to the HBI Bundesholding AG, thus they were removed from Heta's consolidation scope. These changes resulted in the need to adjust the Group segments in 2015.

### 43.1. Holding

In 2015, the companies in the “Holding” segment generated a negative result of EUR -538.8 million (2014: EUR -2,975.5 million), most of which was due to negative one-off effects at Heta. These were mainly the result of the repeal of the special “Hy-po Alpe Adria Restructuring Act (HaaSanG)” by the Austrian Constitutional Court (VfGH), which led to the renewed recognition of liabilities in the balance sheet (EUR -823.0 million), and also from allocations to provisions in connection with third-party recourse claims (EUR -30.0 million). Additionally, losses in the trading result (EUR -113.4 million) that were due to the development of the Swiss Franc (CHF) and changes in the market values of derivatives as a result of the liquidation of hedge relationships also had to be recognised. Another negative effect is the result of the fair value option (FVO) measurement based on the write-down of bonds in the public segment, which however was compensated by the positive development of the FVO measurement of own liabilities. These figures are accompanied by significant earnings in connection with the annual subsequent measurement of loans (EUR 613.2 million). These earnings are mainly due to release of risk provisions in line with the “Heta Internal Assessment Tranche” (HIAT) project, and the revaluation of credit lines for two former group companies.

Total assets in the “Holding” segment were reduced by EUR -546.7 million during the course of 2015. In this context, it must be noted that this reduction is diluted due to the build-up of cash resources (EUR 1,912.7 million) as a result of repatriation of cash from the asset wind-down. The largest reduction occurred in the financial assets item (EUR -1,218.0 million) and is the result of scheduled repatriation activities at Heta and the closing down of the minority companies Norica Investments Ltd. and HBInt Credit Management. The reduction in receivables from credit institutions amounts to EUR -1,519.4 million, and is due on the one hand to a write-off relating to HBI credit lines (EUR 280.0 million) and also the reduction in payment instrument accounts and cash collateral. In addition, the closure of the two investment companies also led to a reduction in receivables from credit institutions outside of the group, which made up a large portion at these companies. The item credit risk provision to credit institutions was reduced mainly due to the already noted write-offs vis-a-vis HBI, and the release of risk provisions, which were no longer required at the same amount due to the achieved stabilisation of HBI. Customer receivables declined by EUR -695.6 million as a result of the reduction in the Heta credit portfolio. The credit risk provision to customers declined by EUR 396.3 million to EUR -1,628.3 million as a result of release. The reduction in “assets on stock” is mainly due to the reclassification of the “Centrice” company into the balance sheet item “Other assets”. Negotiations for the sale of the company commenced in the 2015 financial year, so that as at 31 December 2015 “Centrice” was classified as a “unit held for sale” in accordance with IFRS 5, and was reported accordingly. At the same time, the item “assets classified as held for sale” also declined by EUR -38.0 million due to the successful sale of the tourism investment “Grand Hotel Lav”, which was completed in 2015.

### 43.2. Slovenia

The after-tax result for the “Slovenia” segment was EUR 79.5 million (2014: EUR -800.8 million), and is mainly due to the release of risk provisions on loans and advances to customers (EUR 103.6 million) resulting from the HIAT revaluation, and positive effects from the portfolio wind-down. The measurement of assets on stock also resulted in impairments of EUR -7.3 million. The other result for the Slovenian units is positive at EUR 4.0 million, and is due to proceeds from the sale of movable and real estate in the amount of EUR 15.0 million. These proceeds are however accompanied by losses in the trading result in connection with the development of the Swiss franc.

The total assets in the “Slovenia” segment declined by EUR -125.3 million to EUR 583.8 million in 2015. This reduction is mainly due to the wind-down of customer receivables (EUR -198.0 million). The decrease in risk provisions is the result of release and utilisations in connection with the portfolio wind-down. Because of the disposals of real estate and the aforementioned impairments, and reclassifications into the item “assets held for sale”, assets on stock declined by EUR 40.6 million. “Assets held for sale” fell by EUR 3.9 million due to the sale of the Hotel Rogaska Slatina (see note (12) Winding down investment companies and portfolio sales) and the reclassification of real estate projects held for sale.

### 43.3. Croatia

The Croatian units report a much lower loss for 2015, namely EUR -15.4 million (2014: EUR -813.0 million). The net interest income declined by EUR -22.5 million to EUR -3.1 million (2014: EUR 19.4 million). This decrease is mainly due to a much lower result from the unwinding process (interest income from non-performing loans) and the reduction in the interest-bearing portfolio. The negative “other result” in the amount of EUR -3.5 million is the result of losses in the trading result in connection with the appreciation of the Swiss Franc in 2015. As part of the revaluation of customer receivables (HIAT project) and the positive effects from the wind-down of the customer portfolio, credit risk provisions in the amount of EUR 17.3 million were released. A negative amount of EUR -11.6 million had to be reported from the measurement of movable and real estate.



The segment assets of the Croatian units declined during the course of 2015 by EUR -65.1 million to EUR 239.5 million by the end of 2015. The decrease in receivables from banking institutions by EUR -12.7 million to EUR 5.0 million was the result of declining liquidity inventories. Customer receivables fell by EUR -180.6 million to EUR 1,219.2 million as a result of the portfolio wind-down, which was a major factor behind the decrease in risk provisions to customer receivables in the amount of EUR 133.2 million. Sales of movable assets and real estate were mostly compensated by new repossessions (addition of collateral), which is the reason assets on stocks only fell by EUR -1.4 million to EUR 80.9 million.

#### 43.4. Serbia

As at 31 December 2015, the "Serbia" segment also reports a much lower loss compared to the previous year, namely EUR -7.4 million (2014: EUR -201.9 million). The negative other result in the amount of EUR -7.9 million is mainly due to currency effects in the trading result.

The release in the area of the risk provisions - EUR 7.9 million - result from the revaluation of the customer portfolio (HIAT project) and the positive effects from the wind-down of the customer portfolio.

During the 2015 financial year, the segment assets of the Serbian units declined by EUR -15.4 million to EUR 83.8 million, mainly because customer receivables fell to EUR 355.6 million (2014: EUR 398.6 million).

At the same time, credit risk provisions decreased by EUR 34.0 million due to release and utilisation. Assets on stock declined by EUR -4.8 million due to sales of movable and real estate.

#### 43.5. Bosnia

The after-tax result in the "Bosnia" segment is EUR -14.1 million as at 31 December 2015 (2014: EUR -359.3 million). Compared to the previous year, net interest income in 2015 is EUR -21.4 million lower at EUR -4.4 million. This decrease is mainly due to a much lower result from the unwinding process and the reduction of the interest-bearing portfolio. The other result (EUR -7.1 million) includes negative effects from exchange rate trends and tax provisions. In the Bosnia segment, the HIAT project also led to a positive contribution to results. During the course of the revaluation of customer receivables and due to the positive effects from the wind-down of the customer portfolio, credit risk provisions were released in the amount of EUR 9.9 million. Impairments of EUR -4.0 million were also reported as a result of the revaluation of real estate.

The total assets for Bosnia at the end of 2015 amounted to EUR 69.8 million, which is EUR -7.9 million under the previous year's value. Loans and advances to customers (EUR -16.1 million) and assets on stock (EUR -4.4 million) were the main reason behind this reduction.

#### 43.6. Montenegro

The segment result for the Montenegro segment amounts to EUR -9.5 million (2014: EUR -194.2 million). Compared to the previous year, net interest income declined by EUR -8.9 million to EUR -2.8 million (2014: EUR 6.1 million). This decrease is mainly due to the lower result from the unwinding process and the reduction in the interest-bearing portfolio. As a result of the revaluation of the customer portfolio, additional risk provisions of EUR -2.6 million had to be reported for 2015.

Montenegro's segment assets declined by EUR -27.9 million to EUR 66.0 million. This reduction is mainly due to the wind-down of loans and advances to customers (EUR -35.8 million). Additionally, the credit risk provision was also reduced by EUR 10.1 million in this context. Assets on stock declined only marginally, since disposals of movable assets and real estate were compensated by new repossessions.

#### 43.7. Italy

The "Italy" segment generated a loss of EUR -64.0 million (2014: EUR -227.3 million). The lower net interest income of the Italian unit in 2015, which is EUR -7.7 million lower than in the previous year, is mainly the result of a reduced unwinding income and a lower interest-bearing volume. Other result (EUR -14.0 million) is decidedly negative due to the consideration of provisions for foreign currency financing and higher provisions for legal proceedings. Furthermore, additional risk provisions (EUR -25.0 million) and impairments (EUR -22.5 million) had to be recognised in 2015 as a result of the revaluation of the customer portfolio and the investments on the books.

Segment assets declined by EUR -81.6 million in 2015, and now amount to EUR 325.6 million. Loans and advances to customers declined by EUR -67.7 million due to the reduction in the credit portfolio, which was also the reason for the drop in the risk provisions. The aforementioned recognition of additional impairments had the effect of partially increasing the provisions. The reduction in assets on stock (EUR -18.6 million) can be explained with additional impairments and the sale of the investment portfolio, although it must be noted that this figure increased again in part due to new repossessions.

**43.8. Others**

The "Others" segment generated a positive of EUR 24.2 million in 2015 (2014: EUR -134.0 million). The negative other result is mainly due to foreign currency effects at the Hungarian subsidiary, which had to be recognised in the trading result. The income from the release of the credit risk provisions in the amount of EUR 39.8 million is mainly due to the revaluation of loans and advances to customers and risk provisions created for this purpose in line with the HIAT project. This amount is partially compensated by the recognition of impairments of EUR -5.9 million for movable and real estate.

The assets of the units combined under the "Other" segment total EUR 327.0 million as at 31 December 2015 (2014: EUR 386.1 million). In this segment, the decline in segment assets is also mainly due to the wind-down of the customer portfolio. While loans and advances to customers totalled EUR 599.5 million in the previous year, receivables were reduced significantly during the 2015 financial year, by EUR -122.3 million to EUR 477.2 million. Assets on stock declined by EUR -23.2 million. This effect is mainly due to the sale of movable assets and air planes.

**43.9. Consolidation**

In the income statement, the translation to the "Consolidation" group results consists mainly of the effects of the investment companies Norica Investments Limited and HBInt Credit Management, which were excluded from the scope of consolidation in 2015.

## 43.10. Segment presentation

EUR m

Period 1.1. - 31.12.2015	Holding	Slovenia	Croatia	Serbia	Bosnia	Monte-negro	Italy	Others	Consolidation	Heta Group
<b>Operating income</b>	<b>-1,016.9</b>	<b>2.2</b>	<b>-6.6</b>	<b>-8.9</b>	<b>-11.6</b>	<b>-3.3</b>	<b>-8.8</b>	<b>1.8</b>	<b>16.3</b>	<b>-1,035.8</b>
Net interest income	41.4	-1.2	-3.1	-1.0	-4.4	-2.8	5.3	8.7	10.0	52.9
Net fee and commission income	-38.4	-0.6	0.0	0.0	-0.1	0.0	0.0	0.0	-0.1	-39.3
Other result	-1,020.0	4.0	-3.5	-7.9	-7.1	-0.5	-14.0	-6.9	6.3	-1,049.5
<b>Operating expense</b>	<b>-142.0</b>	<b>-15.6</b>	<b>-14.6</b>	<b>-6.1</b>	<b>-7.3</b>	<b>-3.7</b>	<b>-10.6</b>	<b>-12.4</b>	<b>5.9</b>	<b>-206.3</b>
Operating result - prior to risk provision on loans and advances	-1,158.9	-13.4	-21.2	-15.0	-19.0	-6.9	-19.4	-10.6	22.2	-1,242.1
Impairment of financial assets	613.2	103.6	17.3	7.9	9.9	-2.6	-25.0	39.8	25.2	789.2
Impairment of non financial assets	5.9	-7.3	-11.6	-0.2	-4.0	0.1	-22.5	-5.9	-1.8	-47.3
<b>Result after tax from continued operation</b>	<b>-538.8</b>	<b>79.5</b>	<b>-15.4</b>	<b>-7.4</b>	<b>-14.1</b>	<b>-9.5</b>	<b>-64.0</b>	<b>24.2</b>	<b>49.4</b>	<b>-496.2</b>
<b>Result after tax from discontinued operations</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Result after tax</b>	<b>-538.8</b>	<b>79.5</b>	<b>-15.4</b>	<b>-7.4</b>	<b>-14.1</b>	<b>-9.5</b>	<b>-64.0</b>	<b>24.2</b>	<b>49.4</b>	<b>-496.2</b>
<b>Segment assets</b>	<b>9,816.8</b>	<b>583.8</b>	<b>239.5</b>	<b>83.8</b>	<b>69.8</b>	<b>66.0</b>	<b>325.6</b>	<b>327.0</b>	<b>-358.7</b>	<b>11,153.5</b>
Cash and balances at central bank	4,278.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4,278.0
Loans and advances to credit institutions	2,725.9	31.1	5.0	16.0	6.9	1.4	18.6	13.2	-127.0	2,691.1
Risk provisions on loans and advances to credit institutions	-605.2	0.0	0.0	-12.5	0.0	0.0	0.0	0.0	127.0	-490.7
Loans and advances to customers	3,191.5	1,213.5	1,219.2	355.6	588.4	283.6	314.6	477.2	-93.2	7,550.3
Risk provisions on loans and advances to customers	-1,628.3	-894.1	1,072.2	-302.8	-545.7	-255.3	-248.0	-258.9	39.9	-5,165.4
Assets on Stock	0.0	186.6	80.9	20.1	17.9	34.8	144.3	26.9	-5.6	506.1
Financial Assets	1,334.1	0.1	0.0	0.7	0.2	0.0	0.0	0.0	-137.9	1,197.3
Other Assets	520.8	46.6	6.5	6.6	2.1	1.6	96.2	68.5	-161.9	586.9
thereof non-current assets held for sale	407.0	7.8	0.0	1.4	0.0	0.0	0.0	15.5	0.0	431.7

Period 1.1. - 31.12.2014	SEE-Network	Hypo Italy	Holding	Slovenia	Croatia	Serbia
<b>Operating income</b>	<b>218.1</b>	<b>50.3</b>	<b>979.3</b>	<b>-6.6</b>	<b>0.8</b>	<b>-16.6</b>
Net interest income	154.5	47.3	-43.9	15.5	19.4	1.7
Net fee and commission income	50.1	4.2	-15.1	-3.0	0.1	0.1
Other result	13.5	-1.3	1,038.3	-19.1	-18.7	-18.4
<b>Operating expense</b>	<b>-159.3</b>	<b>-36.2</b>	<b>-207.4</b>	<b>-16.1</b>	<b>-12.3</b>	<b>-6.8</b>
Operating result - prior to risk provision on loans and advances	58.8	14.1	771.9	-22.7	-11.5	-23.5
Impairment of financial assets	-132.4	-50.9	-2,358.0	-589.7	-689.5	-160.3
Impairment of non financial assets	1.0	0.0	-214.7	-186.2	-112.0	-17.7
<b>Result after tax from continued operation</b>	<b>-76.3</b>	<b>-26.3</b>	<b>-1,830.3</b>	<b>-800.8</b>	<b>-813.0</b>	<b>-201.9</b>
<b>Result after tax from discontinued operations</b>	<b>0.0</b>	<b>0.0</b>	<b>-1,145.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Result after tax</b>	<b>-76.3</b>	<b>-26.3</b>	<b>-2,975.5</b>	<b>-800.8</b>	<b>-813.0</b>	<b>-201.9</b>
<b>Segment assets</b>	<b>0.0</b>	<b>0.0</b>	<b>10,363.5</b>	<b>709.1</b>	<b>304.6</b>	<b>99.2</b>
Cash and balances at central bank	0.0	0.0	2,365.3	0.0	0.0	0.0
Loans and advances to credit institutions	0.0	0.0	4,245.3	23.2	17.7	17.6
Risk provisions on loans and advances to credit institutions	0.0	0.0	-1,242.0	0.0	0.0	-11.0
Loans and advances to customers	0.0	0.0	3,887.1	1,411.5	1,399.8	398.5
Risk provisions on loans and advances to customers	0.0	0.0	-2,024.5	-1,010.4	-1,205.4	-336.5
Assets on Stock	0.0	0.0	339.2	227.2	82.3	24.9
Financial Assets	0.0	0.0	2,552.1	7.9	0.2	1.0
Other Assets	0.0	0.0	241.1	49.8	10.1	4.7
thereof non-current assets held for sale	0.0	0.0	88.0	11.7	0.0	0.0

EUR m

Bosnia	Montenegro	Italy	Others	IFRS 5 reclassification	Consolidation	Heta Group
<b>6.5</b>	<b>5.8</b>	<b>3.8</b>	<b>3.7</b>	<b>-268.4</b>	<b>-14.9</b>	<b>961.6</b>
17.0	6.1	13.0	13.1	-201.9	5.9	47.7
-0.8	0.0	0.0	0.0	-54.3	-0.2	-19.0
-9.7	-0.4	-9.2	-9.4	-12.2	-20.6	932.9
<b>-5.3</b>	<b>-3.5</b>	<b>-8.4</b>	<b>-14.6</b>	<b>195.5</b>	<b>11.7</b>	<b>-262.7</b>
1.2	2.3	-4.6	-10.9	-72.9	-3.2	698.9
-330.5	-157.9	-200.7	-104.6	183.2	417.1	-4,174.1
-30.2	-38.6	-86.5	-21.3	-1.0	-2.7	-709.8
<b>-359.3</b>	<b>-194.2</b>	<b>-227.3</b>	<b>-134.0</b>	<b>102.6</b>	<b>363.5</b>	<b>-4,197.2</b>
<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-102.6</b>	<b>-1,973.0</b>	<b>-3,220.8</b>
<b>-359.3</b>	<b>-194.2</b>	<b>-227.3</b>	<b>-134.0</b>	<b>0.0</b>	<b>-1,609.5</b>	<b>-7,418.0</b>
<b>77.7</b>	<b>93.9</b>	<b>407.2</b>	<b>386.1</b>	<b>0.0</b>	<b>-410.6</b>	<b>12,030.8</b>
0.0	0.0	0.0	0.0	0.0	0.0	2,365.3
3.7	2.8	28.0	16.0	0.0	-415.8	3,938.5
0.0	0.0	0.0	0.0	0.0	415.8	-837.2
604.5	319.4	382.3	599.5	0.0	-263.4	8,739.1
-556.9	-265.4	-270.7	-347.2	0.0	32.8	-5,984.3
22.3	35.4	162.9	50.1	0.0	-7.3	936.7
0.2	0.0	0.0	0.0	0.0	-9.8	2,551.6
4.0	1.7	104.8	67.7	0.0	-162.9	321.0
0.0	0.0	0.0	6.4	0.0	-6.4	99.8

**(44) Interest and similar income**

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
<b>Interest income</b>	<b>551.9</b>	<b>502.2</b>
from loans and advances to credit institutions	15.5	62.3
from loans and advances to customers	164.4	208.3
from bonds, treasury bills and other fixed-interest securities	10.6	23.6
from derivative financial instruments, net	169.7	203.2
from the release of hedge adjustments	186.1	0.0
Other interest income	5.5	4.8
<b>Current income</b>	<b>22.2</b>	<b>44.5</b>
from finance leasing	22.2	44.5
<b>Total</b>	<b>574.1</b>	<b>546.6</b>

The item loans and advances to customers includes income from unwinding in the amount of EUR 117.3 million (2014: EUR 120.2 million).

Interest and similar income breaks down as follows in accordance with IAS 39 categories:

EUR m

	IAS 39 Measurement category	1.1. - 31.12.2015	1.1. - 31.12.2014
<b>Interest income</b>		<b>574.1</b>	<b>546.6</b>
from loans and advances to credit institutions and customers	LAR	393.4	319.1
from derivative financial instruments, net	HFT (Fair Value Hedges)	169.7	203.2
from financial investments – designated at fair value through profit or loss	FVO	1.1	2.0
from financial investments – available for sale	AFS	9.7	21.9
Other	-	0.1	0.4
<b>Total</b>		<b>574.1</b>	<b>546.6</b>

**(45) Interest and similar expenses**

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
<b>Interest expenses</b>	<b>-467.9</b>	<b>-445.7</b>
for liabilities to credit institutions	-118.7	-121.8
for liabilities to customers	-58.3	-60.6
for liabilities evidenced by certificates	-218.7	-217.9
for subordinated capital	-51.7	-43.1
from the release of hedge adjustments	-12.8	0.0
for other liabilities	-7.7	-2.3
<b>Similar expenses</b>	<b>-53.3</b>	<b>-53.3</b>
<b>Total</b>	<b>-521.2</b>	<b>-498.9</b>

The item similar expenses includes the guarantee commission relating to the state-guaranteed subordinated bond issued at the end of 2012.

Interest and similar expenses are broken down as follows in accordance with IAS 39 categories:

EUR m

	IAS 39 Measurement	1.1. - 31.12.2015	1.1. - 31.12.2014
	category		
<b>Interest expenses</b>		<b>-467.9</b>	<b>-445.6</b>
for financial liabilities – designated at fair value through profit or loss	FVO	-26.0	-27.1
for financial liabilities – at cost	Fin. Liabilities At Cost	-441.9	-418.6
<b>Similar expenses</b>		<b>-53.3</b>	<b>-53.3</b>
<b>Total</b>		<b>-521.2</b>	<b>-498.9</b>

#### (46) Fee and commission income

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Credit business	1.6	4.5
Bank transfers including payment transactions	0.0	0.2
Other financial services	0.6	1.1
<b>Total</b>	<b>2.3</b>	<b>5.8</b>

#### (47) Fee and commission expenses

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Credit business	-39.2	-18.6
Securities and custodian business	-0.6	-0.6
Bank transfers including payment transactions	-0.4	-0.4
Other financial services	-1.4	-5.3
<b>Total</b>	<b>-41.6</b>	<b>-24.8</b>

Fee and commission expenses also include commission payable to the Republic of Austria for assuming a guarantee in the amount of EUR 17,6 million (2014: EUR -17.6 million), see note (129.3) Guarantee agreements with the Republic of Austria. This item also includes expenses of EUR -23.9 million for future fees in the 2016 and 2017 financial years in connection with the aforementioned guarantee agreement, taking into account expected cash flows, which were recognised as a provision. The values shown here result solely from the parent company Heta Asset Resolution AG.

#### (48) Gains and losses on financial instruments that are not measured at fair value through profit or loss

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Result from financial investments – available for sale	2.4	20.9
Result from financial investments – at cost	1.1	-8.6
<b>Total</b>	<b>3.5</b>	<b>12.3</b>

**(49) Result from the resolution/application of the Hypo Alpe Adria Restructuring Act (HaaSanG)**

EUR m

	31.12.2015	31.12.2014*
Recognition/derecognition of subordinated liabilities	-824.6	815.2
Recognition/derecognition of liabilities to BayernLB	-884.4	815.6
Resolution of derivative transactions	0	44.5
<b>Total</b>	<b>-1,709.0</b>	<b>1,675.3</b>

\*) Previous year's figures were adjusted for comparison purposes

Liabilities of approximately EUR 1.6 billion (nominal), which were treated as expired and derecognised through profit or loss in 2014, were again recognised as liabilities in the balance sheet for 31 December 2015 in the amount of EUR 1,709.0 million (nominal plus interest claims) as a result of the decision by the Constitutional Court of Austria (VfGH) from 3 July 2015. See also note (128.2) Repeal of the Hypo Alpe Adria Restructuring Act (HaaSanG) by the Constitutional Court of Austria (VfGH) and resulting lawsuits.

**(50) Result from trading**

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Foreign exchange transactions	-147.7	12.6
<b>Total</b>	<b>-147.7</b>	<b>12.6</b>

The trading result includes a result from currency-related transactions in the amount of EUR -125.8 million (2014: EUR 7.5 million), which is mainly due to the appreciation of the Swiss franc in 2015.

**(51) Result from hedge accounting**

This is the result from hedge accounting activities according to IAS 39, due to the measurement of the hedging derivatives and the measurement of the underlying transactions.

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Valuation result from secured underlying transactions	-4.5	59.3
Valuation result from hedging derivatives	4.3	-62.3
<b>Total</b>	<b>-0.2</b>	<b>-3.0</b>

All active hedges with a residual maturity past 2020, as well as all passive Heta hedges, were released, and the corresponding assets were reallocated to their initial categories.



**(52) Result from financial assets – designated at fair value through profit or loss**

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
<b>Result from financial assets and related derivatives</b>	<b>-73.7</b>	<b>-13.1</b>
from loans and advances to customers and credit institutions	-70.6	-16.4
from equity instruments	-3.5	-0.7
from debt instruments	1.1	4.6
from treasury bills	-0.7	-0.6
<b>Result from long-term financial liabilities and related derivatives</b>	<b>75.1</b>	<b>238.3</b>
from liabilities evidenced by certificates	26.4	136.3
from subordinated capital and other liabilities	48.8	102.0
<b>Current income from shares and other not fixed interest securities</b>	<b>0.0</b>	<b>0.1</b>
<b>Total</b>	<b>1.5</b>	<b>225.3</b>

The fair value option (FVO) applies to financial assets and liabilities that include embedded derivatives which must be stated separately. By designating the entire instrument in the category at fair value through profit or loss, the compulsory separation of hedging instruments is avoided.

Furthermore, this category is also used to avoid accounting mismatches. The fair value option is used for financial assets if related liabilities are already recognised at the fair value. In addition, this category is also used for the purpose of implementing a risk-reducing hedging strategy.

As at 31 December 2015, the change in the bank's own credit spreads or the widening of the liquidity spread for financial liabilities, which are realised at the fair value, resulted in an amount of EUR 426.0 million (2014: EUR 374.6 million) by which the carrying amount of the liabilities falls below the contractual repayment amount (nominal). The resulting effects were recognised in profit or loss and had a positive impact of EUR 51.4 million (2014: EUR 239.7 million) on the result for the 2015 financial year. The cumulative effect of EUR 426.0 million as at 31 December 2015 (2014: EUR 374.6 million) may lead to measurements being recognised as an expense in the IFRS consolidated financial statements in the coming years if the credit spread is reduced or a repayment is effected to the nominal amount. Of this amount, EUR 387.5 million (2014: EUR 337.2 million) pertains to issues underwritten by third parties, EUR 27.1 million (2014: 26.2 million) to still outstanding hybrid capital instruments with a nominal value of 23.5 million (2014: EUR 23.5 million), and EUR 11.4 million (2014: EUR 11.2 million) to supplementary capital issues.

**(53) Operating result from investment properties**

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Rental income	54.7	55.4
Depreciation	-24.0	-24.1
Disposal result	18.6	0.8
Other expenses	-10.3	-9.4
thereof direct operating expenses (rented IP)	-3.0	-1.7
thereof direct operating expenses (not rented IP)	-7.3	-7.7
<b>Total</b>	<b>39.0</b>	<b>22.7</b>

**(54) Other operating result**

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Other income	1,095.8	132.1
Other operating expenses	-332.0	-1,144.5
<b>Total</b>	<b>763.8</b>	<b>-1,012.4</b>
Result from operate lease assets	3.3	1.2
Other rental income	0.5	0.2
Net capital gains/losses from the sale of intangible and tangible assets	0.3	2.0
Result from emergency acquisitions and repossessed asset	3.0	-2.8
Result from allocation/release of other provisions	109.5	17.4
Other tax expenses (incl. bank tax except income tax)	-10.0	-1.7
Expenses from complete or partial sale of fully consolidated companies	5.0	-0.8
Restructuring expenses	-8.3	-26.5
Result from assets classified as held for sale and disposal groups	-2.9	-35.5
Remaining other result	663.3	-965.9
thereof income from release of provision for anticipated claims by creditors	886.8	-886.8
thereof expenses in connection with fees relating to the sale of the SEE network	-124.1	-2.0
thereof expenses in connection with retail guarantee	-75.0	0.0
<b>Total</b>	<b>763.8</b>	<b>-1,012.4</b>

The result from operating lease assets is mainly composed of gains on disposal and ongoing lease payments less regular depreciation.

Other rental income is the result of renting buildings used for own activities, which are of minor importance.

Next to the proceeds from disposals, the result from emergency acquisitions and repossessed leasing assets also includes rental income and current operating expenses.

The result from assets classified as held for sale and disposal groups is partly due to the valuation of a hotel that has been sold and one that is held for sale, and the proceeds from the disposal of an air plane.

The remaining other result includes income from the release of provisions, which were created in 2014 for the imminent utilisation by creditors in the amount of EUR 886.8 million. The re-recognition of the liabilities affected by Hypo Alpe Adria Restructuring Act (HaaSanG), which created a charge of EUR -1,709.0 million in the current income statement, necessitated the release of the created provision. In addition, the remaining other result also includes expenses from additional commission fees in connection with the sale of the SEE network in the amount of -112.8 million, as well as expenses for additional risk provisions allocation of EUR -75.0 million for the contractually agreed hedging of a retail portfolio. With respect to expected damage compensation payments, an amount of EUR -70.0 million was allocated to the provisions during the first half of 2015, which was released again during the second half of that year following the submission of a unilateral waiver by the buyer.

Detailed information regarding restructuring expenses can be found in note (117) Restructuring expenses.

**(55) Impairment of financial assets**

The impairment of financial assets is broken down as follows:

	EUR m	
	1.1. - 31.12.2015	1.1. - 31.12.2014*
<b>Impairment financial assets – at cost (risk provision)</b>	<b>793.0</b>	<b>-4,168.5</b>
Allocations	-336.3	-4,312.8
Releases	1,104.8	160.0
Receipts from loans and advances previously impaired	46.8	8.7
Directly recognised impairment losses	-22.4	-24.3
<b>Impairment financial assets – available-for-sale</b>	<b>-3.8</b>	<b>-5.7</b>
Expenses from impairment	-4.1	-7.3
Income from write-up	0.3	1.6
<b>Impairment financial assets – held to maturity</b>	<b>0.0</b>	<b>0.0</b>
<b>Total</b>	<b>789.2</b>	<b>-4,174.1</b>

\*) A comparison of allocation/release for 2014 with Note (66) Risk provisions on loans and advances and provisions for credit commitments and guarantees can only be performed in consideration of the discontinued operation (column reclassification IFRS 5).

The impairment of financial assets - at cost (risk provision) includes credit risk provisioning for on and off-balance-sheet transactions. Detailed information on risk provisions on loans and advances is provided under note (66) Risk provisions on loans and advances and provisions for credit commitments and guarantees.

Of the release totalling EUR 1,104.8 million, an amount of EUR 297.9 million relates to Hypo Alpe-Adria-Bank S.p.A., Udine (HBI). The remaining releases are due to successful disposals that were above the expected return flows.

**(56) Impairment of non-financial assets**

The impairment of non-financial assets is broken down as follows:

	EUR m	
	1.1. - 31.12.2015	1.1. - 31.12.2014
Land and buildings	-4.2	-35.3
Plant and equipment	-0.2	-0.5
Intangible assets	-1.3	-15.7
Goodwill	0.0	-0.3
Investment properties	-21.6	-510.5
Operate-Leases	-0.6	-25.5
Emergency required assets and repossessed assets from leases	-19.4	-122.0
<b>Total</b>	<b>-47.3</b>	<b>-709.8</b>

The impairment for land and buildings amounts to EUR -5.6 million (2014: EUR -35.3 million), and relates to an Italian hotel; this figure is accompanied by write-ups of EUR 1.4 million (2014: EUR 0.0 million), mainly from a Serbian leasing unit.

The impairments for plant and equipment, intangible assets, investment properties and emergency acquisitions and repossessed assets were identified on the basis of the "MV usa" (Market Value under special assumptions). See also notes (29) Investment properties, (30) Intangible and tangible assets and (33) Other assets.

The impairments applied to investment properties in the amount of EUR -34.4 million (2014: EUR -511.0 million) are mainly due to leasing units in Italy, Slovenia, Croatia and Bosnia. They are accompanied by write-ups of EUR 12.8 million (2014: EUR 0.5 million), which result mainly from real estate companies.

The impairment of EUR -19.9 million (2014: EUR -122.0 million) for emergency acquisitions and repossessed assets from leases is mainly due to the subsidiaries in Croatia, Bulgaria and Germany, whereas the write-up of EUR 0.5 million (2014: EUR 0.0 million) comes from a Bulgarian leasing unit.

**(57) Personnel expenses**

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Wages and salaries	-62.9	-73.0
Social security	-13.0	-14.0
Long-term employee provisions	-3.9	-6.1
Other employee costs	-3.5	-6.6
<b>Total</b>	<b>-83.2</b>	<b>-99.8</b>

The long-term employee provisions contain contributions to defined-contribution plans totalling EUR -0.5 million (2014: EUR -0.5 million). In addition, payments totalling EUR -0.7 million (2014: EUR -0.7 million) were made into the employee severance and retirement fund for the employees in Austria.

**(58) Other administrative expenses**

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014*
Infrastructure costs	-7.8	-11.1
IT- and telecommunications	-11.3	-18.1
Legal and advisory costs	-78.4	-43.0
Expense for audit and audit-related services	-3.4	-3.6
Expenses related to reorganisation and restructuring	-1.7	-11.4
Investigation of the past	-0.2	-46.0
Staff training cost	-0.8	-1.3
Administration expenses related to HBIInt. Credit Management	0.0	-3.4
Other general administrative expenses	-14.4	-17.6
<b>Total</b>	<b>-117.8</b>	<b>-155.5</b>

\*) figures from the previous year were adjusted

Reorganisation and restructuring costs include EUR -0.6 million for the implementation of risk systems (2014: EUR -1.8 million).

The item audit and audit-related services includes costs of EUR -2.3 million (2014: EUR -2.4 million) for the audit firms EY and KPMG, see note (118) Audit expenses. The Advertising item was reclassified into other administrative expenses during the 2015 year under review. The figures from the previous year were adjusted.

**(59) Depreciation and amortisation on tangible and intangible assets**

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Land and buildings	-1.7	-2.8
Plant and equipment	-1.9	-1.9
Intangible assets	-1.6	-2.7
<b>Total</b>	<b>-5.2</b>	<b>-7.4</b>

**(60) Result from companies accounted for at equity**

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Income from companies accounted for at equity	1.9	0.0
Expense from companies accounted for at equity	-0.1	-4.9
<b>Total</b>	<b>1.7</b>	<b>-4.9</b>

**(61) Taxes on income****61.1. Income tax expenses**

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
<b>Current tax</b>	<b>26.1</b>	<b>-4.4</b>
<b>Deferred tax</b>	<b>-23.8</b>	<b>-3.0</b>
from previous period	32.9	-26.5
<b>Total</b>	<b>2.3</b>	<b>-7.4</b>

The reconciliation from the oretically calculated tax expenses to the effective tax burden is as follows:

EUR m

	31.12.2015	31.12.2015
Result before tax from continued operation	-498.5	-4,189.9
Result before tax from discontinued operation	0.0	-3,238.9
<b>Result before tax</b>	<b>-498.5</b>	<b>-7,428.8</b>
Theoretical income tax expense based on Austrian corporate tax rate of 25 %	124.6	1,857.2
<b>Tax effects</b>		
from divergent foreign tax rates	-31.2	-206.2
from previous year	34.7	-26.5
from foreign income and other tax-exempt income	59.5	420.8
from non-tax deductible expenses	-207.4	-226.5
from non-recognition of deferred taxes on loss carryforwards and temporary differences	44.9	-1,807.4
from the change of deferred taxes on risk provisions, on temporary differences and loss carryforwards	-23.7	0.9
from other tax effects	0.8	-1.1
<b>Actual income tax expenses (effective tax rate: 0.5 % (2014: 0.1%))</b>	<b>2.3</b>	<b>11.1</b>
Income tax expenses reported in profit or loss	2.3	-7.4
Income tax expenses attributable to discontinued operations	0.0	18.5

The effects from the non-recognition of deferred tax assets for 2015 relate to temporary differences and tax loss carryforwards, especially those of Heta and the Croatian wind-down unit HETA Asset Resolution Hrvatska d.o.o. The non-recognition was due to the fact that it is unlikely that the amounts will be utilised during the wind-down period.

The effects from tax-exempt income relate mainly to the creation of non-deductible provisions at Heta. The effects from non-deductible expenses are mainly the result of the derecognition of liabilities on the basis of the Hypo Alpe Adria Restructuring Act (HaaSanG), and the reversal of the corresponding provision that was created in this context in the previous year.

**61.2. Deferred income tax assets / liabilities**

In 2015, deferred income tax assets and liabilities were offset to the extent that this was permitted under the specifications of IAS 12.

Taxes for Heta Asset Resolution AG were assessed until the year 2011. The corporate tax return for 2012 and 2013 has not yet been assessed by the tax office. The 2012 corporate tax return was submitted to the tax office on 17 April 2014, and the return for 2013 on 13 April 2015. VAT for Heta Asset Resolution AG was assessed until the year 2013. The official tax audit (audit period from 2005 - 2009) was concluded in July 2015 with a notice of assessment. The relevant results from the tax audit are fully included in the eligible loss carryforward of Heta Asset Resolution AG.

Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between the carrying amounts for tax purposes and the rates pursuant to IFRS for the following items:

EUR m

	2015			2014		
	Deferred Tax (netted)	Income Statement	Other comprehensive income (OCI)	Deferred Tax (netted)	Income Statement	Other comprehensive income (OCI)
Provisions for loans and advances	0.1	-25.7	0.0	25.8	-7.7	0.0
Accelerated depreciation for tax purposes /accelerated capital allowances	-0.1	-0.9	0.0	0.8	-0.1	0.0
Effects on AFS-investments	0.0	0.0	0.0	0.0	0.0	0.0
Hedged Accounting – revaluation of a hedged financial asset/liability and of the related swap	0.0	0.0	0.0	0.0	0.0	0.0
FVO – revaluation of a financial asset /liability and the related swap	0.0	0.0	0.0	0.0	0.1	0.0
Revaluation of leasing contracts	-2.3	3.0	0.0	-5.3	0.0	0.0
Termination benefits	0.0	0.0	0.0	0.0	0.2	0.0
Deferred revenue fee income	0.0	0.0	0.0	0.0	0.0	0.0
Other	-2.0	-0.1	0.0	-1.8	7.1	0.0
Utilizable tax losses carried forward	1.9	0.0	0.0	1.9	-2.6	0.0
<b>From continued operations</b>	<b>-2.6</b>	<b>-23.9</b>	<b>0.0</b>	<b>21.3</b>	<b>-3.0</b>	<b>0.0</b>
<b>From discontinued operations</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.5</b>
<b>Total deferred Tax</b>	<b>-2.6</b>	<b>-23.9</b>	<b>0.0</b>	<b>21.3</b>	<b>-3.0</b>	<b>0.5</b>

The total change in deferred taxes over the previous year in the consolidated financial statements is EUR -23.9 million, of which an amount of EUR -23.9 million is reflected in the current income statement as a deferred tax expense. The 2015 effect of deferred taxes through profit or loss of EUR -23.9 million is due in part to the revaluation of leasing contracts in the amount of EUR 3.0 million. The change in impairments through profit or loss in the amount of EUR -25.7 million is due to the transfer of a partial amount of deferred taxes capitalised in the previous year for an Italian wind-down unit to the actual corporate taxes. In Italy, deferred tax claims are submitted to the tax authority and are shown as an actual tax receivable once they are allowed. Within Heta, this effect is shown as the reversal of deferred taxes under deferred tax expenses, and the allocation of actual taxes is shown as the corresponding tax income.

The reconciliation of deferred taxes is as follows on a net basis:

EUR m

	2015	2014
<b>Balance at start of period (1.1.)</b>	<b>21.3</b>	<b>85.3</b>
Tax income/expense recognised in profit or loss	-23.8	-3.0
Fx-difference	0.0	-0.2
Deferred taxes acquired in change of scope	0.0	-60.9
<b>Balance at end of period (31.12.)</b>	<b>-2.6</b>	<b>21.3</b>

The presentation of deferred taxes in the statement of financial position is as follows:

EUR m

	2015	2014
Deferred tax assets	0.1	24.1
Deferred tax liabilities (-)	1.9	2.8
Deferred tax liabilities from assets held for sale (-)	0.8	0.0
<b>Deferred tax</b>	<b>-2.6</b>	<b>21.3</b>

Of the deferred taxes shown, an amount of EUR 1.9 million (2014: EUR 1.9 million) is due to tax claims being recognised as assets due to utilizable loss carryforwards. Due to the lack of utilisation in the respective group companies, deferred tax assets of EUR 2,069.2 million (2014: EUR 1,937.2 million) for unused tax losses in the amount of EUR 8,839.4 million (2014: EUR 8,447.4 million), and deferred tax assets of EUR 949.4 million (2014: 1,000.2 million) for deductible temporary differences of EUR 4,100.2 million (2014: EUR 4,335.0 million) were not entered on the asset side of the balance sheet. In addition, deferred tax assets in the amount of EUR 47.7 million (2014: EUR 430.7 million) were not recognised for temporary differences in connection with the participations in subsidiaries of EUR 228.4 million (2014: EUR 1,915.4 million). Of the unused tax losses in the amount of EUR 8,839.4 million (2014: EUR 8,447.4 million), EUR 7,843.5 million (2014: EUR 6,957.7 million) can be carried forward indefinitely, whereas EUR 1,054.3 million (2014: EUR 1,489.7 million) can be carried forward for a maximum period of five years. This information refers to the usability of tax loss carryforwards according to the existing time restrictions as per the respective provisions under tax legislation. Additional restrictions may result from other specifications, such as the wind-down plan. These were not taken into account.

Deferred tax assets for losses carried forward are recognised when it is likely that future tax profits will be generated, which would allow for utilisation. The respective business plans form the basis for these estimates.

With regard to the members of Heta's domestic tax group and the other wind-down companies abroad, losses carried forward were not entered on the assets side due to the history of losses.

Deferred tax liabilities in the amount of EUR 24.6 million (2014: EUR 1.7 million) were not recognised for temporary differences in connection with the participations in subsidiaries of EUR 98.4 million (2014: EUR 6.8 million), since it is not expected that these will turn around in the foreseeable future.

**(62) Non-controlling interests**

The non-controlling interests in the respective results from the relevant group companies are shown in the income statement as follows:

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
<b>HBInt. Credit Management Limited</b>	<b>12.0</b>	<b>-4.3</b>
Share in interest income	1.5	2.7
Share in measurement result	10.5	-6.9
<b>Norica Investments Limited</b>	<b>-0.4</b>	<b>21.6</b>
Share in interest income	-0.4	21.6
<b>Total</b>	<b>11.6</b>	<b>17.3</b>

The two companies HBInt Credit Management Limited and die Norica Investment Limited were removed from the scope of consolidation during the 2015 financial year. For details, please refer to note (11.1) Change in the scope of consolidation.

In the case of HBInt Credit Management Limited, Jersey, the entire result from the valuation and the sale of securities for the 2015 financial year amounts to EUR 20.7 million (adjusted 2014 value: EUR -14.1 million). Of this figure, EUR 10.1 million (adjusted 2014 value: EUR -6.9 million) is allocated as the result to the 49.0 % minority shareholder in the consolidated financial statements; this amount is covered by the equity capital that has been paid.

The amount of interest income attributable to the non-controlling interests in Norica Investments Limited includes the proportionate result allocation from the current result for 2015 and the attributable result from the distribution of investments.

**Notes to the statement of financial position****(63) Cash and balances at central bank**

EUR m

	31.12.2015	31.12.2014
Cash on hand	0.0	1.1
Balances with central banks (due on demand)	4,278.0	2,364.2
<b>Total</b>	<b>4,278.0</b>	<b>2,365.3</b>

Balances with central banks only show those amounts which are due on demand. Amounts not due on demand are shown under loans and advances to credit institutions.

**(64) Loans and advances to credit institutions****64.1. Loans and advances to credit institutions - by type of business**

EUR m

	31.12.2015	31.12.2014
Giro- and clearing business	91.5	694.4
Money market placements	1,415.0	797.5
Loans	1,153.7	2,409.7
Finance lease receivables	28.8	29.6
Other loans and advances	2.0	7.3
<b>Total</b>	<b>2,691.1</b>	<b>3,938.5</b>



**64.2. Loans and advances to credit institutions - by region**

EUR m

	31.12.2015	31.12.2014
Austria	1,024.0	1,374.5
Central and Eastern Europe (CEE)	68.0	93.8
Other countries	1,599.0	2,470.3
<b>Total</b>	<b>2,691.1</b>	<b>3,938.5</b>

The “Central and Eastern Europe (CEE)” region consists of the south-eastern European countries (SEE) and other eastern European countries.

Of the loans and advances to credit institutions relating to other countries, EUR 1,157.8 million is attributable to Italy (2014: EUR 1,647.3 million).

**(65) Loans and advances to customers****65.1. Loans and advances to customers - by type of business**

EUR m

	31.12.2015	31.12.2014
Current account credit	98.4	124.5
Bank loans	3,710.4	4,152.8
Mortgage loans	573.6	665.8
Municipal loans	873.9	952.5
Finance lease receivables	1,129.2	1,472.3
Other loans and advances	1,164.8	1,371.1
<b>Total</b>	<b>7,550.3</b>	<b>8,739.1</b>

**65.2. Loans and advances to customers - by type of customer**

EUR m

	31.12.2015	31.12.2014
Public sector	983.6	1,144.5
Corporate clients	6,232.9	7,171.2
Retail clients	333.9	423.3
<b>Total</b>	<b>7,550.3</b>	<b>8,739.1</b>

**65.3. Loans and advances to customers - by region**

EUR m

	31.12.2015	31.12.2014
Austria	774.4	962.2
Central and Eastern Europe (CEE)	5,652.1	6,464.2
Other countries	1,123.8	1,312.7
<b>Total</b>	<b>7,550.3</b>	<b>8,739.1</b>

Of the loans and advances to customers relating to other countries, an amount of EUR 318.1 million is attributable to Italy (2014: EUR 378.0 million) and EUR 379.4 million (2014: EUR 401.4 million) to Switzerland, Belgium and Germany.

**(66) Risk provisions on loans and advances and provisions for credit commitments and guarantees****66.1. Risk provisions on loans and advances and provisions for credit commitments and guarantees – development during the year**

EUR m

	As at 1.1.2015	Foreign- exchange- differences	Allocations	Releases	Use	Other	Changes IFRS 5	Un- winding	As at 31.12.2015
<b>Specific risk provisions</b>	<b>-6,768.6</b>	<b>-43.5</b>	<b>-286.8</b>	<b>1,048.1</b>	<b>356.5</b>	<b>-0.3</b>	<b>2.5</b>	<b>117.3</b>	<b>-5,574.9</b>
Loans and advances to credit institutions	-830.5	-1.2	-1.5	283.1	-7.9	0.0	0.0	86.7	<b>-471.3</b>
Loans and advances to customers	-5,908.8	-42.3	-284.3	750.4	353.7	0.0	-0.6	30.6	-5,101.3
Other financial assets	-29.3	0.0	-1.0	14.6	10.6	-0.3	3.1	0.0	-2.3
<b>Portfolio-based risk provisions</b>	<b>-83.5</b>	<b>-0.2</b>	<b>-45.2</b>	<b>41.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-87.5</b>
Loans and advances to credit institutions	-6.7	0.0	-15.9	3.2	0.0	0.0	0.0	0.0	<b>-19.4</b>
Loans and advances to customers	-75.5	-0.2	-26.5	38.0	0.0	0.0	0.0	0.0	-64.0
Other financial assets	-1.3	0.0	-2.8	0.0	0.0	0.0	0.0	0.0	-4.1
<b>Subtotal risk provisions on loans and advances</b>	<b>-6,852.1</b>	<b>-43.7</b>	<b>-332.0</b>	<b>1,089.3</b>	<b>356.5</b>	<b>-0.3</b>	<b>2.5</b>	<b>117.3</b>	<b>-5,662.4</b>
<b>Provisions for credit commitments and guarantees</b>	<b>-44.5</b>	<b>0.0</b>	<b>-4.3</b>	<b>15.5</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-33.1</b>
Individual provisions	-44.4	0.0	-3.1	15.5	0.1	0.0	0.0	0.0	-31.9
Portfolio provisions	-0.1	0.0	-1.2	0.1	0.0	0.0	0.0	0.0	-1.2
<b>Total</b>	<b>-6,896.5</b>	<b>-43.7</b>	<b>-336.3</b>	<b>1,104.9</b>	<b>356.6</b>	<b>-0.3</b>	<b>2.5</b>	<b>117.3</b>	<b>-5,695.5</b>

The specific risk provisions for credit institutes include a provision for the continued refinancing lines of the former subsidiary Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) in the amount of approximately EUR 0.5 billion (previous year: EUR 0.8 billion).

Reference is also made to the explanations in note (55) Impairment of financial assets and note (94) Credit Risk (counterpart default risk) ff. Risk report.

The provisions for credit commitments and guarantees are shown under note (81) Provisions.

Risk provisions on loans and advances and provisions for credit commitments and guarantees were as follows as at 31 December 2014:

EUR m

	As at 1.1.2014	Foreign- exchange- differences	Allocations	Releases	Use	Other	Changes IFRS 5	Un- winding	As at 31.12.2014
<b>Specific risk provisions</b>	<b>-3,797.7</b>	<b>-9.0</b>	<b>-4,453.6</b>	<b>199.3</b>	<b>548.4</b>	<b>-63.0</b>	<b>662.8</b>	<b>144.3</b>	<b>-6,768.6</b>
Loans and advances to credit institutions	-7.7	0.1	-822.9	0.0	0.0	0.0	0.0	0.0	-830.5
Loans and advances to customers	-3,749.2	-9.1	-3,626.3	188.8	544.3	-62.9	661.3	144.3	-5,908.8
Other financial assets	-40.9	0.0	-4.4	10.5	4.1	-0.1	1.4	0.0	-29.3
<b>Portfolio-based risk provisions</b>	<b>-76.9</b>	<b>0.3</b>	<b>-73.9</b>	<b>24.2</b>	<b>0.0</b>	<b>0.0</b>	<b>42.8</b>	<b>0.0</b>	<b>-83.5</b>
Loans and advances to credit institutions	-0.6	0.0	-6.7	0.5	0.0	0.0	0.1	0.0	-6.7
Loans and advances to customers	-76.0	0.3	-66.2	23.7	0.0	0.0	42.7	0.0	-75.5
Other financial assets	-0.3	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	-1.3
<b>Subtotal risk provisions on loans and advances</b>	<b>-3,874.6</b>	<b>-8.7</b>	<b>-4,527.5</b>	<b>223.5</b>	<b>548.4</b>	<b>-63.0</b>	<b>705.6</b>	<b>144.3</b>	<b>-6,852.1</b>
<b>Provisions for credit commitments and guarantees</b>	<b>-42.1</b>	<b>0.0</b>	<b>-55.8</b>	<b>19.2</b>	<b>20.9</b>	<b>-0.4</b>	<b>13.8</b>	<b>0.0</b>	<b>-44.5</b>
Individual provisions	-29.2	0.0	-48.4	8.5	20.4	-0.4	4.6	0.0	-44.4
Portfolio provisions	-13.0	0.0	-7.4	10.6	0.5	0.0	9.2	0.0	-0.1
<b>Total</b>	<b>-3,916.7</b>	<b>-8.7</b>	<b>-4,583.3</b>	<b>242.7</b>	<b>569.3</b>	<b>-63.4</b>	<b>719.3</b>	<b>144.3</b>	<b>-6,896.6</b>

## 66.2. Risk provisions - by region

EUR m

	31.12.2015	31.12.2014
Austria	-213.0	-257.5
Central and Eastern Europe (CEE)	-4,475.4	-5,139.0
Other countries	-973.9	-1,455.6
<b>Total</b>	<b>-5,662.4</b>	<b>-6,852.1</b>

Of the risk provisions relating to other countries, an amount of EUR -773.3 million is attributable to Italy (2014: EUR 1,233.0), EUR -58.4 million to Germany (2014: EUR 75.8 million) and EUR -51.3 million to the United Kingdom (2014: 56.5 million).

## (67) Derivative financial instruments

EUR m

	31.12.2015	31.12.2014
Positive market value of derivative financial instruments – trading	14.6	16.6
Positive market value of derivative financial instruments – banking book	581.7	939.7
<b>Total</b>	<b>596.2</b>	<b>956.3</b>

Heta hedged the fixed interest component of several fixed-interest issues with derivative financial instruments as part of its interest risk management. The market value of the issues developed negatively and the corresponding derivative transaction developed positively due to the significant drop in interest rates as compared to the issue date of the liabilities.

By using hedge accounting and the fair value option, the underlying transactions are not recognised at amortised cost but at the adjusted hedge fair value, while the market value of the derivative transaction is recognised separately as an asset pursuant to IAS 39. Positive market values from derivative transactions are primarily hedged by counterparties supplying cash collateral.

The net change in the market value of the derivative instruments and the hedged underlying transactions are recognised in the result from hedge accounting and in the result from financial assets – designated at fair value through profit or loss on the basis of the corresponding designation.

All active hedges with a residual maturity outside of the time horizon specified by the Austrian Financial Market Authority (FMA) (31 December 2020) were released as at 31 December 2014 and have since been treated as stand-alone derivatives and shown accordingly. See also note (20) Hedge Accounting.

#### (68) Financial assets – designated at fair value through profit or loss

EUR m

	31.12.2015	31.12.2014
Loans and advances to customers and credit institutions	198.9	288.6
Bonds and other fixed-interest securities	0.0	192.3
Shares and other non-fixed-interest securities	6.3	8.4
<b>Total</b>	<b>205.2</b>	<b>489.2</b>

#### (69) Financial assets - available for sale

EUR m

	31.12.2015	31.12.2014
Bonds and other fixed-interest securities	377.6	1,068.9
Shares and other non-fixed-interest securities	15.9	19.8
Shares in affiliated, non-consolidated companies (> 50 %)	2.4	9.3
Loans and advances to customers/credit institutions	0.0	8.1
<b>Total</b>	<b>395.9</b>	<b>1,106.1</b>

#### (70) Investments in companies accounted for at equity

EUR m

	31.12.2015	31.12.2014
Shares in other associated companies	3.8	2.0
<b>Total</b>	<b>3.8</b>	<b>2.0</b>

Associated companies accounted for at equity are shown under note (137) Scope of consolidation.

#### (71) Investment properties

EUR m

	31.12.2015	31.12.2014
Investment property leased out	150.1	454.0
Vacant Investment property	250.9	330.8
Prepayments/asset under construction	4.5	4.8
<b>Total</b>	<b>405.4</b>	<b>789.6</b>

This reduction is due mainly to the reclassification of the subsidiary Centrice, together with its leased and vacant financial investments, into assets classified as held for sale. For additional details please refer to note (73) Development of fixed assets and note (29) Investment properties.

## (72) Tangible assets

EUR m

	31.12.2015	31.12.2014
Land and buildings	22.5	37.6
Plant and equipment	4.7	5.2
<b>Total</b>	<b>27.1</b>	<b>42.8</b>

**(73) Development of fixed assets****73.1. Development of acquisition costs and carrying amounts**

<b>31.12.2015</b>	<b>Acquisition costs 1.1.2015</b>	<b>Foreign-exchange-differences</b>	<b>Additions</b>	<b>Disposals</b>
<b>INTANGIBLE ASSETS</b>	<b>50.9</b>	<b>0.0</b>	<b>3.0</b>	<b>-4.2</b>
Goodwill	0.0	0.0	0.0	0.0
Software	28.1	0.0	2.6	-0.5
purchased	23.1	0.0	2.6	-0.3
self generated	5.1	0.0	0.0	-0.2
Other intangible assets	22.6	0.0	0.3	-3.7
Prepayments for intangible assets	0.1	0.0	0.0	0.0
<b>TANGIBLE ASSETS</b>	<b>139.9</b>	<b>0.0</b>	<b>2.6</b>	<b>-2.6</b>
Land and buildings	121.7	0.0	0.7	-0.1
Land	6.5	0.0	0.0	0.0
Buildings	114.3	0.0	0.7	0.0
Assets under construction	0.9	0.0	0.0	-0.1
Plant and equipment	18.2	0.0	2.0	-2.5
<b>INVESTMENT PROPERTIES</b>	<b>1,613.9</b>	<b>0.6</b>	<b>53.2</b>	<b>-100.5</b>
Investment properties leased out/rented	907.0	0.6	13.7	-22.4
Vacant investment properties	686.3	0.0	38.8	-75.5
Assets under construction (future investment properties)	20.6	0.0	0.6	-2.6
<b>Total</b>	<b>1,804.7</b>	<b>0.6</b>	<b>58.8</b>	<b>-107.3</b>

Additions to investment properties include an amount of EUR 45.1 million (2014: EUR 131.9 million), which is the result of the transfer from inventories.

<b>31.12.2014</b>	<b>Acquisition costs 1.1.2014</b>	<b>Foreign-exchange-differences</b>	<b>Additions</b>	<b>Disposals</b>
<b>INTANGIBLE ASSETS</b>	<b>141.6</b>	<b>-0.7</b>	<b>5.9</b>	<b>-17.3</b>
Goodwill	1.1	0.0	0.0	-1.1
Software	102.6	-0.4	4.6	-15.9
purchased	79.9	-0.3	4.5	-9.0
self generated	22.8	-0.1	0.1	-7.0
Other intangible assets	26.7	0.0	0.1	-0.3
Prepayments for intangible assets	11.2	-0.3	1.2	0.0
<b>TANGIBLE ASSETS</b>	<b>549.2</b>	<b>-2.1</b>	<b>11.7</b>	<b>-9.4</b>
Land and buildings	383.3	-0.9	5.5	-3.2
Land	26.8	0.0	0.0	-0.1
Buildings	352.9	-0.9	4.0	-3.1
Assets under construction	3.7	0.0	1.4	0.0
Plant and equipment	165.9	-1.1	6.3	-6.2
<b>INVESTMENT PROPERTIES</b>	<b>1,391.0</b>	<b>-0.3</b>	<b>135.7</b>	<b>-39.3</b>
Investment properties leased out/rented	824.5	0.2	13.2	-21.6
Vacant investment properties	549.6	-0.4	118.5	-17.7
Assets under construction (future investment properties)	16.9	0.0	4.0	-0.1
<b>Total</b>	<b>2,081.7</b>	<b>-3.0</b>	<b>153.3</b>	<b>-66.0</b>

EUR m

Changes due to IFRS 5 (assets held for sale)	Other changes	Acquisition costs 31.12.2015	Cumulative depreciation 31.12.2015	Carrying amount 31.12.2015	Carrying amount 31.12.2014
-14.1	0.0	35.6	-35.6	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0
-1.2	0.0	29.1	-29.1	0.0	0.0
-0.3	0.0	25.1	-25.1	0.0	0.0
-0.8	0.0	4.0	-4.0	0.0	0.0
-12.9	0.0	6.4	-6.4	0.0	0.0
0.0	0.0	0.1	-0.1	0.0	0.0
-35.0	3.4	108.4	-81.2	27.1	42.9
-33.1	3.4	92.6	-70.1	22.5	37.6
-4.0	2.0	4.5	-2.3	2.1	3.0
-29.0	1.4	87.3	-67.0	20.3	34.4
0.0	0.0	0.8	-0.8	0.0	0.1
-1.9	0.0	15.8	-11.1	4.7	5.3
-628.1	-3.4	935.6	-530.2	405.4	789.6
-571.5	34.6	361.9	-211.9	150.1	454.0
-54.6	-37.9	557.2	-306.3	250.9	330.8
-2.1	-0.1	16.5	-12.0	4.5	4.8
<b>-677.1</b>	<b>0.0</b>	<b>1,079.5</b>	<b>-647.0</b>	<b>432.5</b>	<b>832.4</b>

EUR m

Changes due to IFRS 5 (assets held for sale)	Other changes	Acquisition costs 31.12.2014	Cumulative depreciation 31.12.2014	Carrying amount 31.12.2014	Carrying amount 31.12.2013
-79.4	0.8	50.9	-50.9	0.0	16.3
0.0	0.0	0.0	0.0	0.0	0.0
-72.9	10.0	28.1	-28.1	0.0	0.0
-53.0	1.0	23.1	-23.1	0.0	0.0
-19.8	9.0	5.1	-5.1	0.0	0.0
-3.9	0.0	22.6	-22.6	0.0	16.3
-2.6	-9.2	0.1	-0.1	0.0	0.0
-334.8	-74.8	139.9	-97.0	42.9	260.8
-187.0	-75.9	121.7	-84.1	37.6	244.2
-13.7	-6.5	6.5	-3.4	3.0	23.3
-171.7	-66.9	114.3	-79.9	34.4	218.3
-1.5	-2.6	0.9	-0.8	0.1	2.7
-147.8	1.1	18.2	-13.0	5.3	16.6
-26.3	153.2	1,613.9	-824.4	789.6	1,115.3
-12.1	102.8	907.0	-453.0	454.0	671.9
-14.2	50.5	686.3	-355.5	330.8	431.9
0.0	-0.1	20.6	-15.9	4.8	11.4
<b>-440.4</b>	<b>79.2</b>	<b>1,804.7</b>	<b>-972.3</b>	<b>832.4</b>	<b>1,392.4</b>

## 73.2. Development of depreciation

31.12.2015	Cumulative depreciation 1.1.2015	Foreign exchange- differences	Disposals
<b>INTANGIBLE ASSETS</b>	<b>-50.9</b>	<b>0.0</b>	<b>4.2</b>
Goodwill	0.0	0.0	0.0
Software	-28.1	0.0	0.5
purchased	-23.1	0.0	0.3
self generated	-5.1	0.0	0.2
Other intangible assets	-22.6	0.0	3.7
Prepayments for intangible assets	-0.1	0.0	0.0
<b>TANGIBLE ASSETS</b>	<b>-97.0</b>	<b>-0.1</b>	<b>2.4</b>
Land and buildings	-84.1	-0.1	0.0
Land	-3.4	0.0	0.0
Buildings	-79.9	0.0	0.0
Assets under construction	-0.8	0.0	0.0
Plant and equipment	-13.0	0.0	2.3
<b>INVESTMENT PROPERTIES</b>	<b>-824.4</b>	<b>-0.3</b>	<b>39.7</b>
Investment properties leased out/rented	-453.0	-0.3	7.7
Vacant investment properties	-355.5	-0.1	29.6
Assets under construction (future investment properties)	-15.9	0.0	2.4
<b>Total</b>	<b>-972.3</b>	<b>-0.4</b>	<b>46.2</b>

31.12.2014	Cumulative depreciation 1.1.2014	Foreign exchange- differences	Disposals
<b>INTANGIBLE ASSETS</b>	<b>-125.3</b>	<b>0.1</b>	<b>16.7</b>
Goodwill	-1.1	0.0	1.1
Software	-102.6	0.1	15.3
purchased	-79.9	0.1	8.4
self generated	-22.8	0.0	6.9
Other intangible assets	-10.4	0.0	0.3
Prepayments for intangible assets	-11.2	0.0	0.0
<b>TANGIBLE ASSETS</b>	<b>-288.4</b>	<b>0.4</b>	<b>6.8</b>
Land and buildings	-139.1	0.2	1.6
Land	-3.5	0.0	0.0
Buildings	-134.6	0.2	1.6
Assets under construction	-1.0	0.0	0.0
Plant and equipment	-149.3	0.2	5.2
<b>INVESTMENT PROPERTIES</b>	<b>-275.7</b>	<b>1.5</b>	<b>8.3</b>
Investment properties leased out/rented	-152.6	0.9	7.1
Vacant investment properties	-117.6	0.6	1.3
Assets under construction (future investment properties)	-5.5	0.0	0.0
<b>Total</b>	<b>-689.3</b>	<b>1.9</b>	<b>31.9</b>



EUR m

	Depreciation charge for the year	Impairment	Changes due to IFRS 5 (assets held for sale)	Other changes	Write-ups	Cumulative depreciation 31.12.2015
	-1.6	-1.3	14.0	0.0	0.0	-35.6
	0.0	0.0	0.0	0.0	0.0	0.0
	-1.6	-1.0	1.1	0.0	0.0	-29.1
	-1.6	-1.0	0.3	0.0	0.0	-25.1
	0.0	0.0	0.8	0.0	0.0	-4.0
	0.0	-0.3	12.9	0.0	0.0	-6.4
	0.0	0.0	0.0	0.0	0.0	-0.1
	-3.6	-5.8	23.9	-2.4	1.5	-81.2
	-1.7	-5.6	22.3	-2.5	1.4	-70.1
	0.0	0.0	1.7	-0.8	0.2	-2.3
	-1.7	-5.6	20.7	-1.7	1.2	-67.0
	0.0	0.0	0.0	0.0	0.0	-0.8
	-1.9	-0.2	1.6	0.1	0.0	-11.1
	-24.0	-34.4	298.0	2.4	12.7	-530.2
	-17.7	-10.6	262.6	-11.0	10.3	-211.9
	-6.3	-23.8	34.0	13.4	2.4	-306.3
	0.0	0.0	1.4	0.0	0.0	-12.0
	-29.2	-41.5	335.9	0.1	14.2	-647.0

EUR m

	Depreciation charge for the year	Impairment	Changes due to IFRS 5 (assets held for sale)	Other changes	Write-ups	Cumulative depreciation 31.12.2014
	-2.7	-15.7	49.7	26.3	0.0	-50.9
	0.0	0.0	0.0	0.0	0.0	0.0
	-1.7	-0.5	46.3	15.0	0.0	-28.1
	-1.7	-0.5	40.4	10.2	0.0	-23.1
	0.0	0.0	5.9	4.9	0.0	-5.1
	-1.0	-15.2	3.5	0.2	0.0	-22.6
	0.0	0.0	0.0	11.0	0.0	-0.1
	-4.7	-35.8	171.7	52.9	0.0	-97.0
	-2.8	-35.3	63.7	27.6	0.0	-84.1
	0.0	-2.6	2.5	0.0	0.0	-3.4
	-2.8	-32.7	61.1	27.4	0.0	-79.9
	0.0	0.0	0.0	0.2	0.0	-0.8
	-1.9	-0.5	108.1	25.3	0.0	-13.0
	-24.1	-511.0	4.4	-28.2	0.5	-824.4
	-18.3	-273.7	3.3	-20.1	0.5	-453.0
	-5.8	-226.9	1.0	-8.1	0.0	-355.5
	0.0	-10.4	0.0	0.0	0.0	-15.9
	-31.6	-562.5	225.8	51.0	0.5	-972.3

**(74) Assets classified as held for sale**

As at 31 December 2015, the item “assets classified as held for sale”, which must be reported separately according to IFRS 5, includes assets held for sale that will likely be sold during the next 12 months.

This item includes, among others, the assets of the Croatian real estate project “Skipper”, the assets of Centrice including its subsidiaries, the assets of the Macedonian group company Heta Asset Resolution Leasing DOOEL Skopje, properties of the project company Tridana d.o.o., properties of the Hungarian project company HETA 2014 Tanacsado Kft as well as a ceramics manufacturing business of the Bulgarian subsidiary. The assets of the “Skipper” real estate project and of Centrice are shown in the “Holding” segment as part of segment reporting. The properties of the project company Tridana d.o.o. in the “Slovenia” segment, and the Bulgarian manufacturing operation, the properties of the Hungarian project company and the assets of the Macedonian group company are shown in the “Others” segment. For additional details, please see note (12.2) Disposal of participations and assets.

EUR m

	31.12.2015	31.12.2014
Cash and balances at central banks	0.3	0.0
Loans and advances to credit institutions	28.8	9.0
Loans and advances to customers	12.5	0.6
Impairment on financial assets – at cost (risk provision)	-13.9	-0.6
Financial investments – available for sale	2.4	0.0
Other financial investments (investment properties)	329.9	1.3
Intangible assets	0.1	0.2
Tangible assets	21.5	59.1
Tax assets	0.2	0.0
Other assets	50.0	30.3
<b>Total</b>	<b>431.7</b>	<b>99.8</b>

For additional details, please refer to note (12) Winding down investment companies and portfolio sales.

**(75) Other assets**

EUR m

	31.12.2015	31.12.2014
<b>Deferred income</b>	<b>3.1</b>	<b>8.2</b>
<b>Other assets</b>	<b>187.8</b>	<b>301.2</b>
Assets used for operate lease	2.1	13.3
Real Estate (under construction, held for sale, emergency acquisition, repossessed assets)	82.3	118.7
Movables (leases to go and repossessed assets)	16.3	15.1
Prepayments	1.3	0.9
Value added taxes and other tax assets	14.0	13.4
Remaining not bank specific receivables	9.3	47.4
Other assets	62.4	92.4
<b>Total</b>	<b>190.9</b>	<b>309.3</b>

**(76) Liabilities to credit institutions****76.1. Liabilities to credit institutions - by type of business**

EUR m

	31.12.2015	31.12.2014
<b>To other credit institutions</b>	<b>3,400.0</b>	<b>2,845.3</b>
Due on demand	181.1	1,649.5
Time deposits	2,818.2	263.7
Loans from banks	6.6	15.8
Money market securities	364.1	886.3
Other liabilities	30.0	30.0
<b>Total</b>	<b>3,400.0</b>	<b>2,845.3</b>

In the 2014 financial year, Heta's liabilities to its former majority shareholder covered under the Hypo Alpe Adria Restructuring Act (HaaSanG) in the amount of EUR 0.8 billion (nominal amount) were derecognised and collected through profit or loss. On the basis of the decision of the Austrian Constitutional Court (VfGH) from 3 July 2015, according to which the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV) based on the same were repealed in their entirety, these liabilities were again recognised through profit or loss as of 30 June 2015.

The income statement for 2015 reports expenses in connection with the re-recognition of these liabilities under the item "Result from the resolution/application of the Hypo Alpe Adria Restructuring Act (HaaSanG)", see note (49) Result from the resolution/application of the Hypo Alpe Adria Restructuring Act (HaaSanG).

**76.2. Liabilities to credit institutions - by region**

EUR m

	31.12.2015	31.12.2014
Austria	113.7	152.4
Central and Eastern Europe (CEE)	9.7	15.2
Other countries	3,276.7	2,677.7
<b>Total</b>	<b>3,400.0</b>	<b>2,845.3</b>

Liabilities to credit institutions include liabilities designated at fair value through profit or loss of EUR 172.8 million (2014: EUR 198.0 million) - see note (120) Loans and advances and financial liabilities designated at fair value.

Of the liabilities relating to other countries, EUR 2,867.6 million are attributable to Germany (2014: EUR 1,900.5 million) and EUR 145.5 million (2014: EUR 479.2 million) to the United Kingdom.

**(77) Liabilities to customers****77.1. Liabilities to customers - by type of customer**

EUR m

	31.12.2015	31.12.2014
<b>Demand and time deposits</b>	<b>1,509.8</b>	<b>1,575.5</b>
from public sector	85.6	84.5
from corporate clients	1,422.9	1,489.0
from retail clients	1.3	2.0
<b>Total</b>	<b>1,509.8</b>	<b>1,575.5</b>

\* The liabilities covered by the moratorium continue to be recognised in consideration of the currency and interest rates. The resolution authority (FMA), in exercise of its sole decision-making powers according to the Federal Act on the Recovery and Resolution of Banks (BaSAG), will define the possible participation of creditors and the amount and date of payment.

**77.2. Liabilities to customers - by region**

EUR m

	31.12.2015	31.12.2014
Austria	40.4	53.7
Central and Eastern Europe (CEE)	17.3	14.9
Other countries	1,452.1	1,507.0
<b>Total</b>	<b>1,509.8</b>	<b>1,575.5</b>

Liabilities to customers include liabilities designated at fair value through profit or loss of EUR 1.0 million (2014: EUR 3.0 million) - see note (120) Loans and advances and financial liabilities designated at fair value.

Of the liabilities attributable to other countries, EUR 1,421.8 million (2014: EUR 1,349.5 million) are attributable to Germany.

**(78) Liabilities Pfandbriefbank**

EUR m

	31.12.2015	31.12.2014
<b>Total</b>	<b>1,241.9</b>	<b>0.0</b>

The other member institutions and guarantors covered the liabilities of Pfandbriefbank (Österreich) AG (Pfandbriefbank) after 1 March 2015, for which Heta would have been responsible in terms of the internal relationship. These concern those issues that were carried out by the Pfandbriefbank on behalf of Heta. Heta was informed by the Pfandbriefbank that the bank had assigned its own claims against Heta (from the forwarding of the issue proceeds) to (several) member institutions and guarantors in return for assuming these liabilities.

The legal nature of the receivable from Heta had not changed by the balance sheet date.

Since Heta was not fully informed of the internal agreements between the Pfandbriefbank, the other member institutions and the guarantors, the Executive Board made the decision that the liabilities issued through the Pfandbriefbank would no longer be reported under liabilities to customers and liabilities evidenced by certificates, but rather in a separate item as at 31 December 2015.

For additional information, please refer to note (115) Liability for commitments issued through Pfandbriefbank (Österreich) AG".

**(79) Liabilities evidenced by certificates**

EUR m

	31.12.2015	31.12.2014
Issued bonds	7,600.0	7,575.1
Liabilities issued by the "Pfandbriefbank"	0.1	1,175.7
<b>Total</b>	<b>7,600.1</b>	<b>8,750.8</b>

\* The liabilities covered by the moratorium continue to be recognised in consideration of the currency and interest rates. The resolution authority (FMA), in exercise of its sole decision-making powers according to the Federal Act on the Recovery and Resolution of Banks (BaSAG), will define the possible participation of creditors and the amount and date of payment.

Liabilities evidenced by certificates include liabilities designated at fair value through profit or loss of EUR 198.2 million (2014: EUR 226.1 million) - see note (120) Loans and advances and financial liabilities designated at fair value.

**(80) Derivative financial instruments**

EUR m

	31.12.2015	31.12.2014
Negative market value of derivative financial instruments – trading	15.3	17.7
Negative market value of derivative financial instruments – banking book	464.9	772.1
<b>Total</b>	<b>480.2</b>	<b>789.8</b>

**(81) Provisions****81.1. Provisions in detail**

EUR m

	31.12.2015	31.12.2014
Pensions	5.8	5.8
Severance payments	4.9	8.9
Provisions for anniversary payments	0.1	0.9
Provisions for credit commitments and guarantees	33.1	44.5
Restructuring provisions as per IAS 37.70	41.0	29.1
Other provisions	377.9	1,356.7
<b>Total</b>	<b>462.7</b>	<b>1,445.9</b>

The development of provisions for credit commitments and guarantees are shown under note (66) Risk provisions on loans and advances and provisions for credit commitments and guarantees.

Additional restructuring provisions were created in the companies during the 2015 financial year, which are legally obliged to pay severance payments in connection with the reduction of the workforce. The major part of the restructuring provisions is expected to be utilised until 2018.

Provisions of EUR 886.8 million were created as at 31 December 2014 for anticipated claims by creditors in connection with the decision of the Munich I regional court on 8 May 2015. As a result of the decision by the Austrian Constitutional Court (VfGH) from 3 July 2015, which led to the renewed recognition of the liabilities affected by the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV), such a provision is no longer required. In 2015, the income from the reversal of this provision is shown in the item "Other operating result", and in the income statement partially compensates the negative effect from the re-recognition of the affected liabilities (see note (54) Other operating result).

The item other provisions includes provisions for consulting and legal costs, tax proceedings, expenses relating to the forensic investigation of the past, provisions for statutory cost recourse claims, fees and external wind-down costs.

The provisions are primarily of a short- to medium-term character.

## 81.2. Provisions - Development of pension and severance provisions and plan assets

The development of the present value of the pension and severance obligations is shown below. The information has been summarised for reasons of materiality:

EUR m

	2015	2014*
<b>Present value of personnel commitments as at 1.1.</b>	<b>14.9</b>	<b>15.8</b>
+ Current service costs	-1.3	2.8
+ Interest expense	0.2	0.3
+/- Actuarial gains/losses	-0.2	-0.4
+/- Actuarial gains/losses arising from changes in financial assumptions	0.7	0.2
+/- Actuarial gains/losses arising from changes from experience assumptions	-0.9	-0.6
+ Contributions to the plan (employer)	0.0	2.6
- Payments from the plan	-0.6	-0.3
thereof the amount paid in respect of any settlements	0.0	-0.1
+/- Other changes	-2.0	-5.8
<b>Present value of personnel commitments as at 31.12.</b>	<b>11.0</b>	<b>14.9</b>

\*) figures from the previous year were adjusted

Other changes in 2015 include reclassifications of severance provisions into restructuring provisions in the amount of EUR 2.7 million.

The development of plan assets as at 31 December 2015 is as follows:

EUR m

	2015	2014
<b>Fair Value of plan assets as at 1.1.</b>	<b>0.2</b>	<b>0.2</b>
<b>Fair Value of plan assets as at 31.12.</b>	<b>0.2</b>	<b>0.2</b>

The main parameters of a sensitivity analyses are shown in the table below:

EUR m

Assumptions	31.12.2015							
	Discount rate		Salary increases		Benefit increases		Mortality rate	
	Increase by 0.5 %	Decrease by 0.5 %	Increase by 0.5 %	Decrease by 0.5 %	Decrease by 0.5 %	Decrease by 0.5 %	Increase by 1 year	Decrease by 1 year
Retirement benefits	5.8	6.4	0.0	0.0	5.8	6.4	5.8	6.3
Severance payment	5.0	4.7	4.7	4.8	0.0	0.0	0.0	0.0

In performing the sensitivity analysis, the following actuarial assumptions were considered significant and calculated with the following margins:

- Pension provision: discount rate + / - 0.5 %, pension increase + / - 0.5 %, life expectancy + / - 1 year
- Severance provision: discount rate + / - 0.5 %, salary increase + / - 0.5 %

The sensitivity analysis of life expectancy was performed by shifting the average life expectancy for all components of each plan.

The defined-benefit obligation is expected to result in the following payments in future years:

EUR m

	2015	2014
Within the next 12 months	1.2	0.9
From 2 to 5	10.3	4.9
From 5 to 10	0.0	4.8
<b>Total expected benefit payment</b>	<b>11.5</b>	<b>10.6</b>

The average maturity of the defined-benefit obligation of Heta as at 31 December 2015 is five years (2014: five years).

### 81.3. Provisions - Development of other provisions

Other provisions changed as follows during the year under review:

EUR m

	Carrying amount 1.1.2015	Foreign-exchange-differences	Allo-cations	Use	Releases	Changes IFRS 5	Other changes	Carrying amount 31.12.2015
Provisions for anniversary payments	0.9	0.0	0.0	-0.2	-0.6	0.0	0.0	0.1
Restructuring provisions (IAS 37.72)	29.1	0.3	8.6	-3.9	-0.1	0.0	7.0	41.0
Other provisions	1,356.7	0.0	315.6	-83.8	-1,206.9	-2.6	-1.0	377.9
thereof BayernLB	886.8	0.0	0.0	-28.0	-858.8	0.0	0.0	0.0
Provision for the disposal of discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>1,386.7</b>	<b>0.2</b>	<b>324.2</b>	<b>-87.9</b>	<b>-1,207.6</b>	<b>-2.6</b>	<b>6.0</b>	<b>419.0</b>

The item other provisions includes provisions for consulting and legal costs, tax proceedings, expenses relating to the forensic investigation of the past, provisions for statutory cost recourse claims, fees and external wind-down costs.

EUR m

	Carrying amount 1.1.2014	Foreign-exchange-differences	Allo-cations	Use	Releases	Changes IFRS 5	Other changes	Carrying amount 31.12.2014
Provisions for anniversary payments	1.0	0.0	0.3	0.0	-0.2	-0.2	0.0	0.9
Restructuring provisions (IAS 37.72)	14.2	0.0	20.7	-3.9	-0.2	-2.4	0.6	29.1
Other provisions	118.6	-0.7	1,337.4	-52.8	-11.3	-32.5	-2.1	1,356.7
thereof BayernLB	0.0	0.0	886.8	0.0	0.0	0.0	0.0	886.8
Provision for the disposal of discontinued operations	0.0	0.0	1,425.5	-1,425.5	0.0	0.0	0.0	0.0
<b>Total</b>	<b>133.8</b>	<b>-0.6</b>	<b>2,783.9</b>	<b>-1,482.2</b>	<b>-11.6</b>	<b>-35.1</b>	<b>-1.5</b>	<b>1,386.7</b>

**(82) Liabilities included in disposal groups classified as held for sale**

EUR m

	31.12.2015	31.12.2014
Liabilities to credit institutions	0.0	1.2
Liabilities to customers	1.0	0.0
Provisions	2.6	0.2
Tax liabilities	2.7	0.1
Other liabilities	7.0	2.7
<b>Total</b>	<b>13.3</b>	<b>4.1</b>

**(83) Other liabilities**

EUR m

	31.12.2015	31.12.2014
Deferred expenses	55.0	23.2
Accruals and other obligations	101.9	107.1
<b>Total</b>	<b>156.9</b>	<b>130.4</b>

**(84) Subordinated capital**

EUR m

	31.12.2015	31.12.2014
Subordinated liabilities	2,005.1	1,155.2
Supplementary capital	0.0	0.2
<b>Total</b>	<b>2,005.1</b>	<b>1,155.4</b>

In the 2014 financial year, Heta's liabilities to third parties covered under the Hypo Alpe Adria Restructuring Act (HaaSanG) in the amount of EUR 0.8 billion (nominal amount) were derecognised and collected through profit or loss. On the basis of the decision by the Austrian Constitutional Court (VfGH) from 3 July 2015, according to which the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV) based on the same were repealed in their entirety, these liabilities were again recognised through profit or loss as at 31 December 2015.

Subordinated liabilities and the supplementary capital include liabilities designated at fair value through profit or loss of EUR 4.5 million (2014: EUR 3.3 million). The income statement for 2015 reports expenses in connection with the re-recognition of these liabilities under the item "Result from the resolution/application of the Hypo Alpe Adria Restructuring Act (HaaSanG)", see note (49) Result from the resolution/application of the Hypo Alpe Adria Restructuring Act (HaaSanG).

The servicing of subordinated capital is described in note (130) Servicing of subordinated capital.

**(85) Hybrid capital**

EUR m

	31.12.2015	31.12.2014
Hybrid capital	0.2	0.4
<b>Total</b>	<b>0.2</b>	<b>0.4</b>

Hybrid capital includes liabilities designated at fair value through profit or loss in the amount of EUR 0.2 million (2014: EUR 0.4 million) – see also note (120) Loans and advances and financial liabilities designated at fair value.



**(86) Negative equity**

EUR m

	31.12.2015	31.12.2014
<b>Attributable to equity holders of the parent</b>	<b>-5,720.6</b>	<b>-5,221.1</b>
Issued capital	2,419.1	2,419.1
Participation capital	1,075.1	1,075.1
Availabl- for-sale reserves	-6.2	-18.3
Foreign currency translation	5.5	9.9
Retained earnings (including net consolidated income)	-9,214.1	-8,706.8
<b>Non-controlling interests</b>	<b>0.0</b>	<b>521.0</b>
<b>Total</b>	<b>-5,720.6</b>	<b>-4,700.1</b>

Issued capital corresponds to Heta's share capital, which stands unchanged at 989,231,060 (2014: 989,231,060) voting bearer shares.

The development of the share capital is as follows:

in EUR

	Share capital	Number of shares
As at 31.12.2014	2,419,097,046.21	989,231,060
As at 31.12.2015	2,419,097,046.21	989,231,060

**(87) Statement of cash flows**

The statement of cash flows as defined in IAS 7 shows Heta's change in cash and cash equivalents through cash flows from operating activities, investment activities and financing activities.

The cash flow from operating activities at Heta includes cash inflows and outflows as a result of loans and advances to credit institutions and customers, from liabilities to credit institutions and customers and liabilities evidenced by certificates. Changes in trading assets and liabilities are also included, as are the cash flow from received dividends and income taxes.

The cash flow from investing activities contains receipts and payments for securities and participations, intangible and tangible assets and receipts from the disposal of/payments for the acquisition of subsidiaries.

The cash flow from financing activities shows payments made and received for equity and subordinated capital. It includes in particular capital increases, dividend payments and changes in subordinated capital.

Cash and cash equivalents include the statement of financial position item cash reserve, which covers cash on hand and balances with central banks which are due on demand.

Heta does not use the statement of cash flows as an instrument of management as its relevance for controlling purposes is considered minimal.

**Risk report**

Heta has been a partially-regulated wind-down unit since the end of October 2014, and is subject to the Federal Act on the Creation of a Wind-down Entity (GSA). Its goal is to ensure the orderly, active exploitation of its assets to the best possible advantage (portfolio wind-down). Only transactions that serve to fulfil the wind-down objectives are conducted. According to the GSA, "proprietary transactions involving financial instruments are permitted at the wind-down unit for the purpose of controlling interest risk, currency risk, credit risk and liquidity risk within the scope of wind-down activities". Furthermore, the wind-down plan required under the GSA must include "details on risk management that takes the wind-down objectives into account".

The regulatory provisions for a bank under the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR) are no longer applicable, and the regulations of the Austrian Banking Act (BWG) are only relevant to a limited extent. Risk management is geared towards supporting the execution of the wind-down plan in the best possible manner, and managing the resulting risks.

The Federal Act on the Recovery and Resolution of Banks (BaSAG) came into force on 1 January 2015. According to section 162 (6) BaSAG, the authorisations and instruments set out in the fourth part of the law may be applied to Heta. In the case of Heta, the authority has decided that the business activities will continue to be carried out by the company's executive bodies.

However, the authority is entitled to extensive supervisory, controlling and reporting rights, which were implemented through a separate governance structure. The reporting obligation vis-a-vis the resolution authority is adhered to on an on-going basis.

The Austrian Federal Public Corporate Governance Code (B-PCGK) forms the framework for risk management activities. It contains provisions and measures regarding risk management, which are essentially adhered to.

Within the scope of its holding function, the parent company also performs Group controlling tasks. For this reason, most of the measures initiated at the holding level are cascaded down into responsibilities or projects within the group.

Risk management activities focus mainly on risk controlling and also on measuring and monitoring the success of the wind-down activities. Because of Heta's special situation (debt moratorium and possible measures related to the participation of creditors), the ability to measure some risks such as liquidity, interest change and market price risks, as well as active risk management, is restricted due to limited market access and the restrictions from the GSA and BaSAG. This situation led to the re-classification of most hedging transactions as stand-alone derivatives, and management's decision to liquidate most of these transactions.

### **(88) Risk strategy, control and monitoring**

Heta controls and monitors its risks across all business segments with the aim of ensuring an orderly, active and best possible exploitation. In this vein, Heta influences the business and risk policy of associated companies through its representation in the executive bodies. In the case of investment companies, group-wide and uniform risk strategies, control processes and methods are implemented.

The following central principles apply to the overall controlling process at Heta:

- Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants can be aligned.
- Active wind-down units and the back office are functionally separate in order to avoid conflicts of interest.
- Appropriate and mutually compatible procedures are used in the group for the purpose of identifying, analysing, measuring, aggregating, managing and monitoring the different risk types.

The primary risk types are controlled by limits and are supposed to be reduced through the active wind-down of assets.

### **(89) Risk organisation and Group Audit (Internal Audit)**

The "Chief Financial & Risk Officer" (CFRO), who is a member of the Heta Executive Board, is responsible for ensuring an adequate organisational structure of risk management. In compliance with the B-PCGK and taking into account the minimum standards for the credit business, and with the assistance of the appropriate internal management activities, he acts independently of the market and trading units.

The core task of risk management is to ensure the "orderly, active and best possible exploitation of assets (portfolio wind-down)". His core tasks also include the measurement, monitoring and management of the portfolio wind-down process, individual risk management of counterparty risks; monitoring the credit-granting process and risk controlling and monitoring of counterparty, market, liquidity and operational risks as well as other risks at the portfolio level.

On the basis of Heta's Group Risk Governance Rules, risk management consists of three pillars. The three-pillar principle is consistently implemented both at the group and at the local country level. The various Managing Directors in charge of the respective countries are responsible for complying with the risk principles for all subsidiaries located in that country. The list below illustrates the three-pillar concept of risk management at Heta:

The Group Portfolio Steering & Risk Controlling (GPS&RC) pillar includes the following main functions:

- the identification of risks,
- the definition of risk policy guidelines and limits,
- the measurement and monitoring of the portfolio wind-down process,
- the development and coordination of the planning process for the credit portfolio,
- the provision of risk methods and modelling,
- the implementation of risk analyses, risk limitation and monitoring, and risk reporting.

The Exit Supervision pillar includes the following main functions:

- maintenance of the principle of dual control in the portfolio wind-down process,
- the back office function for performing and non-performing loans,
- balance sheet analysis and the implementation of ratings,
- credit monitoring,
- credit support.

The Case Operations pillar includes the following main functions:

- the administration of loans and collateral,
- the measurement of credit collateral and properties
- establishment of collateral, monitoring and administration,
- preparation of sale contracts,
- carrying out back office activities,
- compilation of a group of borrowers.
- transaction banking.

Monitoring of compliance with the regulatory capital requirements is no longer required since the termination of the banking license.

The Group Audit division is a permanent function that audits Heta's business operations. In terms of organisation, it is subordinated to the Chairman of the Executive Board and reports directly to the entire Executive Board and the Supervisory Board. Auditing activities are based on a risk-oriented audit approach, and cover all activities and processes at Heta. Group Audit carries out its work independent of the tasks, processes and functions to be audited, taking into account the applicable requirements.

## **(90) Internal policies and guidelines for risk management**

Heta defines its standard risk management guidelines in the form of risk guidelines to ensure that risks are dealt with in a standardised manner. These guidelines are promptly adjusted to reflect organisational changes as well as changes to parts of the regulations such as processes, methods and procedures. The existing regulations are assessed at least once a year with regard to the need for updating.

Heta has defined clear responsibilities for each of these risk guidelines, which range from the preparation, review and update to the roll-out of the guidelines in the various subsidiaries. Each of these guidelines must be implemented on the local level by the subsidiaries and adjusted to local conditions. Compliance with these guidelines is ensured by departments directly involved in the risk management process. Process-independent responsibility is carried by Group Audit.

## **(91) Key changes pertaining to risk management**

Various wind-down measures and a changed environment in the 2015 financial year resulted in key changes to the risk management area.

### **91.1. Transformation from a retail bank to a wind-down unit – Target Operating Model (TOM) project**

The Target Operating Model (TOM) of Heta Asset Resolution AG reflects the reorganisation of the company into a wind-down and hence a sales organisation in compliance with all statutory requirements in order to achieve the best possible sale result in line with the portfolio wind-down process, with the goal of continuously reducing the portfolio and implementing these activities at the operational level.

As part of the TOM, changes related to process organisation were implemented in the risk management area, and the transformation process in the direction of the wind-down unit was completed on schedule.

### 91.2. Heta Individual Assessment Tranche (HIAT)

During the course of the HIAT project, those assets that were measured in the previous year on the basis of the AQR (Asset Quality Review) were subjected to a subsequent review. The methodology concept did not change from the previous year, and reflects Heta's mission to achieve the quickest and best possible liquidation of its assets.

In order to obtain an even more precise description of Heta's asset position, management decided to reduce the lower limit for an asset to be subjected to an individual review.

A standardised measurement tool was developed and applied in the group to warrant a uniform measurement process.

All HIAT results were validated in the committees in charge, and were approved in accordance with the various authorisations.

The disposal values calculated in HIAT are reflected in the risk provision for non-performing loans (NPL). Because of the specific IFRS accounting principles, the expected proceeds from the performing loans (PL) cannot be anticipated or represented in the consolidated financial statements in the form of lower measurements as at 31 December 2015. Accordingly, additional losses are still expected for the consolidated financial statements in this context.

#### Methodology:

The new guidelines for the measurement of loans and real estate, which were developed last year with the involvement of an auditing company as an independent expert, were adjusted to the new situation in 2015. The measurement parameters were defined on the basis of sound expert estimates. These parameters formed the basis for the subsequent measurement of loans and real estate by Heta.

A so-called "Realisable Sales Value" (RSV) was developed for the measurement of loans. This value represents the best possible estimate of the sales value of assets in saturated markets as at 31 December 2015, which can be achieved in line with an orderly and professional sales procedure.

A short- to medium-term disposal continues to be assumed for loans, with the choice of two measurement approaches:

- Loan Cash Flow Valuation Approach
- Collateral Valuation Approach

Using a defined decision making tree, the first step involved a decision as to whether the respective loan must be measured using the Loan Cash Flow Valuation or the Collateral Valuation. To this end, the guideline for the measurement was divided into individual steps, and the measurement requirements and parameters were adopted into a model.

When using the Loan Cash Flow Valuation, future cash flows are calculated on the basis of the interest and repayment plans. In the context, the investors' required rate of return was derived and discounted with accordingly on the basis of the measurement guidelines, broken down by credit quality, amount of collateral and country risk. The resulting value (after the deduction of specified transaction costs) corresponds to the RSV that is calculated using the Loan Cash Flow Valuation.

Where the Collateral Valuation was used according to the decision making tree, the loan collateral (mainly real estate) was also measured.

Discounts for the sales/liquidation strategy, legal and real estate risks, legal enforceability and investor rate of return, along with other (transaction) costs were deducted from the resulting values, and a present value was calculated from the value of the collateral in consideration of the expected period for sale. If cash flows were identified in addition to the sale of collateral, these were also taken into account as present value. The resulting present value corresponds to the RSV that is calculated using the Collateral Valuation approach. With respect to defaulted loans, the RSV was discounted using the original effective interest rate.

The results of the measurement performed at the individual loan level also led to an adjustment of the parameters on which the portfolio adjustments pursuant to IAS 39 for already incurred but not yet reported impairments to the credit portfolio are based. The parameter in the loss estimate affected by the adjustment is the amount of loss after deduction of the expected return flows (Loss Given at Default, LGD) and was replaced by an average expected realisable sales value, which was assessed differently based on the individual case reviews in HIAT and in accordance with portfolio characteristics (country of risk position, main collateral form or customer segment).

In the case of real estate, the Market Value Under Special Assumptions, the market value in terms of the short-term wind-down aspects of a wind-down company pursuant to the GSA, was calculated in consideration of the current market situation (on the basis of annually updated macro-economic market data) and the sustained recession and illiquidity of SEE markets with a short-term disposition of assets. The measurement did not assume a market recovery, and thus assumed the current market conditions and restrictions. In addition, legal real estate risks and risks from the contamination of properties, missing documentation, restricted access in terms of fact finding and the aforementioned specific wind-down aspects (short-term

disposal of large numbers of properties and volumes in illiquid markets) were also taken into account as impairments using standardised lumps-sum deductions.

### 91.3. Open currency position

In 2015, Heta had only very limited market access to FX swaps. This led to temporary excess liquidity in CHF at a British retail bank. After considering the legal and foreign currency risks, the temporary CHF excess liquidity was converted into EUR in July 2015 and was subsequently transferred to the Austrian National Bank (OeNB). This had the effect of increasing the liability overhang in the open currency position by CHF 1.2 billion.

### 91.4. Liquidation of stand-alone derivatives

At the end of the 2014 financial year, most of the derivatives in hedging relationships were declared as stand-alone derivatives, since a hedging relationship could no longer be proven. During the 2015 financial year, an application was made to the resolution authority regarding a non-prohibition for the liquidation of these stand-alone derivatives. The liquidation of the stand-alone derivatives was commenced once the non-prohibition was obtained in December 2015. Most of the stand-alone derivatives were liquidated by January 2016. The market values of the stand-alone derivatives remaining on the reporting day are taken into account in the consolidated financial statements.

### 91.5. Purchaser Brush Option

The Purchaser Brush Option set out in the sale agreement between Heta and AI Lake includes the option to re-transfer assets of HGAA to Heta subsidiaries by 31 March 2016 under certain conditions. The relevant provisions were created for the resulting measurement risks. It is expected that the Purchaser Brush Option will be utilised by 31 March 2016. A measurement process that is similar to the AQR will be performed with regard to the assets transferred via a True Sale. For assets that cannot be transferred via a True Sale, losses are compensated via a Profit and Loss Settlement.

## (92) Ongoing evaluation of real estate and other collaterals

The management and evaluation of all collateral is the responsibility of the "Group Case Operations" department, and is set out in group-wide standards that are based on international standards such as RICS (Royal Institution of Chartered Surveyors), IVS (International Valuation Standards), TEGoVA (The European Group of Valuers' Association) and BelWertV (Beleihungswertermittlungsverordnung).

The appraisals on which the market values are based are updated continuously and are developed using individual measurements as well as measurement tools and statistical methods. The appraisals are developed both internally and externally.

The evaluation of real estate takes into account Heta-specific risks with regard to the market and sale strategy as well as the real estate risk, in order to obtain a realistic market value (sale price) that is required for the wind-down of the portfolio and assets. These standardised risk discounts differ according to the country and the asset class, and result in a Market Value Under Special Assumption (MVusa).

Parallel to the evaluation process, the properties are subjected to a market and property rating, which are taken into account in the individual liquidation strategies.

## (93) Risk reporting

Prompt, independent and risk-adequate reporting exists for all relevant risk types. The ad-hoc reporting requirements are adhered to at all times.

In 2015, risk reporting was continuously adjusted to Heta's position as a wind-down unit.

## (94) Credit risk (counterparty default risk)

The material credit risk (Net Exposure) was continuously reduced in the 2015 financial year through the reduction in assets.

The "purchaser brush" option agreed to, as part of the agreement to sell HGAA represents an additional measurement risk. The relevant HGAA Brush Portfolio that is measured at HGAA in accordance with the going concern principle, and which may be re-transferred to Heta under certain conditions, also harbours the risk of additional rating migrations. Heta has created the relevant provisions for the risks from the Brush Portfolio on the basis of the new measurement guidelines.

### 94.1. Definition

In terms of scope, credit risk is the most significant risk at Heta (across the group). These result primarily from the credit business. Credit risk (or counterparty risk) occurs when transactions result in claims against debtors, issuers of collaterals or counterparties. If these parties do not meet their obligations, losses result in the amount of non-received benefits less utilised collaterals, reduced by the recovery rate from the unsecured portion. This definition includes debtor risks from credit transactions as well as issuer, replacement and fulfilment risks from trading transactions.

Counterparty default risks also include the risk types country and investment risks.

### 94.2. General requirements

The credit risk strategy provides concrete specifications for the organisational structure of the company in winding down its credit portfolio as well as for the risk control methods, and is supplemented by further policies as well as specific directives.

In line with an instruction on authority levels as defined by the Executive and Supervisory Boards, credit decisions which become necessary as part of the portfolio wind-down process are made by the Supervisory Board, Executive Board and Credit Committee, as well as by key staff in the front office and the analysis units of risk management. In addition, the resolution authority is also entitled to extensive supervisory, controlling and reporting rights.

The credit committees are a permanent institution at Heta. The most senior credit committee and most senior decision-making body is the Supervisory Board and the resolution authority (FMA).

A decision by the Executive Board is required for all methodological matters relating to credit risk.

### 94.3. Risk measurement

Heta uses its own rating methods to individually analyse and assess the creditworthiness of its debtors. The allocation of debtors to rating classes is carried out on the basis of default probabilities as part of a 25-level master rating scale.

The risk provisions that are created for the credit portfolio are measured and monitored monthly.

### 94.4. Risk limitation

The control of total group-wide commitments with an individual client or a group of affiliated clients depends on the respective customer segment.

In the banking division, limits are allocated and monitored by an independent unit in GPS&RC. Limit breaches are immediately reported to the CFRO and the Executive Board.

In all segments, limit control is carried out through a group-wide ruling on authorisation levels ("Pouvoir-Ordnung").

Another important instrument in limiting risk at Heta is the collection and crediting of generally accepted collateral. Processing and measurement activities are set out in group-wide standards. Framework contracts for netting out mutual risks (close-out netting) are usually agreed on for the derivatives business. There are collateral agreements in place for certain business partners, which limit the default risk with individual counterparties to an agreed maximum amount and provide an entitlement to request additional collateral if the amount is exceeded.

### 94.5. Portfolio overview - Credit risk

The figures presented in the credit risk report reflect gross exposure, which consists of the on-balance-sheet and off-balance-sheet components and does not take into account hedging relationships and netting agreements.

#### Distribution of gross exposure within the group

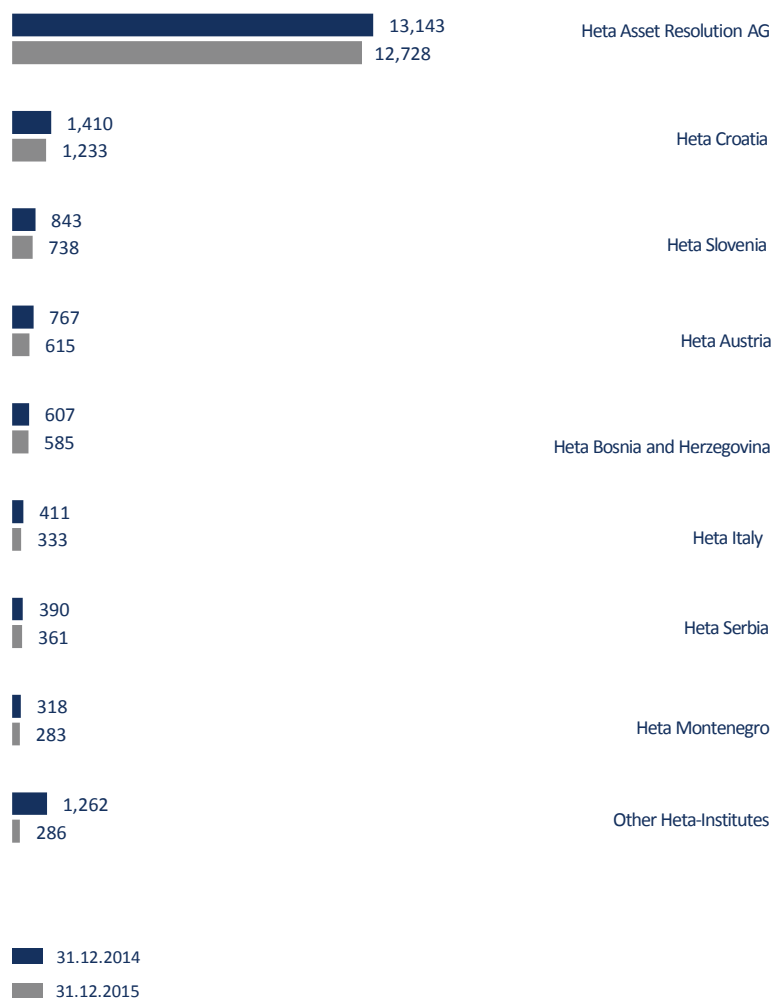
During the year under review, exposure in the group fell by EUR 2.0 billion. This decline is the result of the continued reduction in non-performing loans and the progressive implementation of the wind-down strategy.

The share of off-balance exposure fell substantially in 2015, as the current business model only allows for new loan commitments in exceptional cases. Only transactions that serve to fulfil the wind-down objectives may be carried out since the deregulation. Half of the off-balance exposure at Heta amounting to EUR 0.2 billion (previous year EUR 0.4 billion) is due to receivables from credit institutions (loan commitments to former subsidiaries), while the other half is the result of guarantees to companies.

Within the group, gross exposure is distributed as follows (gross exposure of the deconsolidated Heta subsidiaries are listed under "Heta Asset Resolution AG (individual institute)");

**Exposure**

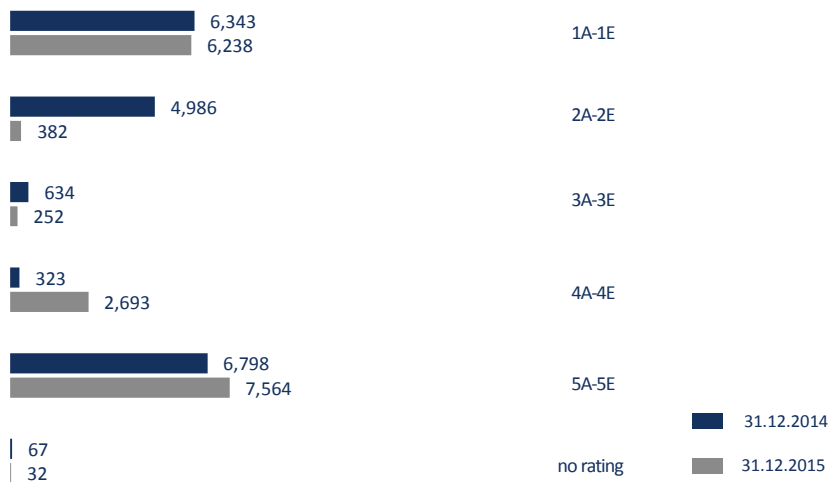
in EUR m

**Gross exposure by rating class within the group**

Roughly 39 % of gross exposure (59 % in previous year) has a rating ranging from 1A to 2E (best to moderate creditworthiness). This exposure relates mainly to receivables from banks and public institutions. The downgrade of the rating for the State of Carinthia and HGAA led to a shift in exposure from rating class 2A-2E to rating classes 4A-4E, and from 2A-2E to 5A-5E (non-performing) for Hypo Alpe-Adria-Bank S.p.A.

**Exposure by rating class**

in EUR m



**Gross exposure by region within the group**

The country portfolio of Heta is concentrated in the EU and SEE regions. In general, gross exposure declined in each country and region.

**Exposure by region**

in EUR m



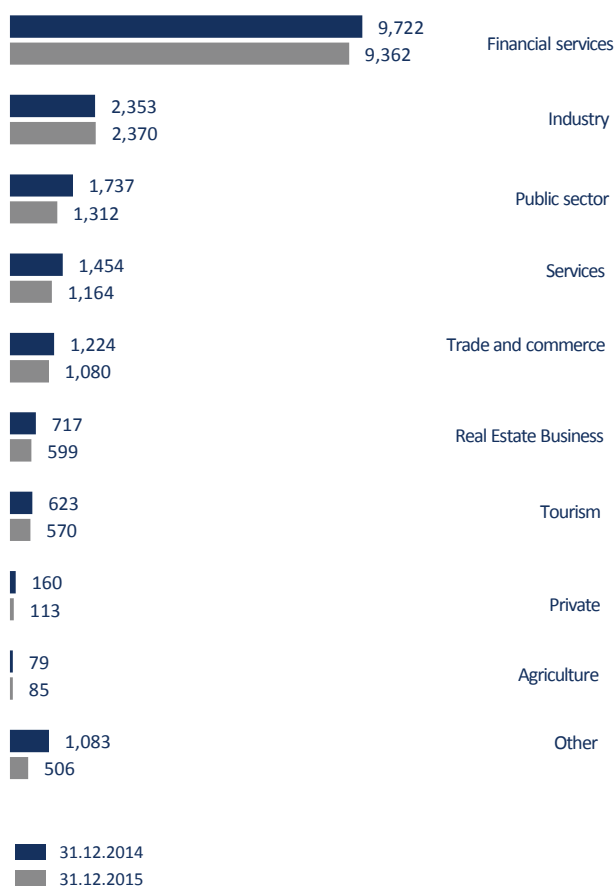


### Gross exposure by business sector within the group

Heta uses a uniform and standardised classification code (NACE Code 2.0) to present gross exposure by sector. This code is mapped into ten industry sectors for reporting purposes. The industry groups credit institutions and public sector account for the largest portion with approximately 62 % (60 % in the previous year).

#### Exposure by business sector

in EUR m



**Gross exposure by size category of the transactions**

The Heta portfolio contains an increased concentration risk, which is also reflected in the breakdown of exposure by size category. Specifically, 80 % of exposure is contained in size categories greater than EUR 10 million (79 % in the previous year).

The largest share of the EUR 13.6 billion figure in the range > EUR 10 million exposure (EUR 15.1 billion in the previous year) is attributable to banks and the public sector. These transactions are necessary for securing liquidity, long-term investments and hedge transactions. They also result from the refinancing obligations of the former subsidiaries HGAA and Hypo Alpe-Adria-Bank S.p.A.

The presentation is based on the group of affiliated clients:

Ticket Size	EUR m	
	31.12.2015	31.12.2014
< 500,000	582	679
500,000-1,000,000	378	449
1,000,000-2,500,000	690	817
2,500,000-5,000,000	746	863
5,000,000-10,000,000	1,129	1,242
10,000,000-25,000,000	1,334	1,618
25,000,000-50,000,000	1,148	1,609
50,000,000-100,000,000	1,237	1,395
100,000,000-500,000,000	2,033	3,530
> 500,000,000	7,885	6,951
<b>Total</b>	<b>17,161</b>	<b>19,152</b>

**94.6. Presentation of financial assets by level of impairment**

Financial assets which are not overdue and not impaired:

Rating class	EUR m			
	31.12.2015		31.12.2014	
	Exposure	Collateral	Exposure	Collateral
1A-1E	6,230	27	6,343	763
2A-2E	379	104	2,901	328
3A-3E	251	148	624	438
4A-4B	2,677	68	262	132
5A-5E	89	81	55	25
No rating	31	1	51	11
<b>Total</b>	<b>9,657</b>	<b>429</b>	<b>10,237</b>	<b>1,698</b>

Financial assets which are overdue but not impaired:

Classes of loans and advances	EUR m		EUR m	
	Exposure	Collateral	Exposure	Collateral
		31.12.2015		31.12.2014
<b>Financial investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
– due to 30 days	0	0	0	0
<b>Loans and advances to credit institutions</b>	<b>8</b>	<b>0</b>	<b>176</b>	<b>0</b>
– due to 30 days	0	0	175	0
– due 31 to 60 days	0	0	0	0
– due 61 to 90 days	0	0	0	0
– due 91 to 180 days	0	0	0	0
– due 181 to 365 days	8	0	0	0
– due over 1 year	0	0	1	0
<b>Loans and advances to customers</b>	<b>18</b>	<b>31</b>	<b>16</b>	<b>26</b>
– due to 30 days	2	12	3	13
– due 31 to 60 days	1	4	0	4
– due 61 to 90 days	0	0	1	2
– due 91 to 180 days	3	4	2	6
– due 181 to 365 days	0	0	1	1
– due over 1 year	12	11	9	2
<b>Total</b>	<b>26</b>	<b>31</b>	<b>192</b>	<b>26</b>

Financial assets that are impaired:

	EUR m			EUR m		
	Exposure	Collateral	Provisions	Exposure	Collateral	Provisions
			31.12.2015			31.12.2014
Financial investments	0	0	0	0	0	0
Loans and advances to credit institutions	1,401	728	672	1,910	674	1,236
Loans and advances to customers	6,078	946	5,132	6,813	925	5,887
<b>Total</b>	<b>7,478</b>	<b>1,674</b>	<b>5,804</b>	<b>8,723</b>	<b>1,599</b>	<b>7,123</b>

## (95) Participation risk

In addition to counterparty risks from the credit business, equity risks from equity investments may also be incurred (shareholder risks). These include potential losses from provided equity capital, liability risks (e.g. letters of comfort) or profit/loss transfer agreements (loss absorption).

Prior to 2009, Heta (either directly or a subsidiary) had invested in companies that either served to expand its business spectrum, provided services for the bank or functioned as purely financial holdings to achieve its business objectives. The year 2015 was characterised by the ongoing restructuring measures at Heta leading to portfolio rationalisation and to disposals in individual cases.

The treatment of participation risks is set out in the “Group Participation Policy”. Heta influences the business and risk policy of its investment companies through its representation on shareholder and supervisory committees. In addition, all participations are subject to continuous results and risk monitoring. In the course of its business activities, which now consist of the value-preserving winding down of assets, Heta is systematically reducing any still existing participation risks.

## (96) Country risk

Country risk is the risk that a business partner in a given country, or the government of the country itself, fails to meet its obligations in a timely manner or does not meet them at all due to governmental directives or economic/political problems.

For example, country risks may arise from a possible deterioration of national economic conditions, a political or social collapse, nationalisation or expropriation of assets, non-recognition of cross-border liabilities on the part of the government,

exchange controls, payment or delivery prohibitions, moratoria, embargoes, wars, revolutions or coups in the respective countries.

In Heta's portfolio, the country risk is made especially evident by the fact that most of the assets to be wound down are financially attributable to countries in south-eastern Europe.

### **(97) Concentration risk**

Concentration risks within a loan portfolio result from the uneven distribution of loans and advances to individual borrowers and/or borrower units. These also include concentrations of loans in individual industry sectors, geographic regions and concentrations from an uneven distribution of collateral providers.

As a result, Heta analyses and measures the following concentration risks:

- Counterparty default concentrations,
- Concentrations in industry sectors,
- Geographic concentrations,
- Collateral concentrations.

In Heta's portfolio, the concentration risk is made especially evident by the fact that most of the assets to be wound down are financially attributable to countries in south-eastern Europe.

### **(98) Market price risk**

Market price risks at Heta originate from loan and securities portfolios that must be wound down in different currencies; the derivative portfolio originally used to hedge against interest rate and currency risks; the equity portfolio, which predominantly originates from the liquidation of collaterals in loan transactions; and the asset and liability management of the wind-down unit.

The previously mentioned "Key changes pertaining to risk management" must be noted with regard to the effects on market risk - particularly the liquidation of stand-alone derivatives, the winding down of individual investment companies and the open currency position. Heta's special situation (debt moratorium and possible changes following the end of the moratorium), which was noted at the beginning, makes it more difficult to measure the interest change and market price risks, as well as active risk management, in light of the limited market access.

#### **98.1. Definition**

Market price risks comprise potential losses from changes in market prices. Heta classifies market price risks according to the risk factors in interest change, credit spread, currency, volatility and share price risks, as well as risks from alternative investments. Heta pays particular attention to identifying, measuring, analysing and managing market risk; the organisational division Group Portfolio Steering & Risk Controlling is responsible for all market risks at the group level.

Market liquidity risks result from illiquid securities in the portfolio.

#### **98.2. Risk measurement**

Heta calculates its market risks as part of the daily monitoring process with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99 %. The main instrument used in this process is the Monte Carlo simulation with exponentially weighted volatilities and correlations derived from a history of 250 days.

The models calculate potential losses taking into account historic market fluctuations (volatilities) and the market context (correlations). The corresponding back-testing of the applied methods and models is implemented for defined market risk factors and portfolios at the group level.

#### **98.3. Risk limitation**

The limits at Heta for market risk are closely adapted in line with the risks currently in the portfolio, so that these limits correspond to the purpose of a wind-down unit. In addition, the corresponding wind-down volumes are planned (control), which enable a target/actual comparison (monitoring) and document the progress of the wind-down process at Heta.

#### 98.4. Risk controlling and monitoring

As part of the risk controlling activities, daily and quarterly reports are prepared and the current utilisation of limits is compared to the actual limits. Limit breaches have the effect of initiating escalation processes. The ability to actively control market risks is very restricted due to the low number of available market partners.

#### 98.5. Overview – market risk

The main risks in terms of the market risk are

- the interest rate risk,
- the foreign currency risk,
- the credit spread risk.

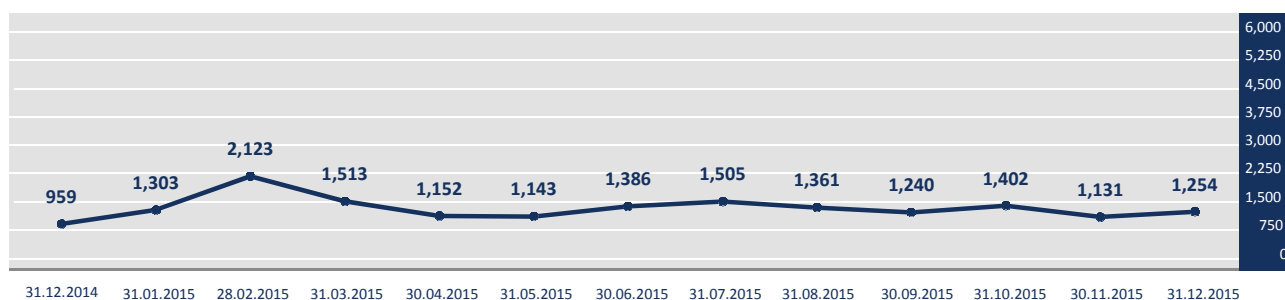
##### 98.5.1. INTEREST RATE RISK

The interest rate risk from Heta's banking book contains all interest-rate-relevant on- and off-balance sheet items with their next interest rate fixing date and/or their replicated interest sensitivity. Value at risk (VaR) serves as the calculation basis for the interest rate risk and thus the limited risks. The interest rate risk from the trading book is calculated on the basis of a daily VaR. The interest rate risk is controlled by means of interest derivatives available on the market. The primary risk in terms of managing the interest risk is the lack of market partners for interest derivatives.

The graph below illustrates the development of the interest change risk (banking book and trading book) on the basis of Heta's VaR for the year 2015.

#### Interest Rate Risk (Trading Book + Banking Book) – VaR (99%, 1 day)

EUR thousand



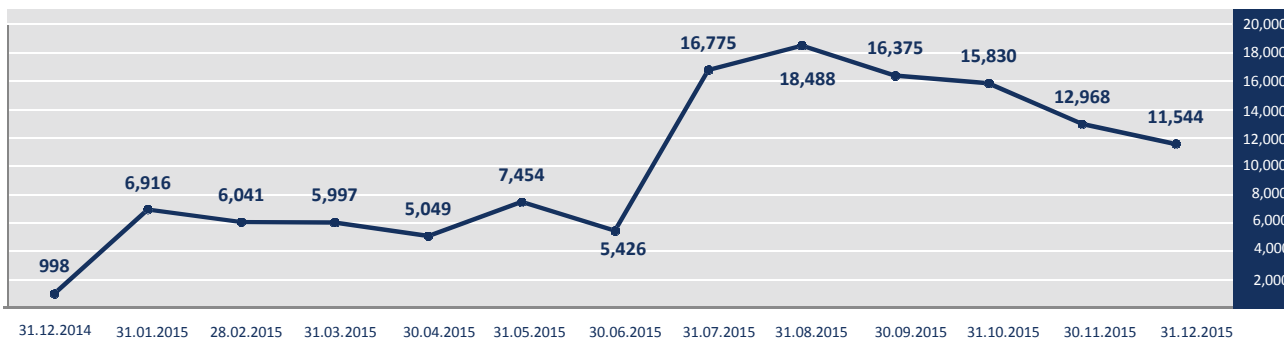
##### 98.5.2. FOREIGN CURRENCY RISK

The database for determining the value at risk for the foreign currency risk at Heta is consolidated group-wide. The main risk drivers in terms of the foreign currency risk are the currencies CHF, HRK, RSD and USD. The foreign currency risk is controlled to the extent that this is possible in the current wind-down process and insofar as foreign currency derivatives are available on the market. Due to the events presented in note (91.3) Open currency position and the limited ability to manage, the foreign currency risk rose considerably over the previous year, and now represents the main risk driver for Heta's market risk.

Development of Heta’s foreign currency risk in 2015:

**Open Foreign Currency Position Risk – VaR (99%, 1 day)**

EUR thousand



**98.5.3. CREDIT SPREAD RISK**

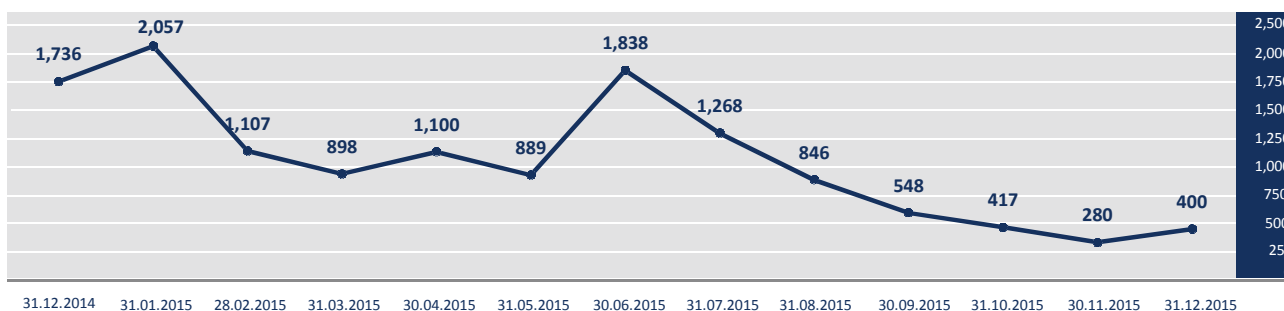
The credit spread risk at Heta originates from the securities portfolio. The security portfolio comprises transactions from previous investing activities and liquid bonds with extremely good creditworthiness held as liquidity reserves. The securities portfolio from investment transactions is wound down quickly, and in a manner that preserves the value. The liquidity reserve represents assets that can be liquidated immediately.

The credit spread risk within Heta was EUR 0.4 million at year-end 2015 with a one-day value at risk at a confidence level of 99 %. The main driver behind the reduction compared to the previous year was the retirement of securities - in particular the retirement of the securities portfolio due to the previously noted financial wind-down of Norica Investments Ltd. and HBInt Credit Management Ltd.

Development of Heta’s credit spread risk in 2015:

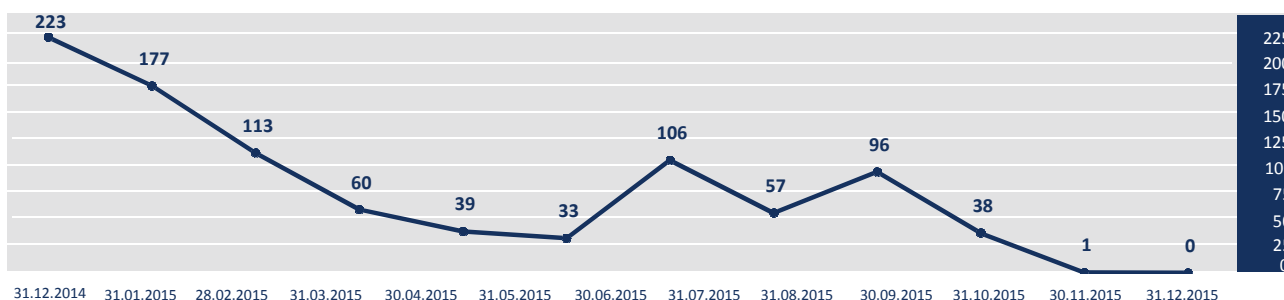
**Credit-Spread-Risiko (liquid) – VaR (99 %, 1 Tag)**

EUR thousand



**Credit-Spread-Risk (illiquid) – VaR (99 %, 1 day)**

EUR thousand



## (99) Liquidity risk

Heta's structural liquidity risk is considerable. The FMA ordinance from 1 March 2015 regarding the imposition of a debt moratorium until 31 May 2016 had a temporary stabilising effect on Heta's liquidity situation. From the Executive Board's point of view, the company is no longer in a position to service all of its liabilities by their due date. According to the ordinance issued by the resolution authority, the debt moratorium ends on 31 May 2016.

Heta expects that before the debt moratorium ends, its liabilities will be reduced (haircut), where the amount and design of such a haircut are not known at this time, and as a result of which the due dates of the liabilities would be adjusted to the wind-down of Heta. Independent refinancing options no longer exist since the de-regulation. Proceeds from liquidations are invested with the OeNB, with the effect that liquidity reserves rose significantly compared to the previous year and in connection with the debt moratorium. The ability to measure the liquidity risk is restricted due to the possible changes that may occur after the end of the debt moratorium.

The end of the debt moratorium, the official measures related to the participation of creditors, along with various court proceedings pending against Heta and its subsidiaries, could have a significant negative impact on the existing liquidity reserves in the case of a negative outcome.

### 99.1. Definition

Heta defines liquidity risk as the risk of not being able to meet due payment obligations in full or on time, or - in the event of a liquidity crisis - only being able to procure refinancing at increased market rates, or only being able to sell assets at a discount to market prices.

### 99.2. Risk measurement

The main methodological tool for measuring, analysing, monitoring and reporting on liquidity risk within Heta is the liquidity overview. It is used to compare liquidity gaps resulting from deterministic and planned future payment flows and the realisable liquidity coverage potential in strictly defined maturity bands.

The liquidity coverage potential quantifies - in terms of amounts and time factors - the ability of the wind-down unit to provide liquid resources at the earliest date. The most important components of the liquidity coverage potential of the wind-down unit are:

- highly-liquid and freely available securities,
- balances at the OeNB.

### 99.3. Risk controlling

Heta holds liquidity reserves for possible short-term payment obligations; these consist mainly of the balances at OeNB and highly liquid securities. Liquidity controlling at Heta is performed centrally. The basis of liquidity risk controlling is a cash flow statement. Any occurring gaps are compared to the liquidity coverage potential. Liquidity reserves are controlled within the limits of the options available to a wind-down unit, and in this process are regularly subjected to a review and stress situations.

in TEUR

Liquidity buffer	31.12.2015	31.12.2014
High-quality securities	213,356	614,560
Central bank reserves	4,273,851	2,358,727
Cash	0	0
<b>Counterbalancing measures</b>		
Other liquefiable assets (short-, medium-term)	77,453	87,988
Intragroup liquidity support	0	0
Committed credit lines	0	0
New issuance	0	0
Securitization	0	0
Covered pool potential	0	0
<b>Total counterbalancing capacity</b>	<b>4,564,660</b>	<b>3,061,275</b>

#### 99.4. Risk monitoring

Short-term liquidity risks are monitored on the basis of an internal "Liquidity Coverage Ratio". The liquidity overviews and other relevant ratios are part of the regular risk reports to the Executive Board, the Supervisory Board, the responsible controlling units, the OeNB, the Austrian Financial Market Authority (FMA), the Federal Ministry of Finance (BMF) and the resolution authority.

#### 99.5. Overview - Liquidity situation

On the whole, Heta's liquidity situation in the year 2015 was characterised by over-liquidity as a result of the debt moratorium, and which was the result of on-going income generated from interest payments and repayments, but mainly from the liquidation of the loan, real estate and securities portfolio. At the end of the year, the liquidity overhang was EUR 4,565 million. No capital market activities were carried out in 2015. Possible changes after the end of the debt moratorium cannot be foreseen.

### (100) Operational risk

The wind-down objective of Heta requires a continuous change and adjustment process, which comes with significant operational risks. In addition, operational risk is also increased due to the many heterogeneous processes, the decentralised group environment and the previous weaknesses in the loan approval and collateral registration process.

Heta defines operational risk ("OpRisk") as the risk of incurring losses due to the inappropriateness or failure of internal processes, systems, people or external factors. This definition includes legal risks as well as reputation risks, but does not include strategic risks.

Operational risks are identified and measured in order to define suitable measures for the prevention, reduction, transfer or acceptance of risks, including priorities for the implementation of safety and protection measures.

For this reason, all subsidiaries are taken into account in all areas of operational risk management.

Claims are handled in close coordination with Group Legal and Group Compliance & Fraud Management, and are handled on a common platform.

The strategy for operational risk is supported by the following instruments and methods:

- Loss database for the systematic collection of operational risks throughout the organisation,
- Qualitative instruments such as scenario analyses for determining and measuring risks within business processes,
- Regular reports of key operational risks to the Executive Board.

The current threshold for reporting purposes is EUR 5,000. The process must ensure that all losses from operational risks are reported to GPS&RC and are documented in the database. Detailed analyses are conducted for significant losses.

Measures designed to minimise risk must be defined on the basis of the losses incurred, and taking into account the results of the risk analysis. The effectiveness of these measures is assessed on a regular basis.

Organisational changes are continuously monitored in the wind-down units to ensure the early identification of new risks. Different instruments such as control mechanisms, fraud prevention, process analyses and optimisations are used to prevent risks.

### (101) Real estate risk

At Heta, real estate risk refers to all possible losses that may result from changes to the market values of moveable and immoveable property (real estate).

Real estate risks resulting from collateral deposited for real estate loans (residual risk) are excluded, since they are already covered in credit risk (as collateral risk).

All properties are subjected to market and property ratings. The best possible liquidation strategy for each asset is derived from these ratings. The pro-active and timely sale of assets reduces the real estate risk exposure. The market and book values of the respective assets form the basis for measuring the real estate risk.



## (102) Other risks

Heta classifies the following risk types under "Other risks":

- Strategic risk,
- Reputation risk,
- Business risk.

### 102.1. Business risks

During the wind-down of the loan portfolio, Heta is exposed to legal risks, with the added factor of Heta's special situation. Heta is exposed to real estate risks with regard to the underlying collateral and material assets. In addition, Heta is active in markets with limited investor interest.

To counteract these business risks, Heta pursues a number of different parallel wind-down strategies, which range from the winding down of loans, individual and portfolio sales to the sale of investments and subsidiaries.

## (103) Legal risks

Comments regarding important legal proceedings for Heta and its subsidiaries can be found in note (128) Important proceedings. Potential losses from these proceedings can have a significant negative impact on Heta's asset, financial and earnings position. As part of a process designed to review the provisions - the Legal Quality Review (LQR) - all of Heta's passive proceedings were reviewed in 2015 regarding the appropriate quantification of the provisions with the help of external legal advisors.

## (104) Tax risks relating to tax audits

The tax audits carried out by the respective tax authorities in Austria and several group countries during the past few years have now been completed. The corresponding provisions were already booked in the consolidated financial statements for 31 December 2015 (and the preceding consolidated financial statements) with regard to quantifiable audit results that had been communicated to Heta, for which Heta's legal opinion corresponds to that of the tax authority. In the case of findings with divergent opinions, Heta has filed an appeal and, depending on its assessment of how successful the appeal may be, created the relevant provisions.

Furthermore, Heta has assumed arm's length guarantees regarding tax risks in connection with the sale of the Austrian subsidiary HGAA, for which provisions were created in the 31 December 2015 consolidated financial statements at the amount of expected utilisation.

## Supplementary information

### (105) Remaining maturity

Analysis of remaining maturity as of 31.12.2015	thereof : due on demand	up to 3 months
Cash and balances at central banks	4,278.0	0.0
Loans and advances to credit institutions	1,076.5	54.1
Risk provisions on loans and advances to credit institutions	-2.9	-0.3
Loans and advances to customers	3,144.9	116.5
Risk provisions on loans and advances to customers	-2,632.5	-89.9
Trading assets	0.0	0.0
Derivative financial instruments	0.0	2.8
Financial assets – designated at fair value through profit or loss	2.7	0.0
Financial assets – available for sale	42.8	37.9
Financial assets – held to maturity	0.0	0.0
Investments in companies accounted for at equity	0.0	0.0
Investment properties	0.0	1.9
Intangible assets	0.0	0.0
Tangible assets	0.0	0.4
Tax assets	0.0	0.2
thereof current tax assets	0.0	0.2
thereof deferred tax assets	0.0	0.0
Assets classified as held for sale	0.0	217.4
Remaining other assets	29.1	8.7
Risk provisions on loans and advances on other assets	-2.2	0.0
<b>Total</b>	<b>5,936.3</b>	<b>349.9</b>
Liabilities to credit institutions	3,006.8	0.1
Liabilities to customers	136.8	89.4
Liabilities evidenced by certificates	2,872.1	125.0
Liabilities Pfandbriefbank	0.0	0.0
Derivative financial instruments	0.0	2.6
Provisions	0.0	3.9
Tax liabilities	0.0	1.3
thereof current tax liabilities	0.0	1.1
thereof deferred tax liabilities	0.0	0.2
Liabilities included in disposal groups classified as held for sale	0.0	8.7
Remaining other liabilities	46.2	10.5
Subordinated capital	4.9	0.0
Hybrid capital	0.0	0.0
<b>Total</b>	<b>6,066.8</b>	<b>241.5</b>

The maturity of the loans and advances and liabilities is calculated according to the contractual provisions of the underlying transactions. Accordingly, the maturity dates of loans and advances do not reflect the statutory requirements of the Federal Act on the Creation of a Wind-down Entity (GSA), which stipulates the swiftest possible portfolio wind-down for Heta. Depending on the actual implementation of the wind-down, the effective return flows can or will differ from the contractual return flows.

With regard to the maturity of liabilities, reference is made to the decision of the resolution authority (FMA) from 1 March 2015, which was issued on the basis of the Federal Act on the Recovery and Resolution of Banks (BaSAG). As a result, all “eligible liabilities” of Heta are placed under a moratorium until 31 May 2016. The liabilities to credit institutions that are due on demand, and the liabilities evidenced by certificates also include the financing approved by BayernLB at the amount of EUR 2,810.1 million (including interest claims), which in Heta's view fall under the Austrian Equity Substituting Capital Act (EKEG). The residual terms are organised on the basis of the reported carrying amounts.

EUR m

	from 3 months to 1 year	Total up to 1 year	from 1 year to 5 years	over 5 years	Total over 1 year	Total
	0.0	4,278.0	0.0	0.0	0.0	4,278.0
	669.1	1,799.7	871.3	20.0	891.3	2,691.1
	-0.8	-4.0	-486.7	0.0	-486.7	-490.7
	482.4	3,743.8	1,865.6	1,940.9	3,806.5	7,550.3
	-508.6	-3,231.0	-1,320.3	-614.1	-1,934.5	-5,165.4
	0.0	0.0	0.0	0.0	0.0	0.0
	84.3	87.1	258.6	250.5	509.1	596.2
	3.6	6.3	54.4	144.5	198.9	205.2
	117.6	198.3	101.3	96.3	197.6	395.9
	0.0	0.0	0.0	0.0	0.0	0.0
	3.3	3.3	0.5	0.0	0.5	3.8
	42.7	44.6	202.3	158.5	360.8	405.4
	0.2	0.2	-0.5	0.3	-0.2	0.0
	7.3	7.8	31.9	-12.6	19.4	27.1
	9.7	9.9	30.5	0.0	30.5	40.5
	9.6	9.8	30.5	0.0	30.5	40.4
	0.1	0.1	0.0	0.0	0.0	0.1
	221.7	439.1	-7.4	0.0	-7.4	431.7
	47.4	85.2	106.3	-0.7	105.6	190.9
	0.0	-2.2	-4.1	0.0	-4.1	-6.4
	<b>1,179.9</b>	<b>7,466.1</b>	<b>1,703.8</b>	<b>1,983.5</b>	<b>3,687.4</b>	<b>11,153.5</b>
	212.8	3,219.7	112.6	67.7	180.3	3,400.0
	274.4	500.6	920.3	88.9	1,009.2	1,509.8
	1,088.6	4,085.6	3,368.2	117.8	3,486.0	7,571.6
	669.5	669.5	566.5	5.9	572.4	1,241.9
	11.6	14.2	131.5	334.5	466.0	480.2
	15.6	19.5	442.7	0.5	443.2	462.7
	2.7	4.0	0.0	-0.2	-0.2	3.8
	0.8	1.9	0.0	0.0	0.0	1.9
	1.9	2.1	0.0	-0.2	-0.2	1.9
	4.6	13.3	0.0	0.0	0.0	13.3
	87.4	144.0	11.7	1.1	12.9	156.9
	243.3	248.2	644.0	1,141.4	1,785.4	2,033.6
	0.0	0.0	0.0	0.2	0.2	0.2
	<b>2,610.5</b>	<b>8,918.8</b>	<b>6,197.5</b>	<b>1,757.9</b>	<b>7,955.4</b>	<b>16,874.2</b>

Analysis of remaining maturity as of 31.12.2014	thereof : due on demand	up to 3 months
Cash and balances at central banks	2,365.3	0.0
Loans and advances to credit institutions	655.5	1,409.0
Risk provisions on loans and advances to credit institutions	-4.4	414.1
Loans and advances to customers	3,610.6	222.7
Risk provisions on loans and advances to customers	-3,287.9	-117.6
Trading assets	0.0	0.0
Derivative financial instruments	0.0	2.4
Financial assets – designated at fair value through profit or loss	4.7	0.0
Financial assets – available for sale	23.6	265.1
Financial assets – held to maturity	0.0	0.0
Investments in companies accounted for at equity	0.0	0.0
Investment properties	0.0	0.8
Intangible assets	0.0	0.1
Tangible assets	0.0	0.4
Tax assets	0.0	0.1
thereof current tax assets	0.0	0.1
thereof deferred tax assets	0.0	0.0
Assets classified as held for sale	0.0	20.6
Remaining other assets	55.0	65.4
Risk provisions on loans and advances on other assets	-26.8	-0.1
<b>Total</b>	<b>3,395.9</b>	<b>2,283.0</b>
Liabilities to credit institutions	2,371.7	31.1
Liabilities to customers	44.1	27.2
Liabilities evidenced by certificates	0.0	950.1
Derivative financial instruments	0.0	5.8
Provisions	0.0	12.3
Tax liabilities	0.0	1.0
thereof current tax liabilities	0.0	0.8
thereof deferred tax liabilities	0.0	0.2
Liabilities included in disposal groups classified as held for sale	0.0	1.3
Remaining other liabilities	17.9	24.2
Subordinated capital	0.0	0.0
Hybrid capital	0.0	0.0
<b>Total</b>	<b>2,433.7</b>	<b>1,052.9</b>

EUR m

from 3 months to 1 year	Total up to 1 year	from 1 year to 5 years	over 5 years	Total over 1 year	Total
0.0	2,365.3	0.0	0.0	0.0	2,365.3
655.5	2,720.1	953.1	265.3	1,218.4	3,938.5
-1,234.1	-824.4	-12.8	0.0	-12.8	-837.2
575.4	4,408.7	1,901.4	2,429.0	4,330.4	8,739.1
-359.1	-3,764.6	-1,365.6	-854.0	-2,219.6	-5,984.3
0.0	0.0	0.0	0.0	0.0	0.0
21.8	24.2	537.5	394.7	932.1	956.3
195.9	200.6	58.6	230.0	288.6	489.2
377.1	665.8	351.5	88.8	440.3	1,106.1
0.0	0.0	0.0	0.0	0.0	0.0
1.4	1.4	0.7	0.0	0.7	2.0
38.0	38.9	221.2	529.5	750.7	789.6
0.2	0.3	-0.9	0.5	-0.3	0.0
12.9	13.2	18.3	11.3	29.5	42.8
9.3	9.4	35.4	0.0	35.4	44.8
1.8	1.9	18.8	0.0	18.8	20.7
7.5	7.5	16.6	0.0	16.6	24.1
79.2	99.8	0.0	0.0	0.0	99.8
56.0	176.4	118.3	14.6	133.0	309.3
-0.3	-27.1	-3.5	0.0	-3.5	-30.6
<b>429.2</b>	<b>6,108.1</b>	<b>2,813.1</b>	<b>3,109.6</b>	<b>5,922.7</b>	<b>12,030.8</b>
88.6	2,491.5	274.2	79.7	353.8	2,845.3
146.9	218.2	1,262.1	95.2	1,357.3	1,575.5
1,466.1	2,416.2	5,989.1	345.5	6,334.6	8,750.8
132.7	138.5	124.2	527.1	651.3	789.8
985.6	997.9	447.1	0.9	448.0	1,445.9
29.9	30.9	1.7	0.7	2.4	33.3
29.9	30.7	-0.2	0.0	-0.2	30.4
0.0	0.2	2.0	0.7	2.6	2.8
2.8	4.1	0.0	0.0	0.0	4.1
33.1	75.2	23.3	31.9	55.2	130.4
0.1	0.1	0.0	1,155.2	1,155.3	1,155.4
0.0	0.0	0.0	0.4	0.4	0.4
<b>2,885.9</b>	<b>6,372.5</b>	<b>8,121.8</b>	<b>2,236.6</b>	<b>10,358.3</b>	<b>16,730.9</b>

**(106) Finance leases**

Receivables under finance leases are included in the loans and advances to credit institutions and to customers, and are broken down as follows:

EUR m

	31.12.2015	31.12.2014
<b>Minimum lease payments (agreed instalments + guaranteed residual value)</b>	<b>1,262.7</b>	<b>1,666.1</b>
<b>Non-guaranteed residual value (+)</b>	<b>7.7</b>	<b>11.5</b>
<b>Gross investment value (=)</b>	<b>1,270.4</b>	<b>1,677.7</b>
up to 1 year	440.0	573.7
from 1 year to 5 years	560.3	637.0
over 5 years	270.1	467.0
<b>Unearned financial income (interest) (-)</b>	<b>-112.4</b>	<b>-175.8</b>
up to 1 year	-29.0	-39.0
from 1 year to 5 years	-60.4	-88.3
over 5 years	-23.0	-48.5
<b>Net investment value (=)</b>	<b>1,158.0</b>	<b>1,501.9</b>

The accumulated allowance for uncollectible minimum lease payments receivables for 2015 is EUR -351.0 million (2014: EUR -477.0 million)

The total amount of contingent rents from finance lease contracts recognised as income in the reporting period was EUR 4.4 million (2014: EUR 7.0 million).

	31.12.2015	31.12.2014
<b>Present value of non-guaranteed residual values</b>	<b>7.7</b>	<b>11.5</b>
up to 1 year	0.2	0.5
from 1 year to 5 years	3.2	3.5
over 5 years	4.3	7.5
<b>Present value of minimum lease payments</b>	<b>1,150.3</b>	<b>1,490.3</b>
up to 1 year	410.8	534.3
from 1 year to 5 years	496.7	545.2
over 5 years	242.8	410.9

The net investments from finance leases also include the present value of the non-guaranteed residual values.

Leased assets corresponding to finance leases are broken down as follows:

EUR m

	31.12.2015	31.12.2014
Real-estate leases	871.9	1,095.4
Vehicle leases	59.4	113.1
Boat leases	19.8	28.1
Other movables	206.9	265.3
<b>Total</b>	<b>1,158.0</b>	<b>1,501.9</b>

### (107) Operating leases

The future minimum lease payments from non-terminable operating leases are as follows for the past two financial years:

EUR m

	31.12.2015	31.12.2014
up to 1 year	29.0	83.4
from 1 to 5 years	54.3	172.6
over 5 years	26.8	112.8
<b>Total</b>	<b>110.1</b>	<b>368.8</b>

The future minimum lease payments under non-cancellable operating leases, by leased assets, are broken down as follows:

EUR m

	31.12.2015	31.12.2014
Real-estate leases	101.2	340.4
Vehicle leases	3.9	7.5
Boat leases	0.0	0.0
Other movables	5.0	20.9
<b>Total</b>	<b>110.1</b>	<b>368.8</b>

The total amount of contingent rents from operating leases recognised as income in the reporting period was EUR 0.0 million (2014: EUR 0.0 million).

### (108) Borrowing costs

Borrowing costs arising in relation to qualified assets as per IAS 23 are capitalised together with manufacturing costs. In the 2015 financial year, no borrowing costs were capitalised (2014: EUR 0.0 million).

### (109) Development costs

In the 2015 financial year, Heta did not capitalise any development costs (2014: EUR 0.0 million) for self-generated software as defined in IAS 38 "Intangible assets".

**(110) Assets/liabilities in foreign currencies**

The statement of financial position contains the following amounts denominated in foreign currency:

EUR m

	31.12.2015	31.12.2014*
Assets	2,097.4	2,353.5
Liabilities	2,987.3	1,906.7

\*) figures from the previous year were adjusted

**(111) Fiduciary transactions**

The volume of fiduciary transactions on the balance sheet date, which are not reported in the statement of financial position, is as follows:

EUR m

	31.12.2015	31.12.2015
Loans and advances to customers	73.3	45.4
Other fiduciary assets	103.4	0
<b>Fiduciary assets</b>	<b>176.6</b>	<b>45.4</b>
Liabilities to credit institutions	23.8	33.1
Liabilities to customers	49.5	12.3
Other fiduciary liabilities	103.4	0
<b>Fiduciary liabilities</b>	<b>176.6</b>	<b>45.4</b>

**(112) Assets given as collateral**

Assets of EUR 403.2 million (2014: EUR 520.6 million) were provided to third parties as collateral for own debts. These consist mainly of cash collateral provided in connection with derivatives. In addition, securities with a value of EUR 73.4 million (2014: EUR 116.7 million) were also pledged at a European Investment Bank for refinancing received. The relevant assets continue to be recognised in Heta's statement of financial position. The refinancing lines for Hypo Group Alpe Adria AG (HGAA), which amounted to a gross receivables value of EUR 2.1 billion on 31 December 2015, have been pledged in favour of the purchaser of Hypo Group Alpe Adria AG (HGAA) regarding his claims from the sale agreements on the basis of the Pledge Agreement concluded in the 2015 financial year. See also note (129.2) Sale agreement regarding the privatisation of the SEE network.

EUR m

Liabilities to credit institutions	399.5	520.6
Liabilities to customers	3.7	0.0
<b>Total</b>	<b>403.2</b>	<b>520.6</b>

No securities were loaned through securities transactions during the 2015 financial year (2014: EUR 84.7 million).

**(113) Subordinated assets**

The following assets shown in the statement of financial position are subordinated assets:

EUR m

	31.12.2015	31.12.2015
Loans and advances to customers	0.0	0.2
Financial assets – available-for-sale	6.6	22.8
<b>Total</b>	<b>6.6</b>	<b>23.1</b>



**(114) Contingent liabilities and other off-balance-sheet liabilities**

The following off-balance-sheet liabilities existed on the reporting date:

EUR m

	31.12.2015	31.12.2015
<b>Contingent liabilities</b>	<b>109.0</b>	<b>220.5</b>
from bills of exchange transferred for settlement	0.0	0.0
from credit guarantees	94.1	180.0
from letters of credit	0.0	18.5
from other guarantees	4.5	5.8
from other contingent liabilities	10.4	16.2
<b>Other liabilities</b>	<b>123.4</b>	<b>303.3</b>
from irrevocable credit commitments	110.5	290.3
from other liabilities	12.9	13.0
<b>Total</b>	<b>232.4</b>	<b>523.8</b>

The credit guarantees consist mostly of guarantees for former group companies.

Of the irrevocable loan commitments in the amount of EUR 110.5 million, an amount of EUR 100.7 million relates to the former group company Hypo Alpe-Adria-Bank S.p.A., Udine (HBI).

**(115) Liability for commitments issued through the Pfandbriefbank (Österreich) AG**

The share administration of the Pfandbriefstelle of the Austrian regional mortgage banks (formerly Pfandbriefstelle) is the sole shareholder Pfandbriefbank (Österreich) AG ("Pfandbriefbank"). On 27 June 2014, the Pfandbriefstelle submitted an application to the Austrian Financial Market Authority (FMA) and the Austrian Ministry of Finance (BMF) for approval to transfer its entire banking operations to a new stock company (Pfandbriefbank) by way of universal succession pursuant to section 92 of the Austrian Banking Act (BWG). The Pfandbriefbank was registered in the companies register on 15 January 2015.

As a member institution of the Pfandbriefstelle pursuant to section 2 (1) of the Pfandbriefstelle Act (PfBrStG), Heta assumes joint liability with all other member institutions for all liabilities assumed by the Pfandbriefstelle. This liability also applies to all member institutions and their universal successors, as listed in Article 2 of the Pfandbriefstelle's statutes. Pursuant to sec. 2 subsect. 2 of the PfBrStG, the guarantors of the member institutions also assume joint liability for liabilities of the Pfandbriefstelle that were incurred until 2 April 2003 and after 2 April 2003 with terms ending no later than 30 September 2017.

In the audit report of the Pfandbriefbank in terms of liability law, the volume of liabilities included under the liability of the guarantors is EUR 3.3 billion as at the balance sheet date of 31 December 2015 (2014: EUR 5.5 billion). Taking into account the funds obtained by the Pfandbriefbank and forwarded to Heta (EUR 1.2 billion; 2014: EUR 1.2 billion), the value to be reported pursuant to section 237 (8a) of the Austrian Commercial Code (UGB) is EUR 2.1 billion (2014: EUR 4.3 billion).

According to the Ordinance issued by the Financial Market Authority (FMA) on 1 March 2015, Heta's liabilities to the Pfandbriefbank (Österreich) AG have been deferred. In addition to the aforementioned statutory liabilities, these items include in particular those Pfandbriefbank receivables from Heta from the forwarding of the proceeds from issues that the Pfandbriefbank implemented on Heta's behalf. As a result of the ordinance, Heta is no longer required to pay the quarterly administration fees prescribed by the Pfandbriefbank, because it no longer utilises any services from the Pfandbriefbank. Furthermore, the Pfandbriefbank demands that Heta reimburse it for certain costs that were incurred as a result of the moratorium. Heta disputes any obligation to reimburse such costs; if there was such an obligation, these claims would also have been deferred as a result of the moratorium.

**(116) Break-down of securities admitted to stock exchange trading**

The following securities were admitted to stock exchange trading as at 31 December 2015:

EUR m

	31.12.2015	31.12.2015
<b>Trading assets</b>		
Bonds and other fixed-interest securities	0.0	0.0
thereof listed	0.0	0.0
thereof unlisted	0.0	0.0
Shares and other non-fixed-interest securities	0.0	0.0
thereof listed	0.0	0.0
thereof unlisted	0.0	0.0
Treasury bills, eligible for refinancing with central banks	0.0	0.0
thereof listed	0.0	0.0
thereof unlisted	0.0	0.0
<b>Financial assets – designated at fair value through profit or loss</b>		
Bonds and other fixed-interest securities	0.0	192.3
thereof listed	0.0	63.1
thereof unlisted	0.0	129.2
Shares and other non-fixed-interest securities	6.3	8.4
thereof listed	2.3	1.8
thereof unlisted	4.0	6.6
<b>Financial assets – available-for-sale</b>		
Shares in affiliated, non-consolidated companies (>50 %)	2.4	9.3
thereof listed	0.0	0.0
thereof unlisted	2.4	9.3
Other participations (associated companies 20 % -50 %)	0.0	0.0
thereof listed	0.0	0.0
thereof unlisted	0.0	0.0
Participations without intention for sale (under 20 %)	0.0	0.0
thereof listed	0.0	0.0
thereof unlisted	0.0	0.0
Bonds and other fixed-interest securities	193.8	833.7
thereof listed	173.3	619.6
thereof unlisted	20.4	214.1
Shares and other non-fixed-interest securities	15.9	19.8
thereof listed	15.9	14.8
thereof unlisted	0.1	5.0
Treasury bills, eligible for refinancing with central banks	183.8	235.2
thereof listed	183.8	235.2
thereof unlisted	0.0	0.0
<b>Financial assets – held to maturity</b>		
Bonds and other fixed-interest securities	0.0	0.0
thereof listed	0.0	0.0
thereof unlisted	0.0	0.0

**(117) Restructuring expenses**

Restructuring expenses are comprised of the following:

EUR m

	1.1. - 31.12.2015	1.1. - 31.12.2014
Restructuring provisions	-8.6	-25.5
Other restructuring costs	0.2	-1.0
Release of not fully used restructuring provisions	0.1	0.0
<b>Total</b>	<b>-8.3</b>	<b>-26.5</b>

During the 2015 financial year, EUR -8.6 million was allocated to the restructuring provisions (2014: EUR -25.5 million). One allocation in the amount of EUR 7.1 million (2014: EUR 19.7 million) is the result of expenses for severances due to the planned reduction in the workforce.

**(118) Audit expenses**

The following fees were incurred for audit companies Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (EY) as well as KPMG Austria GmbH (KPMG) in the period under review:

EUR m

	31.12.2015	31.12.2014
<b>Audit fees for the annual financial statements</b>	<b>-2.3</b>	<b>-2.2</b>
Expenses for the current year	-2.1	-2.2
thereof EY	-1.3	-1.4
thereof KPMG	-0.8	-0.7
Expenses relating to the previous year	-0.2	0.0
<b>Fees for other services</b>	<b>-1.3</b>	<b>-2.9</b>
Other assurance services	0.0	0.0
Tax consultancy	-0.1	-0.2
thereof EY	0.0	0.0
thereof KPMG	-0.1	-0.2
Other services	-1.2	-2.7
thereof EY	-0.2	-0.2
thereof KPMG	-0.9	-2.6
<b>Total services</b>	<b>-3.6</b>	<b>-5.1</b>

The audit expenses incurred in the 2015 financial year include the net audit fee (excluding value-added tax) as well as the related cash expenditures. In addition to the services invoiced by the appointed auditors of the consolidated financial statements (EY and KPMG) invoices for services rendered directly by other companies within the EY and KPMG networks to Heta or to its subsidiaries have been included in the total sum.

The fees of the audit of the consolidated financial statements relate to fees for auditing the (local) annual financial statements, the group reporting packages of the subsidiaries audited by EY and KPMG, as well as the fees of the audit of the consolidated financial statement itself.

**(119) Measurement categories in accordance with IAS 39**

Financial assets and liabilities as at 31 December 2015 are broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR / LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2015
Cash and balances at central banks	4,278.0			0.0			4,278.0
Loans and advances to credit institutions	2,691.1						2,691.1
Loans and advances to customers	7,550.3						7,550.3
Impairment on financial instruments – at cost (risk provision)	-5,662.4						-5,662.4
Trading assets		0.0					0.0
Derivative financial instruments**		596.2				0.0	596.2
Financial assets – afvtpl			205.2				205.2
Financial assets – afs				395.9			395.9
Other assets*	23.4						23.4
<b>Total financial assets</b>	<b>8,880.3</b>	<b>596.2</b>	<b>205.2</b>	<b>395.9</b>	<b>0.0</b>	<b>0.0</b>	<b>10,077.6</b>
Liabilities to credit institutions	3,227.3		172.8				3,400.0
Liabilities to customers	1,508.8		1.0				1,509.8
Liabilities Pfandbriefbank	1,234.6		7.3				1,241.9
Liabilities evidenced by certificates	7,402.0		198.2				7,600.1
Derivative financial instruments***		470.3				9.9	480.2
Subordinated capital	2,000.6		4.5				2,005.1
Hybrid capital			0.2				0.2
Other liabilities*	22.0		0.0				22.0
<b>Total financial liabilities</b>	<b>15,395.3</b>	<b>470.3</b>	<b>383.9</b>	<b>0.0</b>	<b>0.0</b>	<b>9.9</b>	<b>16,259.4</b>

\*Other assets/other liabilities include accruals and financial instruments.

\*\*Derivative financial instruments HFT include positive market values of derivatives, which relate to an underlying business that is shown in the FVO category, in the amount of EUR 47.3 million.

\*\*\*Derivative financial instruments HFT include positive market values of derivatives, which relate to an underlying business that is shown in the FVO category, in the amount of EUR 44.2 million.

## Explanations:

lar:	loans and receivable
lac:	liabilities at cost
hft:	held for trading
fvo:	designated at fair value through profit and loss
afvtpl:	at fair value through profit or loss (fair value option)
afs:	available for sale
htm:	held to maturity

Financial assets and liabilities as at 31 December 2014 are broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR / LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2014
Cash and balances at central banks	2,364.2			1.1			2,365.3
Loans and advances to credit institutions	3,938.5						3,938.5
Loans and advances to customers	8,739.1						8,739.1
Impairment on financial instruments – at cost (risk provision)	-6,852.1						-6,852.1
Trading assets		0.0					0.0
Derivative financial instruments**		956.3				0.0	956.3
Financial assets – afvtpl			489.2				489.2
Financial assets – afs				1,106.1			1,106.1
Other assets*	60.8						60.8
<b>Total financial assets</b>	<b>8,250.5</b>	<b>956.3</b>	<b>489.2</b>	<b>1,107.3</b>	<b>0.0</b>	<b>0.0</b>	<b>10,803.3</b>
Liabilities to credit institutions	2,647.3		198.0				2,845.3
Liabilities to customers	1,572.5		3.0				1,575.5
Liabilities evidenced by certificates	8,524.7		226.1				8,750.8
Derivative financial instruments***		771.7				18.1	789.8
Subordinated capital	1,152.1		3.3				1,155.4
Hybrid capital			0.4				0.4
Other liabilities*	15.8		0.0				15.8
<b>Total financial liabilities</b>	<b>13,912.3</b>	<b>771.7</b>	<b>430.9</b>	<b>0.0</b>	<b>0.0</b>	<b>18.1</b>	<b>15,133.0</b>

\*Other assets/other liabilities include accruals and financial instruments

\*\*Derivative financial instruments HFT include positive market values of derivatives, which relate to an underlying business that is shown in the FVO category, in the amount of EUR 60.7 million.

\*\*\*Derivative financial instruments HFT include positive market values of derivatives, which relate to an underlying business that is shown in the FVO category, in the amount of EUR 72.0 million.

For additional details, please refer to note (122) Fair value disclosures.

Explanations:

lar:	loans and receivables
lac:	liabilities at cost
hft:	held for trading
fvo:	designated at fair value through profit and loss
afvtpl:	at fair value through profit or loss (fair value option)
afs:	available for sale
htm:	held to maturity

**(120) Loans and advances and financial liabilities designated at fair value**

Heta uses the fair value option primarily to avoid accounting mismatches for securities and loans that are hedged with interest rate derivatives.

This applies equally to long-term bonds issued with fixed interest rates. Based on the management strategy, the interest was switched from fixed to variable interest using interest rate swaps. In addition, the fair value option is also used for financial instruments with embedded derivatives.

The application of the fair value option results in the following values for the various items in the statement of financial position:

EUR m

	31.12.2015	31.12.2014
Loans and advances to customers and credit institutions	198.9	288.6
Bonds and other fixed-interest securities	0.0	192.3
Shares and other non-fixed-interest securities	6.3	8.4
<b>Total</b>	<b>205.2</b>	<b>489.2</b>
Liabilities to credit institutions	172.8	198.0
Liabilities to customers	1.0	3.0
Liabilities Pfandbriefbank	7.3	0.0
Liabilities evidenced by certificates	198.2	226.1
Subordinated capital	4.5	3.3
Hybrid capital	0.2	0.4
<b>Total</b>	<b>383.9</b>	<b>430.9</b>

The valuation result from the application of the fair value option recognised in the income statement amounts to EUR +1.5 million (2014: EUR +225.3 million) (see note (52) Result from financial assets - designated at fair value through profit or loss).

As at 31 December 2015, the maximum default risk for loans and advances designated at fair value through profit or loss was EUR 149.7 million (2014: EUR 238.7 million). The change in the fair value that is attributable to changes in the credit rating is EUR -78.9 million for the 2015 financial year (2014 adjusted value: EUR 5.2 million); since the designation, the cumulative change is EUR -27.4 million (2014 adjusted value: EUR 51.5 million). The changes in the fair value that are attributable to changes in the credit rating are determined by calculating differences, whereby the fair value based on the credit rating spreads at the end of the reporting period is compared to that of the beginning of the reporting period.

The fair value of issued liabilities takes into account Heta's credit risk, with the exception of the liabilities evidenced by certificates in the amount of EUR 198.2 million (2014: EUR 226.1 million) and subordinated capital of EUR 4.5 million (2014: EUR 3.1 million), which are issued with third-party collateral security that cannot be separated, so that the third-party credit risk is taken into account in determining the fair value. The fair value of these financial liabilities is determined with the help of a measurement method. One such method takes into account the credit risk by discounting the contractually determined payment flows of the liability using a risk-adjusted interest rate curve, which shows the interest rate level at which the group could issue similar instruments at the end of the reporting period.

For the financial liabilities designated at fair value, the total change in the fair value due to own credit risk in the 2015 financial year is EUR 51.4 million (2014: EUR 239.7 million); the cumulative fair value change as at 31 December 2015 due to changes in own credit risk is EUR 426.0 million (2014: EUR 374.6 million).

EUR m

	31.12.2015	31.12.2014
Cumulative changes in fair value	426.0	374.6
Fair-value-change in reporting year	51.4	239.7

The repayment sum as at 31 December 2015 is EUR 700.4 million (2014: EUR 691.1 million) and thus EUR 317.3 million above the amount shown in the statement of financial position as at 31 December 2015 (2014: above the amount shown in the statement of financial position at EUR 260.6 million).

The repayment amount as at 31 December 2015 compared to the amount shown in the statement of financial position is as follows:

EUR m

31.12.2015	Repayment amount	Amount shown in the statement of financial position	Difference
Liabilities to credit institutions	300.0	172.8	127.2
Liabilities to customers	10.0	1.0	9.0
Liabilities evidenced by certificates	370.4	205.5	164.9
Subordinated capital	20.0	3.8	16.2
<b>Total</b>	<b>700.4</b>	<b>383.1</b>	<b>317.3</b>

The difference as at 31 December 2014 was as follows:

EUR m

31.12.2014	Repayment amount	Amount shown in the statement of financial position	Difference
Liabilities to credit institutions	300.0	198.0	102.0
Liabilities to customers	10.0	3.0	7.0
Liabilities evidenced by certificates	367.3	226.1	141.2
Subordinated capital	13.7	3.3	10.5
<b>Total</b>	<b>691.1</b>	<b>430.4</b>	<b>260.6</b>

The repayment amount corresponds to the amount that the group must repay at the earliest possible due date set down in the contracts. If the repayment amount has not been defined (for example in the case of perpetuals), the amounts for these financial instruments will not be recognised.

### (121) Net gains or losses on financial instruments

The net gains and losses on financial instruments by category are as follows for the 2015 calendar year:

EUR m

1.1. - 31.12.2015	Net interest income	Valuation and Sale	Risk provisions on loans and advances	Other comprehensive income (OCI)
Loans and receivables	393.4	3.1	793.0	0.0
Trading assets	169.7	-58.5	0.0	0.0
Financial assets – designated at fair value through profit or loss	1.1	-73.7	0.0	0.0
Financial assets – available-for-sale	9.7	-1.9	0.0	11.6
Financial liabilities measured at amortised cost	-441.9	-1.9	0.0	0.0
Financial liabilities – designated at fair value through profit or loss	-26.0	75.1	0.0	0.0
<b>Total</b>	<b>106.1</b>	<b>-57.7</b>	<b>793.0</b>	<b>11.6</b>

The net gains and losses on financial instruments by category are as follows for the 2014 calendar year:

EUR m

1.1.-31.12.2014	Net interest income	Valuation and Sale	Risk provisions on loans and advances	Other comprehensive income (OCI)
Loans and receivables	319.1	-7.0	-4,168.5	0.0
Trading assets	203.2	58.7	0.0	0.0
Financial assets – designated at fair value through profit or loss	2.0	-13.1	0.0	0.0
Financial assets – available-for-sale	21.9	14.8	0.0	21.1
Financial liabilities measured at amortised cost	-418.6	-1.6	0.0	0.0
Financial liabilities – designated at fair value through profit or loss	-27.1	238.3	0.0	0.0
<b>Total</b>	<b>100.6</b>	<b>290.0</b>	<b>-4,168.5</b>	<b>21.1</b>

## (122) Fair value disclosures

Fair value is the price that would be received for the sale of an asset or paid to transfer a debt in an orderly transaction between market participants at the valuation date. Heta's wind-down obligation was taken into account by applying market prices of comparable financial instruments as well as by stipulating the most advantageous market pursuant to IFRS 13.16. The following fair value hierarchy is based on the origin of the fair value:

### Quoted prices in active markets (Level I)

The fair value of financial instruments traded in active markets is best established through quoted prices where these represent market values/prices used in regularly occurring transactions. This applies above all to listed equity securities, debt instruments, which are traded on the interbank market, and listed derivatives.

### Value determined using observable parameters (Level II)

If there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or recognised valuation models using observable prices or parameters must be used to determine fair value. This level includes the majority of the OTC derivatives and non-quoted debt instruments.

### Value determined using non-observable parameters (Level III)

This category includes financial instruments for which there are no observable market rates or prices. The fair value is therefore determined using valuation models appropriate to the individual financial instrument. This model makes use of management assumptions and estimates which are dependent on the pricing transparency and complexity of the financial instrument.

The end of the period under review is defined as the date of reclassification between various levels of the fair value hierarchy.

### Equity instruments

Equity instruments are reported in Level I if these are quoted in an active market. If not, these are reported in Level III. If the fair value of an equity instrument cannot be reliably measured, the equity instrument is measured at amortised cost. Equity instruments measured at cost are impaired if the carrying amount is higher than the recoverable amount, either by a significant amount or over a longer period of time.

### Derivatives

The fair values of derivatives that are not options are determined by discounting the relevant cash flows. These are reported in Level II if they are measured on the basis of observable input factors. If non-observable significant input factors are used, then these derivatives are reported as Level III. The measurement of the fair values of structured financial products takes into account the type of embedded derivative; these are reported in Level II or Level III depending on which input factors were used.

### Fixed-interest receivables and liabilities

The method used to measure fixed-interest receivables, liabilities and securities depends on the liquidity on the relevant market. Liquid instruments measured at the respective market value are shown in Level I. In the absence of an active market, fair values are calculated on the basis of risk premium curves. The proximity to the risk premium curve used determines



whether these instruments are reported in Level II or Level III. They are reported in Level III if the measurement procedure uses a significant input parameter that cannot be directly observed in the market. Provision of price data, either at a low frequency or only from one source, is reported in Level III.

### Hedge accounting

Within the scope of hedge accounting, Heta uses only fair value hedges to hedge the market values of financial instruments. Financial instruments hedged according to IAS 39 are reported in the statement of financial position in accordance with the hedged fair value, i.e. the carrying amount plus the change of the market value attributable to the hedged part of the financial instrument. The hedge serves above all to minimise the market value risk caused by interest rate changes.

As the carrying amount of unhedged fixed interest financial instruments according to IAS 39 (Loans & Receivables (L&R), Held to Maturity) remains unaffected by market changes, this produces a difference between the fair value and the carrying amount, which is determined by means of a capital value-oriented valuation method.

For this purpose, Heta established the expected series of payments for each financial instrument and discounted it with a discounting rate based on market data.

Because of Heta's over-indebtedness in terms of equity as at 31 December 2014 and the announcement of the company's owner that he will not provide any additional funds, it is anticipated that the company will no longer be in a position to service its liabilities as they become due. Taking into account the Financial Market Authority (FMA) ordinance from 1 March 2015, which has the effect of deferring all of the liabilities covered under the Federal Act on the Recovery and Resolution of Banks (BaSAG) until 31 May 2016, it can no longer be assumed, with regard to those liabilities with hedges, that these represent efficient hedging relationships in terms of IAS 39 (Hedge Accounting). For this reason, the hedging relationships for all liabilities of Heta were terminated in the 2014 financial year and the derivative transactions are now continued as stand-alone derivatives. The effect arising from the termination of the hedging relationship, which consists primarily of the basis adjustments applied until that reporting day, is distributed over the term of the underlying transaction.

Hedging relationships in connection with active underlying transactions (especially securities and receivables) were terminated as at 31 December 2014 if the underlying transaction had a term of more than five years. The limited five-year term was determined in compliance with the time frame stipulated by the Executive Board for the complete wind-down of the portfolio by 2020. Such derivatives are entered in the 2015 consolidated financial statements as stand-alone derivatives at the respective market value.

## 122.1. Fair value of financial instruments recognised at fair value

### 122.1.1. MEASUREMENT TECHNIQUES USED TO CALCULATE THE FAIR VALUE OF LEVEL II AND LEVEL III ITEMS

The approved valuation techniques according to IFRS 13 are the market approach, the cost approach and the income approach. The valuation technique using the market approach is based on identical or comparable assets and liabilities. With the income approach, the future cash flows or income and expenses are discounted on the valuation date. The fair value determined in this manner reflects current market expectations regarding these future amounts. This includes in particular present value models and also option price models used for the valuation of financial instruments or cash flows with an option character. The cost approach is not used.

The fair value of financial instruments with short terms where the carrying amount is an adequate approximation of the fair value was not separately determined.

While market prices for some of the Level III items are provided externally, the market prices are either supplied less frequently or only from one source. Where possible, the values are verified against third-party valuations on a recurring basis. The following valuation techniques are applied to items that are valued internally based on models:

### Present value of the future cash flows

Level II and III items that are not traded in active markets but where the date and amount of the cash flows are known are valued at the present value of the future cash flows. A risk premium is taken into account for discounting. All input factors are observable for Level II instruments while some parameters cannot be directly observed for Level III.

### Option valuation models

The existing portfolio of Level III items includes cash flows with amounts tied to various market variables such as swap rates, stock market indexes and FX rates, or with dates that cannot be determined. Recognised interest and option valuation models calibrated daily with market data (swaption prices, market prices, FX rates) are used for the valuation of such cash flows.

## 122.1.2. NON-OBSERVABLE INPUT FACTORS FOR LEVEL III ITEMS

**Volatilities and correlations**

Volatilities are important input parameters for all option valuation models. The volatilities are derived from market data using recognised models. If a model incorporates more than one market variable, correlations also have to be estimated and taken into account.

**Risk premiums**

Credit risk premiums indicate the default risk of an issuer. They provide information about the expected loss if the issuer defaults, and therefore reflect the loss given default and the probability of default. Risk premiums for some issuers can be observed directly in the market. When single-name CDS curves are not available for an issuer, the risk premiums have to be estimated based on similarities to other issuers or based on the issuer's county and sector. This applies to the risk premium of Heta.

**Country risk**

Some countries have an additional issuer risk factor, which is also taken into account when calculating the fair value. A country risk premium, which is calculated on the basis of the country CDS curve, is taken into account for this purpose.

**Internal rating**

The issuer default risk is determined on the basis of the group's internal rating scale.

**Liquidity discount**

In an illiquid market, both income-based and market-based approaches take into account liquidity discounts, which are derived on the basis of market indications.

**Loss given default**

The loss given default is a parameter that is never directly observable before a company defaults. Historical data is used to estimate the expected loss given default.

**Probability of default**

The risk premium and loss given default are used to estimate the probability of default, which is used for possible fair value adjustments. The ranges for non-observable input factors were as follows as at 31 December 2015:

Financial instrument	Input parameters	Range
Derivatives	Loss Given Default (LGD)	40 %
	Probability of Default (PD)	0.27 % -100 %
Securities and loans	Credit Spread	0 bp -7,324 bp
	Credit spread	0 bp -170 bp
Country risk	Probability of Default (PD)	0.00 % -25.00 %
Internal rating	-	250 bp
Liquidity discount	Discount	0 % -40 %
Based on market	Credit Spread	250 bp
Based on income	Loss Given Default (LGD)	45 %
Loss severity	Volatility	25 % -285 %
Derivatives and securities		

## 122.1.3. ADJUSTMENTS TO FAIR VALUE

**Credit valuation adjustment (CVA) and debt valuation adjustment (DVA)**

The credit valuation adjustment (CVA) and debt valuation adjustment (DVA) are reported for all OTC derivatives. The calculation is based on a Monte-Carlo simulation of the future replacement value (exposure), taking into account the effects of CSA agreements (credit support annex, CSA) by path. This results in a distribution of replacement values for all future dates. To determine the CVA, the absolute expected values from the positive exposure paths are multiplied by the counterparty's marginal probabilities of default and discounted. The DVA on the other hand is determined by multiplying and discounting the absolute expected values from the negative exposure paths with the bank's own marginal probabilities of default.

For counterparties with a collateral contract, the CVA and DVA have to be calculated at the portfolio level. The calculation takes into account contractual parameters such as the minimum transfer amount, threshold, rounding and netting. The rela-

tive CVA approach is used to allocate the portfolio CVA to specific items. Here the portfolio CVA is distributed proportionately to the individual CVAs. The full CVA approach is applied to unsecured items. In this approach, the CVA is calculated at the individual item level. A waterfall principle is applied to determine the probabilities of default. First the probabilities of default are derived from CDS curves. Synthetic curves are used if there are no single-name curves; these are comprised of country-specific curves and an internal rating.

### OIS discounting

Heta values derivatives taking into account basis spread influences by using various interest curves. Various interest curves are used to calculate the forward rates and discount factors (multi-curve framework). Overnight-indexed swap rates (OIS interest rates) are used for discounting in the valuation of collateralised OTC derivatives according to current market standards. A cross-currency basis spread is taken into account for foreign currency swaps, where the collateral and cash flows are in a different currency.

#### 122.1.4. SENSITIVITY ANALYSIS WITH LEVEL III ITEMS

The values of Level III financial instruments are determined on the basis of non-observable input factors. The value assigned to these non-observable factors can be derived from a range of alternatives and is subject to management assumptions and estimates. As at 31 December 2015, the value of factors from within the possible range was selected on the basis of the pricing transparency and complexity of the financial instrument so as to best reflect market conditions. In order to determine sensitivities within the measurement of the fair value regarding changes in non-observable input factors, the factors were shifted by +/- 100 basis points. Credit spread was identified as a material, unobservable input factor for the valuation of Level III items.

The following effects on the result arose from the rise and fall of the credit spread:

EUR m

31.12.2015	Fair value - adjustment of all unobservable input parameters -100 BP	Fair value - adjustment of all unobservable input parameters +100 BP
<b>Assets</b>		
Financial assets – designated at fair value through profit or loss	-8.8	7.9
<b>Total</b>	<b>-8.8</b>	<b>7.9</b>
<b>Liabilities</b>		
Liabilities to credit institutions	-1.3	1.3
Liabilities to customers	-0.0	0.0
Liabilities evidenced by certificates	-1.2	1.2
Subordinated capital	-0.1	0.1
<b>Total</b>	<b>-2.6</b>	<b>2.6</b>

#### 122.1.5. FAIR VALUE LEVEL

The table below shows the allocation of financial instruments carried at fair value according to their level in the fair value hierarchy as at 31 December 2015 (see note (122) Fair value disclosures).

EUR m

	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
<b>31.12.2015</b>				
<b>Assets</b>				
Derivative financial instruments	0.0	542.8	53.4	596.2
Financial assets – designated at fair value through profit or loss	0.4	0.0	204.8	205.2
Financial assets – available for sale	328.2	32.0	35.7	395.9
<b>Total</b>	<b>328.6</b>	<b>574.8</b>	<b>293.9</b>	<b>1,197.3</b>
<b>Liabilities</b>				
Liabilities to credit institutions	0.0	0.0	172.8	172.8
Liabilities to customers	0.0	0.0	1.0	1.0
Liabilities Pfandbriefbank	0.0	0.0	7.3	7.3
Liabilities evidenced by certificates	0.0	77.7	120.5	198.2
Derivative financial instruments	0.0	455.6	24.7	480.2
Subordinated capital	0.0	0.0	4.5	4.5
Hybrid capital	0.2	0.0	0.0	0.2
<b>Total</b>	<b>0.2</b>	<b>533.2</b>	<b>330.7</b>	<b>864.1</b>

The distribution of fair value by level was as follows as at 31 December 2014:

EUR m

	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
<b>31.12.2014</b>				
<b>Assets</b>				
Derivative financial instruments	0.0	876.7	79.6	956.3
Financial assets – designated at fair value through profit or loss	0.0	1.8	487.4	489.2
Financial assets – available for sale	685.7	146.9	273.5	1,106.1
<b>Total</b>	<b>685.7</b>	<b>1,025.4</b>	<b>840.6</b>	<b>2,551.6</b>
<b>Liabilities</b>				
Liabilities to credit institutions	0.0	0.0	198.0	198.0
Liabilities to customers	0.0	0.0	3.0	3.0
Liabilities evidenced by certificates	0.0	77.8	148.4	226.1
Derivative financial instruments	0.0	743.5	46.3	789.8
Subordinated capital	0.0	0.0	3.3	3.3
Hybrid capital	0.4	0.0	0.0	0.4
<b>Total</b>	<b>0.4</b>	<b>821.3</b>	<b>399.0</b>	<b>1,220.7</b>

The reconciliation of the financial instruments in Level III is shown in the table below:

EUR m

	At start of reporting period (+)	Total gains/losses	Revaluation (only afs)	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	At end of reporting period (-)
<b>31.12.2015</b>									
<b>Assets</b>									
Trading assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Derivative financial instruments	79.6	-26.1	0.0	0.1	0.0	0.0	-0.2	-0.0	53.4
Financial assets – designated at fair value through profit or loss	487.4	-85.1	0.0	0.0	-199.4	1.9	0.0	0.0	204.8
Financial assets – available for sale	273.5	0.2	0.8	8.7	-248.8	18.1	0.0	-14.6	38.1
<b>Total</b>	<b>840.6</b>	<b>-111.0</b>	<b>0.8</b>	<b>8.5</b>	<b>-447.3</b>	<b>19.9</b>	<b>-0.2</b>	<b>-14.6</b>	<b>293.9</b>
<b>Liabilities</b>									
Liabilities to credit institutions	198.0	-25.2	0.0	0.0	0.0	0.0	0.0	0.0	172.8
Liabilities to customers	3.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Liabilities evidenced by certificates	148.5	-18.9	0.0	0.0	-1.8	0.0	0.0	0.0	127.8
Derivative financial instruments	46.3	-21.6	0.0	0.1	0.0	0.0	0.0	-0.1	24.7
Subordinated capital	3.3	2.2	0.0	0.0	-1.0	0.0	0.0	0.0	4.5
<b>Total</b>	<b>399.1</b>	<b>-65.6</b>	<b>0.0</b>	<b>0.1</b>	<b>-2.8</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>	<b>330.7</b>

The cash flows deferred on account of the decision of the resolution authority dated 1 March 2015 was also taken into account when determining the fair value. The column "Total gains/losses" contains both income and expenses from financial instruments which were held as at 31 December 2015, as well as from financial instruments which were no longer part of the portfolio in the 2015 financial year. Gains and losses for derivative financial instruments are reported in the result from financial investments - designated at fair value through profit and loss, in the result from hedge accounting and the trading result; the remaining items are reported in accordance with their category in the income statement and in equity.

The financial instruments held as at 31 December 2015 result in a Loss of EUR -51.0 million (2014: EUR -204.4 million), which is reported in the result from financial investments - designated at fair value through profit and loss, in the result from hedge accounting and the trading result.

Due to the restricted availability of external market values, a total of EUR 0.0 million (2014: EUR 3.0 million) was reclassified from Level I to Level III.

The reconciliation of the assets reported in Level III as at 31 December 2014 was as follows:

EUR m

	At start of reporting period (+)	Total gains/losses	Revaluation (only afs)	Additions (+)	Disposals (-)	Transfer into Level III	Transfer out of Level III	Other (+/-)	At end of reporting period (-)
<b>31.12.2014</b>									
<b>Assets</b>									
Trading assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Derivative financial instruments	126.0	-46.3	0.0	0.0	0.0	0.0	0.0	0.0	79.6
Financial assets – designated at fair value through profit or loss	503.3	7.0	0.0	15.3	-18.2	0.0	0.0	-20.0	487.4
Financial assets – available for sale	167.3	-25.1	2.4	260.3	-129.4	3.0	0.0	-5.0	273.5
<b>Total</b>	<b>796.6</b>	<b>-64.4</b>	<b>2.4</b>	<b>275.6</b>	<b>-147.6</b>	<b>3.0</b>	<b>0.0</b>	<b>-25.0</b>	<b>840.6</b>
<b>Liabilities</b>									
Liabilities to credit institutions	289.8	-91.8	0.0	0.0	0.0	0.0	0.0	0.0	198.0
Liabilities to customers	9.2	-6.1	0.0	0.0	0.0	0.0	0.0	0.0	3.0
Liabilities evidenced by certificates	260.3	-101.7	0.0	0.0	-10.0	0.0	0.0	0.0	148.5
Derivative financial instruments	36.4	9.8	0.0	0.0	0.0	0.0	0.0	0.1	46.3
Subordinated capital	28.2	-14.9	0.0	0.0	-10.0	0.0	0.0	0.0	3.3
<b>Total</b>	<b>623.8</b>	<b>-204.8</b>	<b>0.0</b>	<b>0.0</b>	<b>-20.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>399.1</b>

## 122.2. Fair value of financial instruments not recognised at fair value

The measurement techniques for calculating the fair value of the group's financial instruments, which are not recognised at fair value in the statement of financial position, correspond to those shown in note (122.1) Fair value of financial instruments recognised at fair value.

The carrying amounts of the reported financial investments and assets not recognised at the fair value are compared to the respective fair values below:

EUR m

31.12.2015	Carrying amount	Fair value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non- market assumptions
<b>Assets</b>						
Loans and advances to credit institutions	2,200.4	2,199.6	-0.8	0.0	0.0	2,199.6
Loans and advances to customers	2,385.0	2,260.0	-125.0	0.0	0.0	2,260.0
Other financial investments – investment properties	405.6	417.8	12.2	0.0	0.0	417.8
Assets classified as held for sale	429.4	430.5	1.2	0.0	0.0	430.5
Other receivables	23.4	28.0	4.6	0.0	0.0	28.0
<b>Total</b>	<b>5,443.6</b>	<b>5,335.9</b>	<b>-107.8</b>	<b>0.0</b>	<b>0.0</b>	<b>5,335.9</b>
<b>Liabilities</b>						
Liabilities to credit institutions	3,227.3	3,171.6	55.7	0.0	0.0	3,171.6
Liabilities to customers	1,549.9	1,020.7	529.2	0.0	0.0	1,020.7
Liabilities evidenced by certificates	8,595.5	5,724.5	2,871.0	0.0	0.0	5,724.5
Subordinated capital	2,000.6	1,439.2	561.4	0.0	0.0	1,439.2
Other liabilities	22.0	22.0	0.0	0.0	0.0	22.0
<b>Total</b>	<b>15,395.3</b>	<b>11,378.0</b>	<b>4,017.3</b>	<b>0.0</b>	<b>0.0</b>	<b>11,378.0</b>

The fair value of loans and liabilities is determined according to the present value of future cash flows. The cash flow deferred due to the decision of the resolution authority from 1 March 2015 was taken into account when calculating the fair value. The risk premium for loans depends on the internal or external rating of the borrower, a country risk premium and a liquidity discount for illiquid markets. For liabilities the own credit spread is also taken into account in the discount factor. The inherent model risk and illiquidity of the items were also taken into account with adjustment factors.

For financial assets held to maturity, the fair value is determined on the basis of externally obtained prices.

The fair value of investment properties is determined on the basis of market-based estimates, which are generally calculated by full-time experts. If market-based estimates are not available, fair value is estimated on the basis of the income approach.

In the case of assets classified as held for sale, the fair value is calculated on the basis of existing purchase price offers.

The carrying amounts of financial instruments and assets not measured at fair value in the statement of financial position, as well as the respective fair values, were as follows as at 31 December 2014:

EUR m

31.12.2014	Carrying amount	Fair value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non- market assumptions
<b>Assets</b>						
Loans and advances to credit institutions	3,101.3	3,100.7	-0.6	0.0	0.0	3,100.7
Loans and advances to customers	2,754.8	2,574.8	-180.0	0.0	0.0	2,574.8
Other financial investments – investment properties*	784.8	799.7	14.9	0.0	0.0	799.7
Assets classified as held for sale	99.8	100.1	0.3	0.0	0.0	100.1
Other receivables	60.8	62.5	1.7	0.0	0.0	62.5
<b>Total</b>	<b>6,801.5</b>	<b>6,637.8</b>	<b>-163.7</b>	<b>0.0</b>	<b>0.0</b>	<b>6,637.8</b>
<b>Liabilities</b>						
Liabilities to credit institutions	2,647.3	2,631.4	15.9	0.0	0.0	2,631.4
Liabilities to customers	1,572.5	1,112.9	459.6	0.0	0.0	1,112.9
Liabilities evidenced by certificates	8,524.7	7,908.6	616.1	0.0	0.0	7,908.6
Subordinated capital	1,152.1	183.9	968.2	0.0	0.0	183.9
Other liabilities	15.8	15.8	0.0	0.1	0.0	15.7
<b>Total</b>	<b>13,912.3</b>	<b>11,852.5</b>	<b>2,059.8</b>	<b>0.1</b>	<b>0.0</b>	<b>11,852.5</b>

\*) Previous year's figures were adjusted for comparison purposes.

### (123) Offsetting

The following tables show the reconciliation of gross amounts to the offset net amounts, separately for all recognised financial assets and liabilities. The amounts that are subject to a legally enforceable global netting or similar agreement but have not been offset in the financial statements are also disclosed.

EUR m

	31.12.2015	31.12.2014
<b>ASSETS</b>	<b>Derivative financial instruments</b>	
Gross amounts of recognised financial instruments	596.2	956.3
Carrying amounts of financial instruments not able to be netted	0.0	0.0
<b>a) Gross amounts of recognised financial instruments (I and II)*</b>	<b>596.2</b>	<b>956.3</b>
b) Amounts that are set off for financial instruments I	0.0	0.0
<b>c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)</b>	<b>596.2</b>	<b>956.3</b>
d) Master netting arrangements (that are not included in b)	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	146.7	670.7
Amounts related to financial collateral (including cash collateral);	0.0	0.0
<b>e) Net amounts of financial instruments I and II (c-d)</b>	<b>449.5</b>	<b>285.6</b>

\* Financial instruments I: Financial investments and liabilities that are already offset in the statement of financial position.

Financial instruments II: Financial instruments that are subject to a netting agreement but are not offset in the statement of financial position.

EUR m

	31.12.2015	31.12.2014
<b>LIABILITIES</b>	<b>Derivative financial instruments</b>	
Gross amounts of recognised financial instruments	480.2	789.8
Carrying amounts of financial instruments not able to be netted	0.0	0.0
<b>a) Gross amounts of recognised financial instruments (I and II)*</b>	<b>480.2</b>	<b>789.8</b>
b) Amounts that are set off for financial instruments I	0.0	0.0
<b>c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)</b>	<b>480.2</b>	<b>789.8</b>
d) Master netting arrangements (that are not included in b)		
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	146.7	670.7
Amounts related to financial collateral (including cash collateral);	0.0	0.0
<b>e) Net amounts of financial instruments I and II (c-d)</b>	<b>333.5</b>	<b>119.1</b>

\* Financial instruments I: Financial investments and liabilities that are already offset in the statement of financial position.

Financial instruments II: Financial instruments that are subject to a netting agreement but are not offset in the statement of financial position.

Master agreements are concluded with business partners for offsetting derivatives transactions, so that positive and negative market values of the derivatives contracts covered by the master agreements can be offset against each other. Since such offsetting cannot be performed in the ordinary course of business but only in case of termination, such as in the event of insolvency, these are not offset in the statement of financial position.

## (124) Derivative financial instruments

### 124.1. Derivatives schedule

The following transactions were not yet settled by the balance sheet date:

EUR m

	31.12.2015			31.12.2014		
	Fair values			Fair values		
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
<b>a) Interest-related transactions</b>						
<b>OTC-products</b>	<b>8,177.4</b>	<b>579.3</b>	<b>323.9</b>	<b>11,441.6</b>	<b>949.3</b>	<b>549.6</b>
- Interest rate swaps	8,115.1	579.2	323.8	11,362.6	949.2	549.5
- Forward rate agreements	0.0	0.0	0.0	0.0	0.0	0.0
- Interest options	0.0	0.0	0.0	0.0	0.0	0.0
- Caps, floors	62.3	0.1	0.1	79.0	0.1	0.1
- Other interest derivatives	0.0	0.0	0.0	0.0	0.0	0.0
<b>b) Currency-related transactions</b>						
<b>OTC-products</b>	<b>733.8</b>	<b>17.0</b>	<b>156.3</b>	<b>5,148.6</b>	<b>7.0</b>	<b>240.2</b>
- Currency swaps	464.7	17.0	152.3	848.2	4.5	236.4
- Foreign exchange swaps	266.7	0.0	4.0	4,296.4	2.4	3.7
- Forward exchange contracts - purchases	1.2	0.0	0.0	2.0	0.0	0.0
- Forward exchange contracts - sales	1.2	0.0	0.0	2.0	0.0	0.0
- Currency swaptions	0.0	0.0	0.0	0.0	0.0	0.0

Derivative transactions are used to hedge against fluctuations in interest rates, currencies or market prices. For the most part, micro hedges are used to hedge individual transactions on the liabilities side. All hedges that relate to lending transactions with a term that goes beyond the wind-down horizon specified by the resolution authority (December 2020), as well as all hedges relating to the deposit business, were terminated as at 31 December 2014. With regard to the disclosure and measurement of derivatives, please refer to note (17) Financial instruments: Recognition and measurement (IAS 39) and note (20) Hedge Accounting.



## 124.2. Due date analysis for derivatives

The due date analysis for derivatives includes the products cross currency, interest rate and FX swaps, and is divided into portfolios that are of relevance for controlling purposes. Future expected cash flows are shown on a net basis. Most derivatives are secured with cash collateral. Possible changes to derivative market values lead to changes in the cash collateral, which are not taken into account here:

EUR m

As at 31 December 2015	1 Y (2016)	2 Y (2017)	3 Y (2018)	4 Y (2019)	5 Y (2020)	>5 Y (>2020)	Total
Net cash flow of derivatives							
Investment portfolio	-16.0	-14.0	-12.0	-10.0	-9.0	-40.0	-101.0
Market Risk Steering ALM	178.0	112.0	18.0	7.0	4.0	-9.0	310.0
Market Risk Steering B2B	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Market Risk Steering FVO	3.0	13.0	0.0	-2.0	-2.0	-8.0	4.0
Market Risk Steering FX	11.0	-49.0	-52.0	0.0	0.0	0.0	-90.0
Market Risk Steering HA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>176.0</b>	<b>62.0</b>	<b>-46.0</b>	<b>-5.0</b>	<b>-7.0</b>	<b>-57.0</b>	<b>123.0</b>

EUR m

As at 31 December 2014	1 Y (2015)	2 Y (2016)	3 Y (2017)	4 Y (2018)	5 Y (2019)	>5 Y (>2019)	Total
Net cash flow of derivatives							
Investment portfolio	-20.0	-18.0	-14.0	-11.0	-10.0	-49.0	-122.0
Market Risk Steering ALM	193.0	171.0	110.0	16.0	5.0	-4.0	491.0
Market Risk Steering B2B	1.0	0.0	0.0	0.0	0.0	0.0	1.0
Market Risk Steering FVO	12.0	10.0	10.0	-2.0	-4.0	-32.0	-6.0
Market Risk Steering FX	-133.0	4.0	-34.0	-37.0	0.0	0.0	-200.0
Market Risk Steering HA	5.0	4.0	1.0	1.0	1.0	4.0	16.0
<b>Total</b>	<b>58.0</b>	<b>171.0</b>	<b>73.0</b>	<b>-33.0</b>	<b>-8.0</b>	<b>-81.0</b>	<b>180.0</b>

ALM – Asset Liability Management – Derivatives to manage the interest change risk

B2B – back to back derivatives (mirror derivatives)

FVO – Derivatives in economic hedging relationships (fair value options)

FX – Currency/Cross Currency Swaps

HA – Derivatives in hedging relationships (Fair Value Hedges)

**(125) Related parties disclosures**

Business relations with related parties on the respective balance sheet date were as follows:

EUR m

31.12.2015	Parent	Affiliated companies	Joint Ventures	Key management personnel	Hypo Alpe-Adria-Bank S.p.A., Udine
<b>Assets</b>	<b>99.5</b>	<b>23.9</b>	<b>21.2</b>	<b>0.0</b>	<b>618.2</b>
Loans and advances to credit institutions	0.0	0.0	0.0	0.0	1,146.3
Loans and advances to customers	50.0	92.2	22.2	0.0	0.0
Risk provisions on loans and advances	0.0	-72.9	-1.0	0.0	-528.1
Other assets	49.5	4.6	0.0	0.0	0.0
<b>Liabilities</b>	<b>211.3</b>	<b>0.5</b>	<b>4.5</b>	<b>0.0</b>	<b>0.0</b>
Liabilities to customers	0.0	0.4	4.5	0.0	0.0
Provisions	143.9	0.0	0.0	0.0	0.0
Other financial liabilities	67.4	0.0	0.0	0.0	0.0
Other non-financial obligations	0.0	0.1	0.0	0.0	0.0
<b>Liabilities arising from guarantees</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>
Guarantees issued by the group for related party	0.0	0.0	0.0	0.0	0.2
Guarantees received by the group from related party	0.0	0.0	0.0	0.0	0.0

Because of the closing that took place on 17 July 2015, Hypo Group Alpe Adria AG (HGAA) is no longer reported as a related party - see note (129.2) Sale agreement regarding the privatisation of the SEE network.

EUR m

31.12.2014	Parent	Affiliated companies	Joint Ventures	Key management personnel	Hypo Alpe-Adria-Bank S.p.A., Udine	HYPO GROUP ALPE ADRIA
<b>Assets</b>	<b>62.3</b>	<b>45.2</b>	<b>38.0</b>	<b>0.0</b>	<b>414.0</b>	<b>984.5</b>
Loans and advances to credit institutions	0.0	0.0	0.0	0.0	1,231.3	984.5
Loans and advances to customers	62.3	104.3	45.3	0.0	0.0	0.0
Risk provisions on loans and advances	0.0	-70.6	-7.3	0.0	-817.2	0.0
Other assets	0.0	11.5	0.0	0.0	0.0	0.0
<b>Liabilities</b>	<b>31.3</b>	<b>0.4</b>	<b>0.8</b>	<b>0.3</b>	<b>0.0</b>	<b>97.3</b>
Liabilities to customers	0.0	0.4	0.8	0.0	0.0	97.3
Provisions	22.9	0.0	0.0	0.1	0.0	0.0
Other financial liabilities	8.2	0.0	0.0	0.0	0.0	0.0
Other non-financial obligations	0.2	0.0	0.0	0.2	0.0	0.0
<b>Liabilities arising from guarantees</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>158.4</b>
Guarantees issued by the group for related party	0.0	0.0	0.0	0.0	0.0	0.0
Guarantees received by the group from related party	0.0	0.0	0.0	0.0	0.0	158.4

Balances and transactions between the company and its fully-consolidated subsidiaries, which are related parties, were eliminated during the consolidation process and must therefore not be disclosed in these notes.

In its capacity as the sole owner of Heta and Hypo Alpe-Adria-Bank S.p.A., Udine (HBI), the Republic of Austria has entered into a number of business and liability relationships which are described in detail in note (129) Main agreements and note (129.1) Agreement with the Austrian government and HBI-Bundesholding AG regarding the capitalisation and liquidity for Hypo Alpe-Adria-Bank S.p.A.

Key management personnel is defined as the Executive Board members and managing directors of the subsidiaries, as well as the first and second levels of management of Heta.

Relationships with companies accounted for at equity are shown in the table under participations.

Expenses in the amount of EUR -1.2 million (2014: -38.1 million) were recorded in the 2014 financial year for uncollectible receivables and doubtful accounts with related parties (non-consolidated investment companies owned by Heta).

The conditions for the refinancing lines to a former group company, which must continue to be treated as a related party, amount to a surcharge of between 33 and 210 basis points on the respective benchmark interest rate.

In addition, on the balance sheet date there are business relationships with other publicly-owned organisations at a scope customary for the banking industry.

The relationships with the executive bodies of Heta are shown under note (134) Relations with executive bodies.

The following expenses were entered in addition to the charges incurred during the course of normal business activities that are due to the Republic of Austria (which as the sole owner assumes a position of control over the company) and its directly attributable legal entities:

	EUR m	
	1.1. - 31.12.2015	1.1. - 31.12.2014
Fees for Government Guaranteed subordinated bonds	-53.3	-53.3
Fees for a hedging instrument in connection with SEE-sale	124.1	0.0
Fees for Guarantees	-37.7	-17.6
Profit-sharing for sale SEE network	0.0	0.0
<b>Total</b>	<b>33.1</b>	<b>-70.9</b>

## (126) Participation capital

The participation capital - subscribed by the Republic of Austria - is reported in the consolidated financial statements in a separate item under equity at an amount of EUR 1,075,111,072.56. In the case of dividend payments relating to the participation capital, these are generally reported as appropriation of profits and not as an interest expense.

The basis of assessment or the payment of dividends are the annual financial statements of Heta in accordance with the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG); in addition, the existence of a sufficient annual profit after the movement in reserves is also used as a basis. No distributions have been made to date due to the lack of an annual net income (after movement in reserves) eligible for distribution.

## (127) Guarantee by the State of Carinthia

The statutory liability of the state of Carinthia is fashioned as a deficiency guarantee pursuant to section 1356 of the Austrian Civil Code (Allgemeines Bürgerliches Gesetzbuch), and includes all liabilities assumed by Heta before 3 April 2003, as well as all liabilities that were incurred from 3 April 2003 to 1 April 2007 and whose term does not extend beyond 30 September 2017. The state does not assume any guarantee for liabilities assumed after 1 April 2007. The guarantee is set out in the Kärntner Landesholding Act (K-LGH).

A guarantee commission agreement between the state of Carinthia and Heta provided for a guarantee commission of one per mill p.a. of the outstanding amount. This guarantee commission agreement was terminated by Heta on 31 December 2011 in exercise of the contractually designated ordinary termination right, as a result of which the contractual obligation to pay the guarantee commission is cancelled as of the year 2012. Notwithstanding this termination of the contractual guarantee commission agreement, the state of Carinthia's deficiency guarantee as set out in the legislation continues to be in effect pursuant to section 5 of the Kärntner Landesholding Act (K-LHG). The Aufsichtskommissär (Supervisor) of the Kärntner Landesholding is still authorised to access the relevant information at the company.

The company and the state of Carinthia have diverging legal opinions regarding the guarantee commission for the year 2011, which has not been paid by the company to date. The company submitted a waiver of statute of limitation ending in 31 December 2015 to the state, which was extended to 31 December 2016 in 2015. In turn, Carinthia committed to not file suit against the company for the time being.

As indicated under note (2.2) Hypo Alpe Adria Restructuring Act (HaaSanG), certain Heta liabilities, which are covered by the Hypo Alpe Adria Restructuring Act (HaaSanG) and the FMA Ordinance (HaaSanV) that went into force on 7 August 2014, were derecognised through profit and loss due to the expiry of the liability. This affected subordinated liabilities (EUR 0.8 billion) that featured a guarantee assumed by the state of Carinthia. Following the 3 July 2015 decision of the Austrian Constitutional Court (VfGH), these liabilities were again recognised in the balance sheet (through profit and loss).

The development of the state-guarantee liabilities is as follows:

EUR m

	31.12.2015		31.12.2014*
	Taking into account cancellation HaaSanG by VfGH	Taking into account cancellation HaaSanG by VfGH	Application HaaSanG
Heta Asset Resolution AG	11,133.8	11,025.3	10,168.7
<b>Total</b>	<b>11,133.8</b>	<b>11,025.3</b>	<b>10,168.7</b>

\*) figures from the previous year were adjusted

The change in state-guarantee liabilities is mainly due to changes in the exchange rate.

On the basis of the statutory authorisation pursuant to section 2a of the Financial Market Stability Act (FinStaG), on 20 January 2016 the state of Carinthia submitted, through the specially created Kärntner Ausgleichszahlungs-Fonds (K-AF), an offer to Heta creditors for the purchase of all of Heta's debt instruments secured by the state guarantee. Heta responded to the request for information submitted by the state of Carinthia in connection with this offer regarding its debt instruments secured by the state guarantee in line with its existing obligations to provide information pursuant to section 5 Kärntner Landesholding Act (K-LHG). For further information, please refer to note (4) Repurchase offer from the State of Carinthia.

## (128) Important proceedings

### 128.1. EU proceedings

The EU state aid investigation of the former Hypo Alpe-Adria-Bank International AG was completed with a decision of the Commission of the European Union (EU Commission) on 3 September 2013.

The sale of the bank network in south-eastern Europe (SEE network, Hypo Group Alpe Adria AG (HGAA)) demanded by the EU Commission was completed on 17 July 2015, in compliance with the specifications set out for completing the disposition (deadline end of 2015). The transaction was confirmed by the EU Commission (from the viewpoint of state aid legislation) prior to the implementation of the closing.

The business purpose of Heta is the wind-down of its assets, whereby the restrictions provided for in the Commission's decision from September 2013 remain in effect. The wind-down entity continues to be subject to new business restrictions and the principle of a capital- and value-friendly wind-down, in particular also the specifications for the restructuring and business adjustment of individual engagements as well as requirements for the disposition of assets. Compliance with the requirements set out by the Commission's decision is regularly monitored by an independent Monitoring Trustee and noted in the quarterly reports to the EU Commission.

### 128.2. Repeal of the Hypo Alpe Adria Restructuring Act (HaaSanG) by the Constitutional Court of Austria (VfGH) and resulting lawsuits

To date, Heta has been served with 34 claims in which creditors challenge the constitutional legitimacy of the Hypo Alpe Adria Restructuring Act (HaaSanG) and have sued for a declaration of the receivables and for payment. In many of these civil lawsuits, the proceedings were interrupted due to appeals to the Constitutional Court of Austria (VfGH) requesting a review of the constitutionality of the law. With the findings from 3 July 2015, the Constitutional Court of Austria (VfGH) repealed both the Hypo Alpe Adria Restructuring Act (HaaSanG) as well as the underlying ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV) regarding the implementation of restructuring measures, as unconstitutional. As a result, the liabilities which had been treated as expired in 2014 and that were derecognised through profit and loss were again recognised in the statement of financial position, and the provisions of EUR 0.9 billion, which were created in the 2014 consolidated financial statements in connection with the judgement of the court of first instance (Munich I regional court) (BayernLB (Austrian Equity Substituting Capital Act (EKEG)) procedure) from 8 May 2015 were reversed through profit and loss.

This resulted in an overall negative effect on the income statement and hence also on equity of EUR -0.8 billion (nominal) plus interest claims, which were mainly due to the re-recognition of liabilities to subordinated creditors. The renewed recognition of liabilities to BayernLB did not have a major effect on the consolidated financial statements for 31 December 2015 due to the provisions that were created in 2014.

Following the decision of the Constitutional Court of Austria (VfGH), some of the proceedings that were previously disrupted were restarted again either officially or at the request of the plaintiffs. Plaintiffs and defendants also submitted additional briefs. With the decision of the Constitutional Court of Austria (VfGH), which repealed the act and the Ordinance issued under the act, the disputed issue in the proceedings has been restricted to the applicability of the payment moratorium for

the affected liabilities, which has been in place since 1 March 2015. In these proceedings, Heta takes the position that the affected liabilities are included in the moratorium issued by the Financial Market Authority (FMA).

At present, the proceedings appear to be characterised by cautious waiting, since most of the plaintiffs want to wait for the next decisions of the Austrian Financial Market Authority (FMA). Accordingly, the parties could agree on simply suspending many of the proceedings.

### 128.3. Information regarding BayernLB

#### 128.3.1. MEMORANDUM OF UNDERSTANDING (MOU) BETWEEN THE REPUBLIC OF AUSTRIA AND THE FREE STATE OF BAVARIA AND REVIEW OF THE MOU BY HETA.

On 7 July 2015, the Austrian and Bavarian ministries of finance announced the signing of a Memorandum of Understanding (MoU) between the Republic of Austria and the Free State of Bavaria, which would form the basis for the settlement of all pending cases between BayernLB and Heta on the one hand, and between BayernLB and the Republic of Austria and the Kärntner Landesholding (KLH) on the other hand.

By signing the Memorandum of Understanding (MoU), the Republic of Austria and the Free State of Bavaria have initiated a process, during the course of which Heta was also invited to examine and decide whether it wished to participate in a general settlement of the existing legal disputes with BayernLB on the basis of this Memorandum of Understanding (MoU). Therefore the executive bodies of the company were asked to review whether they are able to conclude a settlement regarding the proceedings that affect Heta - as outlined in the Memorandum of Understanding (MoU) - particularly with regard to the termination of Heta's Austrian Equity Substituting Capital Act (EKEG) proceedings with BayernLB, and the termination of the action for misrepresentation pursued by the Republic of Austria against BayernLB and Heta (for more information, see note (128.3.3) Action for misrepresentation: Republic of Austria and BayernLB). The Memorandum of Understanding (MoU) provided for a settlement amount of EUR 2.4 billion with regard to the Austrian Equity Substituting Capital Act (EKEG) proceedings (plus interest as of 1 March 2015), at which BayernLB would participate in the wind-down of Heta (whether pursuant to the BaSAG or in the course of insolvency proceedings) at the same rank and in the same manner as all other non-subordinated creditors.

The executive bodies of Heta, with the aid of Austrian and German legal experts, including the current barristers, performed a comprehensive review of the conditions for a settlement and the associated impact on Heta. On 21 September 2015, Heta announced that it would be prepared to conclude a settlement - as outlined in the Memorandum of Understanding (MoU) - with BayernLB. But in the end, BayernLB was not willing to settle the Austrian Equity Substituting Capital Act (EKEG) proceedings with Heta in the form that was originally planned. Therefore the proceedings are continued by Heta without any restrictions, and are to be completed with a legally binding decision by the German courts with jurisdiction. To this end, Heta submitted timely its grounds of appeal to the Munich upper regional court (OLG) on 1 February 2016.

However, BayernLB also declared its willingness to make certain concessions regarding its claims in the Austrian Equity Substituting Capital Act (EKEG) proceedings. These were unilaterally submitted by BayernLB in the form of a written settlement declaration, and can be summarised as follows: Even if BayernLB is awarded a larger claim in the Austrian Equity Substituting Capital Act (EKEG) proceedings with legal effect, it will only participate in the wind-down of Heta at an amount of EUR 2.4 billion plus interest of 5.0 % points p.a. above the respective base rate, at minimum 5.0 % p.a. This declaration was submitted with the proviso that BayernLB's claim participates in a wind-down procedure according to Federal Act on the Recovery and Resolution of Banks (BaSAG), insolvency proceedings regarding the assets or another form of wind-down of the company with the same rights and at the same rank as the other senior creditors. In addition, BayernLB has indicated its willingness to waive the initiation of compulsory enforcement measures and to limit its activities to participating in the wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) with its claim. No restrictions have been provided for with regard to Heta's claim against BayernLB from the counterclaims. If Heta is able to legally enforce its claims, BayernLB may also be taken to task with regard to these claims. With the exception of the claims from the Austrian Equity Substituting Capital Act (EKEG) proceedings and certain derivative transactions between BayernLB and Heta, all mutual claims were settled by way of the corresponding declarations by BayernLB on the one hand and Heta on the other hand.

In addition, the action for misrepresentation by the Republic of Austria against BayernLB as the first respondent and Heta as the second respondent was terminated. Possible claims of Heta against the Republic of Austria were not set out in any of the agreements and declarations. These are not affected by the agreements that have been entered into. Heta has obtained a waiver of statute of limitation from the Republic of Austria in order to protect its potential claims.

The implementation as shown above results in the following benefits for Heta:

- enforcement action by BayernLB with regard to Heta's assets was thus prevented;
- the claims of BayernLB against Heta totalling EUR 2.8 billion (as at 1 March 2015) will most likely be reduced to EUR 2.4 billion; and

- BayernLB commits - without prejudice to legal protection that applies equally to all creditors pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) - not to take any measures that would oppose the orderly wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) (e.g. by disputing the acknowledgement of wind-down measures in other member states).

The Executive Board of Heta believes that as a result of the agreements that have been concluded, approximately EUR 86.0 million in provisions and liabilities to BayernLB can be reversed as at 31 December 2015, since their utilisation is no longer expected, or because they are covered by BayernLB's voluntary write-off. These concern provisions for possible claims for damages asserted by BayernLB in connection with the Austrian Equity Substituting Capital Act (EKEG) proceedings and other liabilities for certain historic recourse claims of BayernLB.

The liabilities of EUR 2.8 billion (nominal plus interest claims) to BayernLB as at 31 December 2015 can only be reduced to the settlement value of approximately EUR 2.5 billion (nominal EUR 2.4 billion plus interest as of 1 March 2015 of at least 5.0 %) once it has been determined that the resolution authority recognises BayernLB's claims as equal-ranking and unsecured liabilities in the wind-down procedure for Heta. This waiver only takes effect once the wind-down of Heta is complete, however. If and at what amount the liabilities to BayernLB shown for 31 December 2015 will be covered under the measures initiated by the resolution authority in 2016 regarding the participation of creditors is at the sole discretion of the Financial Market Authority (FMA).

#### 128.3.2. JUDGEMENT OF THE MUNICH I REGIONAL COURT REGARDING EQUITY SUBSTITUTION LOANS FROM BAYERISCHE LANDESBANK

At the end of 2012, the former majority shareholder of Hypo Alpe-Adria-Bank International AG, Bayerische Landesbank (BayernLB), sought a declaratory judgement from the Munich I regional court - which was later converted to an action for performance - in relation to the financing lines, which in the view of the former Hypo Alpe Adria are subject to the Austrian Equity Substituting Capital Act (EKEG) and may therefore neither be serviced by interest payments nor repaid until further notice. Heta submitted a comprehensive statement of defence against the claim and contested the order sought in its entirety; it also contested, in the form of five counterclaims, the repayments made to BayernLB totalling EUR 4.8 billion.

The Munich I regional court issued the judgement of the court of first instance at the hearing of 8 May 2015. The written ruling was submitted to Heta's lawyers in this case on 2 June 2015. In a not yet binding judgement, the court admitted almost the entire order sought by BayernLB, and ordered Heta to pay (i) EUR 1.03 billion plus associated interest in the amount of EUR 17.1 million, along with interest of 5.0 percentage points above the respective base rate (but at least 5.0 % p.a. since 1 January 2014 and 21 June 2014), (ii) CHF 1.29 billion plus associated interest of EUR 15.2 million, along with interest of 5.0 percentage points above the respective base rate (but at least 5.0 % p.a. since 1 January 2014) and (iii) EUR 1.4 million plus interest, and dismissed all of Heta's counterclaims (claims for recovery). Only in the instance of one bond of CHF 300 million did the court find that it did not have jurisdiction. In addition, it was found that BayernLB must be compensated for all damages that it incurred due to the non-payment or non-timely payment of the loan amounts. BayernLB would still have to sue for performance in order to obtain an enforceable decision regarding the action for damages. The declaratory judgement regarding the action for damages, which was issued with the decision of the Munich I regional court, does however limit the court's scope of review during a subsequent action for performance to whether the asserted damages are such in terms of this declaration, and whether their amounts were calculated properly.

In general, the reason put forward by the court is based on the argument that Heta was not able to provide evidence of a "crisis" in terms of the Austrian Equity Substituting Capital Act (EKEG), and the court also dismissed the application of the Hypo Alpe Adria Restructuring Act (HaaSanG) and the measures for claims based on the same according to German law, and also the application of the Austrian Financial Market Authority (FMA) ordinance issued on 1 March 2015 on the basis of the Federal Act on the Recovery and Resolution of Banks (BaSAGsteht im Anhang nicht, which had the effect of deferring in particular BayernLB's claims that formed the subject of the proceedings until 31 May 2016.

Because of the judgement of the court of first instance, provisions of approximately EUR 0.9 billion (nominal plus interest claims) were created in the consolidated financial statements for 31 December 2014 for those liabilities that had expired due to the Hypo Alpe Adria Restructuring Act (HaaSanG). On 3 July 2015, the Austrian Constitutional Court (VfGH) repealed the Hypo Alpe Adria Restructuring Act (HaaSanG) and the liabilities were once again recognised in the statement of financial position. The provisions created for this purposes were reversed accordingly.

To comply with the deadlines, the appeal was submitted to the Higher Regional Court Munich (OLG) on 19 June 2015. The deadline for submitting the grounds of appeal was extended to 1 February 2016 with the agreement of BayernLB. Heta submitted timely its grounds of appeal. BayernLB also submitted grounds of appeal in compliance with the deadlines. A decision by the Court of Appeal is still outstanding. It is noted that in the proceedings before the Higher Regional Court Munich (OLG), BayernLB can continue to assert the current amount of its claims, regardless of the agreement that in the event of a legally-

binding decision in favour of BayernLB the receivables will generally be reduced to EUR 2.4 billion (plus interest as of 1 March 2015) (see previous section).

#### 128.3.3. ACTION FOR MISREPRESENTATION: REPUBLIC OF AUSTRIA AND BAYERNLB

In a claim filed shortly before the end of the 2014 financial year at the Commercial Court of Vienna, the Republic of Austria, represented by the Austrian Attorney General's office, applied for an adjustment to the share purchase agreement entered into between the Republic of Austria and BayernLB (so called emergency nationalisation agreement) and the term sheets on which it is based. The claim for relief (main action) was for the payment of approximately EUR 3.5 billion on the part of BayernLB to the Republic of Austria. In addition, the annulment of certain provisions of the share purchase agreement and of the term sheets on which the share purchase agreement is based, in particular the provision stipulating an obligation on the part of the Republic of Austria to provide a guarantee to BayernLB of refinancing lines for Heta, was sought. For the case that the court did not agree with the main action, a series of alternative claims for, among others, the annulment of the emergency nationalisation agreement, were also filed. The first and second Respondent were BayernLB and Heta, respectively.

These proceedings were ended by the Republic of Austria in line with the Memorandum of Understanding (MoU) implemented on 11 November 2015. The Republic of Austria has withdrawn the claim against the two respondents with a release of claims.

#### 128.4. Claims in connection with the moratorium imposed according to the Federal Act on the Recovery and Resolution of Banks (BaSAG)

Eleven lawsuits have been filed against Heta in Germany by investors for payment of bonds and applicable interests, which were not paid on the original payment day as a result of the moratorium issued on 1 March 2015. All of these lawsuits are pending at the Regional Court of Frankfurt. The lawsuits comprise bonds with a nominal value of EUR 2.2 billion and CHF 33.0 million.

With these claims, the plaintiffs dispute the recognition of the Financial Market Authority (FMA) measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG), and request payment - despite the deferral ordered in the ordinance. According to German law, judgements of the court of first instance may against collateral be declared temporarily enforceable (section 709 Code of Civil Procedure (ZPO)), which leads to the risk that plaintiffs apply for an enforcement on the basis of a judgement of the court of first instance. A judgement ordering Heta to pay the liabilities affected by the relevant legal disputes and a possible compulsory enforcement in favour of various creditors would run counter to the wind-down measures ordered by the Financial Market Authority (FMA) with its decision from 1 March 2015. For this reason, Heta will not only fight the potential judgements of the court of first instance, in order to settle the recognition of the Federal Act on the Recovery and Resolution of Banks (BaSAG) in all EU member states, but will also initiate legal remedies to defend against enforcement measures. With their claims, the plaintiffs are trying to undermine an orderly wind-down of Heta according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) and to obtain special advantages at the expense of other Heta creditors. Such a treatment of individual creditors would oppose the principle of equal treatment of creditors under the Federal Act on the Recovery and Resolution of Banks (BaSAG), the principle of the (balanced) assumption of losses by the creditors and the principle of ensuring that creditors are not put in a worse position as compared to liquidation measures taken in the course of an insolvency. As a result, on 16 March 2016 the resolution authority submitted an application to the Frankfurt regional court in charge requesting the suspension of the pending court proceedings pursuant to section 59 (1) BaSAG and alternatively requested the suspension of enforcement measures. In this context, the resolution authority is reviewing other possible legal steps designed to secure an orderly wind-down process. Finally, with regard to enforcement measures initiated by individual creditors, there is also the risk that the resolution authority applies for the commencement of insolvency proceedings to secure the equal treatment of creditors.

Insolvency proceedings would lead to additional losses for creditors because a far more rapid liquidation of assets (using the liquidation processes that apply in the respective countries with regard to insolvency proceedings) would have to be used as a basis for measurement instead of an orderly wind-down process over a period of five years (using the sales procedures commonly used for the respective assets). If such "insolvency or break-up values" are used, it would result in significantly higher losses or significantly lower proceeds.

Three legal proceedings were initiated against Heta by the State of Carinthia and the Kärntner Landesholding (KLH) in relation to legal proceedings initiated by investors against the State of Carinthia and the Kärntner Landesholding (KLH) on the basis of the deficiency guarantees ordered by state law in connection with the bonds affected by the moratorium. Heta has joined these proceedings on the side of the state and the Kärntner Landesholding (KLH) as an intervenor. Two proceedings resulted in a judgement of the first instance against the plaintiff. The plaintiff has appealed these decisions.

Two of the three submitted Federal Act on the Recovery and Resolution of Banks (BaSAG)-related submissions to the Constitutional Court of Austria (VfGH) for a review of the constitutionality of the law and the admissibility of including Heta un-

der this law were dismissed by the Constitutional Court of Austria (VfGH) in the fall of 2015. According to a statement by the President of the Austrian Constitutional Court (VfGH) in March 2016, it is expected that the court will issue a decision on this issue during its fall session at the latest.

It is noted that in the judgement of the court of first instance by the Regional Court of Munich I in the legal proceeding regarding Austrian Equity Substituting Capital Act (EKEG) between Heta and BayernLB, the court noted that the measures taken by Austrian legislators and the supervisory authorities in connection with the wind-down of Heta would not be recognised in Germany, and it did not take into account the deferral ordered by the decision of the resolution authority pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) on the basis of mainly formal arguments. This point of view, which Heta believes to be incorrect, was disputed in the grounds of appeal. For additional details, please refer to note (128.3) Information regarding BayernLB.

#### **128.5. Claim by Anadi Financial Holdings Pte. Ltd. against Heta**

On 14 July 2015, Heta was served with an arbitration action by Anadi Financial Holdings Pte. Ltd., the buyer of the former Hypo Alpe-Adria-Bank AG, Klagenfurt am Wörthersee (now: Austrian Anadi Bank AG). In its claim, Anadi Financial Holdings Pte. demands in particular damage compensation of approximately EUR 37.2 million and also (assessed at approximately EUR 63.0 million according to its own information) a declaration of Heta's liability for future damages incurred by Anadi Financial Holdings Pte. Ltd. due to alleged incorrect information or Heta's failure to disclose during the course of the sale of Hypo Alpe-Adria-Bank AG to Anadi Financial Holdings Pte. Ltd.

In the purchase agreement concluded by Heta and Anadi Financial Holdings Pte. Ltd. with regard to the sale of its shares in the former Hypo Alpe-Adria-Bank AG, it was agreed that the Vienna International Arbitral Centre (VIAC) according to the "Vienna Rules" would have jurisdiction over disputes between the parties. On 13 August 2015, Heta submitted a statement of defence in compliance with the deadlines, in which it rejected all of the plaintiff's allegations. The arbitration tribunal has since been formed, and the schedule for the proceedings has been finalised. As of today, it is expected that the proceedings will be completed at the earliest during the first quarter of 2017. The proceedings are not public.

Heta believes that the claims are unfounded; therefore provisions were not created as at 31 December 2015.

#### **128.6. Other proceedings**

##### **128.6.1. CLAIMS REGARDING THE CONDITIONS OF THE LOAN AGREEMENTS**

Customers and representatives of customers in Serbia, Croatia, Bosnia and Herzegovina have been fighting the provisions in loan or leasing agreements regarding interest adjustments and the linking to the CHF benchmark interest rate in the courts for some time. The leasing companies that remained in Heta and the local wind-down units in the aforementioned countries are also affected by these developments. Heta is affected in particular because it assumed the loan agreements of the respective former SEE banking subsidiaries in line with so-called "Brush" transactions, which were implemented to adjust the portfolios of the former subsidiary banks. In addition, the leasing companies also have their own portfolio of leasing agreements with variable interest adjustment clauses. The local Heta companies are confronted with lawsuits and some complaints, as well as inquiries regarding CHF and/or the adjustment of interest rates.

On 22 August 2015, a new law went into force in Montenegro, according to which banks are obliged to convert existing CHF loans into euros in accordance with the official exchange rate that applied at the time the loan agreement was concluded. The wind-down unit of Heta in Montenegro is not affected in the sense that it had already converted the existing CHF exposures before the legislation went into effect.

A few weeks later, the same law was also adopted and subsequently went into force in Croatia. The Croatian Heta unit is only minimally affected by this law, since it does not cover legal entities. But the affected loan volume is relatively small. Similar legal measures were also announced in Bosnia and Serbia. In Bosnia, such a legislative initiative was already on the parliamentary agenda at the beginning of March 2016, but was subsequently withdrawn due to a settlement between Hypo Group Alpe Adria AG (HGAA) and local government authorities that was arranged on short notice.

According to the purchase agreement concluded with the buyer of Hypo Group Alpe Adria AG (HGAA), Heta is required to compensate damages from the CHF portfolios of the former banking subsidiaries that result from such legal measures under certain conditions. The corresponding indemnification obligation on the part of Heta was however conclusively settled with the settlement on 10 March 2016 (also for future losses incurred by the buyer). For additional information, please refer to note (129.2) Sale agreement regarding the privatisation of the SEE network.

In Italy, lessees have filed several individual claims against the Italian subsidiary Heta Asset Resolution Italia S.r.l., in which they allege that the index clauses used in the leasing agreements (interest and currency indexing regarding the London Interbank Offered Rate (LIBOR) and CHF) should be declared null and void. Heta assumed these leasing agreements of the former Italian group subsidiary bank in line with an internal group restructuring process in 2012. Specifically, it is argued that be-



cause of the indexing clauses that are used in the leasing agreements, these agreements contain derivative instruments, which leads to additional information and audit obligations under Italian law. The first judgements were in favour of Heta's subsidiary, but two negative judgements of the first instance were issued in 2015. Even though current judicature has classified the leasing agreements as non-derivative, however, the more recent decisions argue in favour of such a classification. The Italian subsidiary of Heta has appealed the negative decisions. The corresponding provision was created in the consolidated financial statements for 31 December 2015.

#### 128.6.2. PROCEEDINGS INVOLVING FORMER SHAREHOLDERS

During the course of the forensic investigation of the past, civil lawsuits were filed against former shareholders and former executive bodies by the former Hypo Alpe-Adria-Bank International AG in 2011 and 2012. It includes the suit (so-called "special dividend/consultant" civil action) filed in March 2012 against certain original shareholders and a total of nine former executive bodies (members of the Executive and Supervisory Board). It asserted claims (original value in dispute EUR 50.1 million) in connection with the distribution of a non-linear special dividend to the noted original shareholders in 2008 for the 2007 financial year, which was not justified from Heta's point of view. In the proceedings themselves, the preliminary hearing took place in the first quarter of 2014; evidentiary proceedings began in the first quarter of 2014. A settlement of approximately EUR 19 million (around 75 % of the defendant's amount in dispute) for Heta was agreed in July 2014 with three defendant original shareholders and two former members of the executive bodies. Due to the initiation of the criminal proceedings, the civil proceedings were suspended on 1 December 2014 until the end of the criminal proceedings. Therefore it will be necessary to await the further progress of the criminal proceedings.

A civil suit filed in 2011 relates to the group of issues pertaining to the Hypo Leasing Holding (HLH) preferred shares, which were placed in 2004 and 2006 in two tranches. Following an investigation of the financing model and the preparation of a forensic report on the order of Heta, these events were prosecuted both in terms of civil and criminal law. Heta has filed a suit for payment of EUR 48.0 million against 12 defendants with joint liability for the same amount. However, the High Court found that Heta's legal arguments were devoid of a factual and legal basis, and referred the proceedings back to the first instance with a partial amount. The amount of approximately EUR 19.0 million was dismissed with legal effect. The outcome of the civil proceedings and the on-going criminal proceedings is still outstanding.

#### 128.6.3. OTHER PROCEDURAL MATTERS

In the group, there are currently almost 1,000 pending passive proceedings, in which Heta or its subsidiaries are the defendants, and over 10,000 active proceedings in which Heta or its subsidiaries are acting as the plaintiff or prosecuting party.

In 2015, these proceedings were entered across the group in a new electronic database at the holding level. In addition, a group-wide review of relevant and pending passive proceedings was held as part of the Legal Quality Review (LQR) project, with the support of external legal advisors. The focus of this project was to identify the chances of success and, in the same vein, to determine the need to create or increase/reverse risk provisions. Another objective of the Legal Quality Review (LQR) was to investigate the proceedings with regard to the strategic direction, and to obtain an independent recommendation for future process steps and adjustments to the legal strategy. Approximately 850 reviewed passive court proceedings are pending in the jurisdictions of Austria, Bosnia, Bulgaria, Croatia, Germany, Hungary, Italy, Serbia, Montenegro and Slovenia. The result of the Legal Quality Review also provides important information for the development of a strategy for the efficient and advantageous completion of these proceedings - a strategy that will be required during the wind-down process for Heta.

Most passive proceedings are connected to outstanding loan cases. Usually, in these proceedings borrowers assert a variety of claims and allegations in an attempt to extract themselves from the obligation to repay the loans. They argue, for example, that Heta did not meet its obligations to continue financing the borrower, and thus caused the borrower to incur damages, or that the collateral that Heta was trying to liquidate was not validly registered. In Croatia, a Croatian non-governmental organisation sometimes appears as the plaintiff, which tries to allege the supposed nullity of the loans and collateral registered in favour of Heta with the argument of missing regulatory approvals. Many lawsuits are also filed by third parties that have acquired property rights to allegedly unencumbered assets of Heta's borrowers, and now demand that collateral that continues to be validly registered in Heta's favour is deleted. Moreover, those subsidiaries that assumed assets from the former banking companies of the Hypo Group in line with the "brush transactions" are also confronted with lawsuits contesting the validity of these transfers. In addition, there are also legal disputes that are not related to loan agreements but other contractual obligations previously entered into by Heta.

The active proceedings relate mainly to proceedings for collecting outstanding claims from loan and leasing agreements, as well as different execution proceedings, enforcement and insolvency proceedings.

## (129) Main agreements

### 129.1. Agreement with the Austrian government and HBI-Bundesholding AG regarding the capitalisation and liquidity for Hypo Alpe-Adria-Bank S.p.A.

In order to avoid regulatory settlement proceedings for the former subsidiary bank in Italy, Hypo Alpe-Adria-Bank S.p.A., Udine (HBI), which would have led to significantly higher losses for Heta with regard to its refinancing lines, on 23 June 2015 Heta concluded a binding term sheet regarding the further financing and equity capitalisation of HBI following a detailed internal and external, legal and business review, and an analysis of the legal options under the share purchase agreement with the Republic of Austria and HBI-Bundesholding AG (HBI-BH). One of the objectives of the agreements under the term sheet was to achieve a higher repayment amount for the funds tied up at HBI. The resolution authority reviewed the agreement in advance and informed the company that it does not have any objections to the agreement.

The term sheet provides for liquidity and equity capital contributions to HBI by HBI-BH, as well as debt waivers by Heta as the largest creditor, who has an interest in securing the greatest possible recoverability of its still outstanding refinancing lines. HBI-BH provided HBI with EUR 196.0 million in the form of equity capital (EUR 100.0 million) plus a subordinated loan (EUR 96.0) million. Heta committed to provide a new loan of EUR 100.0 million, which may only be drawn by HBI after the resources from HBI-BH have been used and proof is provided that additional liquidity is required to repatriate customer deposit and to service liabilities from bonds that were issued by HBI. The new loan from Heta must be repaid to Heta taking precedence over all other receivables of HBI-BH or other existing financing by Heta itself for HBI.

In addition, Heta also promised, with regard to the formerly existing refinancing line for HBI of approximately EUR 1.7 billion (nominal), to write off up to EUR 630.0 million in order to cover the capital requirements resulting from the accelerated wind-down process, and to enable HBI to meet its equity capital requirements. In June 2015, Heta wrote off a partial amount of EUR 280.0 million in receivables from HBI. This had the effect of avoiding regulatory proceedings against HBI. On a legal level, the write-off vis-a-vis HBI had to be final and absolute. From a business point of view, Heta will be compensated by way of a recovery agreement. As consideration for Heta's write-off of receivables from the refinancing lines, HBI-BH must release all financial benefits from or in connection with its position as a shareholder, provider of equity or debt - including payments from the equity capital contribution from HBI-BH and the new loan - to Heta up to the amounts that were written off by Heta (recovery agreement). To secure the claim from the recovery agreement as well as the repayment of the refinancing lines and the new loan from Heta, HBI-BH must also pledge its shares in HBI as well as all current and future claims against HBI in favour of Heta. All claims by HBI-BH vis-a-vis HBI, regardless of the type, are subordinated to the claims of Heta (including those from the recovery agreement) and the other creditors of HBI. Moreover, HBI-BH has also committed to ensure, within the limits of its corporate rights, that HBI prepares, updates and adheres to a wind-down plan, with the objective of accelerating the repayment of the refinancing lines of Heta. Within the limits of its corporate rights, HBI-BH must also ensure that HBI, following the repayment of the refinancing lines that remain following the write-off, distributes the largest possible amount of excess liquidity to HBI-BH and also distributes profits in order to enable HBI-BH to service the recovery agreement vis-a-vis Heta. In the absence of other provisions, this agreement between Heta, the Austrian government and HBI-BH has the effect of conclusively settling any still existing claims from or in connection with the share purchase agreement.

The main agreements under the term sheet were implemented during the second half of 2015, when the first write-off of EUR 280.0 million (to ensure HBI's compliance with the regulatory capital provisions) was issued. The provision of funds by HBI-BH in the amount of EUR 196.0 million (EUR 100.0 equity capital and EUR 96.0 million in subordinated loans to provide liquidity to repay outstanding securities and customer deposits) was completed. A new Heta Emergency Liquidity Facility Agreement (ELFA) for EUR 100.0 million in favour of HBI that expires on 30 December 2016 was signed. The recovery agreement in favour of Heta and the associated pledging of the shares in HBI were concluded. Agreement was reached with regard to the role of an observer sent by Heta to HBI's board ("board observer"). Starting in the second quarter of 2016, a Heta representative will attend the meetings of the HBI Administrative Board ("Consiglio di Amministrazione") as a guest.

The updated wind-down plan for HBI for the period 2015 to 2018, which was submitted in December 2015, identified additional capital requirements until the end of 2017 in order to comply with Italian capital provisions (as specified by Banca d'Italia: core tier 1 capital, currently at least 11.5 %), which results in additional write-off requirements of EUR 96.0 million on the part of HBI-BH and up to EUR 350.0 million on the part of Heta (under certain defined conditions and steps). These write-offs had been anticipated, and were deemed required on the basis of the submitted wind down plan to stabilise HBI's capitalisation and liquidity and to avoid regulatory proceedings by Banca d'Italia ("Commissariamento"). The purpose of the write-offs is to improve the recoverability of the remaining Heta refinancing lines, which amounted to EUR 1.3 billion (nominal receivable taking into account EUR 280.0 million in write-offs in 2015) at the end of the year, and thus constitute a better scenario than a Commissariamento. In December 2015, the resolution authority authorised this additional solution for the second write-off of up to EUR 350.0 million by Heta with a non-prohibition.

### 129.2. Sale agreement regarding the privatisation of the SEE network

The public bidding process for the sale of the banking network in south-eastern Europe (SEE), which started in 2012 and is bundled under the Austrian Holding Hypo Group Alpe Adria AG, Klagenfurt am Wörthersee (HGAA AG; formerly SEE Holding AG), and which Heta transferred to the Finanzmarktbeihilfung Aktiengesellschaft des Bundes (FIMBAG) as the trustee of the Republic of Austria at the end of 2014, was concluded with the signing of the closing agreement between Heta and AI Lake (Luxembourg) S.à.r.l. (a subsidiary of Advent International and the European Bank for Reconstruction and Development (EBRD)) in July 2015.

The sale agreement sets out the transfer of all shares in Hypo Group Alpe Adria AG (HGAA AG) to the buyer on the basis of a power of attorney issued by the Finanzmarktbeihilfung Aktiengesellschaft des Bundes (FIMBAG) to Heta. The conclusion of the sales agreement was subject to various conditions precedent, including regulatory and antitrust approval, the approval of the European Commission for the transaction from a state aid point of view as the lack of a material adverse change (MAC) event.

One prerequisite for the closing was the conclusion of a loan receivables pledge agreement (pledge agreement) with which Heta's receivables from Hypo Group Alpe Adria AG (HGAA AG) of (then) EUR 2.1 billion were pledged to the buyer to secure the claims from the transaction documents.

A number of amendments to the transaction and financing documents were agreed to by buyer before the closing. These changes related to technical and commercial aspects, including the reduction in the maximum total volume of possible portfolio adjustment transactions after the closing ("Buyer Brush"), in the context of which Heta was required to assume corporate and public sector loans, along with assets not essential to the banking business, from Hypo Group Alpe Adria AG (HGAA) groups by the end of March 2016 at the historic net carrying amounts as at 31 December 2014. This total volume was reduced from EUR 800.0 million to up to EUR 600.0 million. In turn, a hedge for defaults in relation to a non-performing EUR 100.0 million (net exposure) retail portfolio of Hypo Group Alpe Adria AG (HGAA) was arranged for an amount of up to EUR 75.0 million. The implementation of these changes to the transaction and financing documents also required the issuance of a new power of attorney by the Finanzmarktbeihilfung Aktiengesellschaft des Bundes (FIMBAG) as the (then) shareholder of Hypo Group Alpe Adria AG (HGAA AG), which was issued accordingly.

In line with this renewed issuance of the power of attorney, Heta and the Finanzmarktbeihilfung Aktiengesellschaft des Bundes (FIMBAG), as the parties to the carve-out agreement, and Heta and the Republic of Austria as the issuer of hedging instrument in favour of the buyer of the SEE network, agreed on the components set out in the carve-out agreement from 30 October 2014, namely the purchasing price (dependent on the actual utilisation of risk exemptions, warranties and other commitments in favour of the buyer, up to EUR 248.0 million must be paid to Finanzmarktbeihilfung Aktiengesellschaft des Bundes (FIMBAG)), profit sharing (EUR 44.0 million paid to Finanzmarktbeihilfung Aktiengesellschaft des Bundes (FIMBAG) in July 2015) and a fee for the hedging instrument (1.27 % p.a., term ending in 2022, to be paid to the Republic of Austria on a monthly basis after the fact). The amount of the fee depends on the amount of the outstanding guarantee assumed by the Republic of Austria under the hedging instrument; as at 31 December 2015 the assessment basis for the guarantee was EUR 1.7 billion. As a result of the settlement described above, the assessment basis for the guarantee was reduced in March 2016.

On 17 July 2015, Heta and the buyer executed the share purchase agreement from 22 December 2014 regarding the sale of all shares in Hypo Group Alpe Adria AG (HGAA AG) (Closing). The closing was preceded by a "pre-closing" on 30 June 2015, where the parties confirmed the existence and compliance with all of the major closing conditions that had been agreed. The remaining conditions precedent were confirmed during the final closing. In line with the pre-closing, the resolution authority also approved the implementation of the closing by way of a non-prohibition.

Pursuant to contractual provisions, Heta is obligated to continue to maintain the existing lines of credit of approximately EUR 2.1 billion. The conditions for the refinancing will be raised gradually up to a normal bank financing level. Possible contractual guarantee claims by the buyer under the share purchase agreement must be offset against Heta's refinancing claims, i.e. usually by Heta waiving the repayment of the relevant refinancing claims. In addition, in the contractually agreed portfolio settlement transactions ("Buyer Brush"), Heta also provides its consideration - from a financial point of view - by reducing its refinancing claims against Hypo Group Alpe Adria AG (HGAA AG). The remaining lines of credit, which are not offset against exemption or guarantees, and which remain even after consideration of the re-transferred assets and risk items ("Buyer Brush"), must be repaid no later than 2022. In order to address the risks from the comprehensive list of guarantees granted to the buyer and the right to transfer certain credit and leasing receivables and other assets as well as risk items (on the basis of the net carrying amount as at 31 December 2014) to Heta or subsidiaries named by the same ("Buyer Brush Option"), Heta already created the corresponding provisions in the previous consolidated (interim) financial statements.

The second half of the year 2015 was characterised by the execution of various rights and claims of the buyer under the sale agreement. Under the Buyer Brush Option, the buyer selected assets (consisting of loan and leasing receivables, land and other real assets from the legal transfer of collateral and non-strategic participations), which were re-transferred to Heta at

the net carrying amount of the relevant assets as at 31 December 2014 with an offset of a transfer price against the existing refinancing lines. These re-transfers must be completed no later than 31 March 2016 either in the form of true asset transfers (“true sale”) or compensation of the IFRS impairment expense (“P&L settlement amount”) that is of relevance to the result in the year 2015 at the level of the consolidated financial statements for the SEE network (Hypo Group Alpe Adria AG (HGAA Group)). Additionally, the buyer has demanded that Heta provide compensation for conversion damages resulting from the statutory compulsory conversion of CHF loans in Croatia and Montenegro on the basis of the exemptions included in the share purchase agreement from 22 December 2014. Other currency-related claims due to possible statutory compulsory conversion measures were also expected for other countries (e.g. Bosnia-Herzegovina or Serbia). In addition, on 31 December 2015 the buyer of Hypo Group Alpe Adria AG (HGAA) also submitted additional claims under warranties and other exemptions from risks from legal disputes with customers and other legacies.

In March 2016, Heta and the buyer came to an agreement regarding a comprehensive settlement for all CHF exemptions (credit and legal risks) and other outstanding items. As a result of the settlement, the liability limits that apply to the relevant warranties and exemptions, and the maximum liability of the Republic under the hedging instrument with the buyer (and thus also the fee payable to the Republic) were reduced. For the purpose of the settlement, the buyer must also ensure that Hypo Group Alpe Adria AG (HGAA) returns to Heta an amount of EUR 150.0 million (CHF denominated) as an early partial repayment of the credit lines provided by Heta as early as March 2016. In addition, the settlement also included an agreement regarding another reduction in the portfolio adjustment transactions that were agreed with the buyer (“Buyer Brush”) to EUR 500.0 million (not taking into account the aforementioned hedging of defaults in relation to a non-performing retail portfolio), and the portfolio adjustments transactions that were agreed as a condition for the settlement were also implemented in March 2016. Heta’s return consideration under the settlement consisted of the waiver of credit lines provided to Hypo Group Alpe Adria AG (HGAA) (denominated in CHF) at the amount of EUR 325.0 million. The buyer’s claims under the settlement were also secured by extending the already existing lien to the credit lines provided by Heta to Hypo Group Alpe Adria AG (HGAA). With regard to possible incidental costs, which are Heta’s responsibility, the company provided the corresponding collateral.

In the future, the fee payable to the Republic of Austria for the transfer of the hedging instrument (1.27% p.a.) will be calculated on the basis of Hypo Group Alpe Adria AG (HGAA’s) refinancing lines from Heta that exist at the end of March 2016 following the closing of the settlement and the transactions set out therein. This amount will not exceed EUR 1.365 billion. A corresponding reduced fee will be applied to the reduced amount (0.25 % p.a. until October 2016 and subsequently 0.10 % p.a. until 2020).

In the consolidated financial statement for 31 December 2015, the appropriate provisions were created both for the exemption and warranty risks resulting from the sale agreement, and the credit risks in connection with the “Buyer Brush”.

### 129.3. Guarantee agreement with the Republic of Austria

On 28 December 2010, a guarantee agreement was concluded between the Republic of Austria and Heta, in which the liability of the Republic of Austria as deficiency guarantor in accordance with section 1356 of the Austrian Civil Code (ABGB) was agreed. The Republic of Austria’s guarantee relates to a precisely specified portion of receivables of Heta’s portfolio, and is limited to EUR 200.0 million (“maximum guarantee amount”). In return for the assumption of this guarantee by the Republic of Austria, a commission of 10 % p.a., calculated on the basis of the nominal amount of the guaranteed partial amount of the receivable, was agreed. The agreement was supplemented and amended with the first addendum from April 2011 and the second addendum from August 2013. In this context, the guarantee (now pursuant to section 1346 ABGB) was extended to 30 June 2017, and certain collateralised receivables were replaced with other already existing receivables of the bank, while the maximum guarantee amount was left unchanged at EUR 200.0 million. Furthermore, the drawdown process was adapted, and in particular the process for verifying the drawdown preconditions was revised. As part of the extension of the guarantee, the ability to assert claims was modified to the effect that this only became possible as of May 2014.

Guarantee commission payments were suspended on 1 March 2015 due to the moratorium.

The guarantee was utilised by 31 December 2015 for a total volume of EUR 60.7 million. In December 2015, the Republic of Austria for the first time acknowledged the existence of the drawdown preconditions for one case, and submitted a payment of EUR 11.2 million during the same month. In Heta’s view, this means that the Austrian government is of the opinion that the ordinance and the associated deferral of the obligation to pay the commission did not have the effect of changing the general validity and continued existence of the guarantee. Therefore payments for the already drawn instances and possible future utilisation instances should only depend on the existence of the defined drawdown preconditions. The guarantee may now be viewed as solid since an acknowledgement of the guarantee can be assumed on the basis of the situation that has been described - regardless of the moratorium.

Therefore the impairments created in connection with the receivables “subject to the guarantee” will be reversed in the amount that is secured by the guarantee, and a recoverable cash flow will be assumed when calculating the risk provisions for

those loan cases that are secured with the guarantee. In addition, the fee that is expected to be incurred until 2017 was also allocated to a provision for the full amount.

### **(130) Servicing of subordinated capital**

#### **130.1. Supplementary capital**

In the past, the company has issued supplementary capital in terms of section 23 (7) Austrian Banking Act (BWG) (applicable version), which was recognised as an equity component for regulatory purposes. Pursuant to the restrictions under section 23 (7) (2) Austrian Banking Act (BWG), interest pertaining to the same may only be paid out “if such payments are covered by the net income for the year (before movement in reserves)”. Since Heta’s annual financial statements for 31 December 2007 to 2015 pursuant to the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) did not meet this criterion, Heta was not able to pay the interest for the supplementary capital issues following the formal adoption of the annual financial statements.

It is noted that based on today’s situation, a total loss must be noted, taking into account the statutory loss allocation in relation to the company’s supplementary capital issues. It is the reason why as early as the 2012 financial year, on the basis of significantly changed future estimates, future expected cash flows to investors had to be adjusted to the degree that a positive value for the supplementary capital could no longer be determined in application of the effective interest rate method, and therefore the value of the supplementary capital accounted for at amortised cost was reduced in compliance with IAS 39 and IAS 8.

#### **130.2. Hybrid capital**

In the past, the company launched a total of two subordinated hybrid capital issues without an obligation to provide subsequent payments (Hypo Alpe-Adria Jersey Ltd. for EUR 75.0 million (nominal) and Hypo Alpe-Adria (Jersey) II Ltd. for EUR 150.0 million (nominal)). Both issues feature an unlimited term in principle, whereby the issuer is entitled to a unilateral termination right. The primary criterion for servicing the outstanding hybrid capital issues is the existence of an adequate distribution basis (“distributable funds”) according to the definition in the issue’s terms and conditions; a secondary criterion stipulates that the limits that apply to the group’s own capital funds may not be undercut.

Since Heta’s annual financial statements according to Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) for 31 December 2015 reports a loss for the year (before the movement in reserves), the criterion for the continued servicing of the hybrid capital no longer applies in principle, which is why it may not be serviced. In addition, this obligation, insofar as it were to apply, would be included in the moratorium issued by the resolution authority in the decision pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG).

As no provision was made for a subsequent payment obligation for interest for regulatory reasons, the attributable interest payments do not apply and therefore are not entered and accrued in the group’s income statement as an interest expense.

With regard to the hybrid capital Hypo Alpe-Adria Jersey Ltd. which is measured at amortised cost (still outstanding nominal amount of approximately EUR 36.5 million), this item was measured analogous to the supplementary capital. Since it is not expected that payments will be made for this instrument in the future, it has been entered in the consolidated financial statements at a value of zero. The hybrid capital Hypo Alpe-Adria (Jersey) II Ltd. (still outstanding nominal amount of approximately EUR 23.4 million) is recognised at the fair value, whereby the exchange price on the balance sheet date is used as a basis.

The annual financial statements of both companies are disclosed on Heta’s home page at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Publications → Publications 2015).

#### **130.3. Subordinated liabilities**

All of the subordinated liabilities outstanding as at 31 December 2015 at the nominal amount of approximately EUR 1.9 billion are currently included in the moratorium pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG), which was issued by the resolution authority in accordance with the ordinance.

The subordinated bond of EUR 1.0 billion that was issued on 6 December 2012, for which the Republic of Austria provided an unconditional and irrevocable guarantee at the time of issue, also falls under the moratorium. This guarantee was approved with the decision of the European Commission (EU Commission) on 3 September 2013. For receiving this guarantee, Heta committed (in the year 2012) to pay the Republic a guarantee fee that was calculated on the basis of a formula defined by the EU Commission. The guarantee fee is also subject to deferral pursuant to the decision of the resolution authority from 1 March 2015, so that Heta does not pay the fee to the Republic of Austria at this time, but continues to accrue the amount and thus reports this item as a liability in the consolidated financial statements for 31 December 2015.

**(131) Audit procedure and error detection by the Austrian Financial Market Authority (FMA)**

The audit procedure carried out by the Austrian Financial Reporting Enforcement Panel (OePR/AFREP) since 2013 was completed on 10 April 2015 with the announcement of the audit results.

With regard to the consolidated financial statements for 31 December 2013, it was noted that the risk provisions on loans and advances were understated by at least EUR 8.1 million. With regard to the semi-annual financial report published on 30 June 2014, the Austrian Financial Reporting Enforcement Panel (OePR/AFREP) found that the risk provisions on loans and advances were understated by at least EUR -3.8 million. It furthermore noted that the provisions entered in connection with the transfer of the SEE bank network on 30 June 2014 and the corresponding effect on results was overstated by EUR 1.2 billion, since the criteria for entering a provision for the expected loss on disposal were not in place on 30 June 2014. Instead, and to the extent permitted by the relevant IFRS standards, the assets side of the group would have had to be reassessed with regard to the assets of the SEE network.

Since Heta did not agree with the Austrian Financial Reporting Enforcement Panel's (OePR/AFREP) findings regarding the recognition of this provision, the procedure was continued by the Financial Market Authority (FMA). The following errors were noted in the decision from 19 November 2015:

- The consolidated semi-annual financial statements for 30 June 2014 report EUR 7.4 million in receivables from a group of affiliated customers. Notwithstanding the existence of objective information indicating a reduction in the value of the underlying receivables on 30 June 2014, an impairment test was not carried out, and an impairment was not applied. This constitutes a breach of IAS 39.58 in connection with IAS 39.63, which specifies an obligation to determine possible information that would indicate a reduction in the value of financial assets or groups of the same for each closing date, and further that in such cases a value adjustment in the amount of the difference between the carrying amount of the assets and the present value of the expected future cash flows must be recognised.
- The consolidated interim semi-annual financial statements for 30 June 2014 report EUR 16.1 million in loans and advances to another group of affiliated customers. The loans and advances are collateralised with shares in a listed company, for which current price quotations could be observed. As part of the receivables valuation process, the collateral was taken into account at the proportionate carrying amount of the equity capital less a lump-sum discount. This constitutes a breach of IAS 39.AG84 in connection with IAS 39.IG.E.4.8, according to which the measurement of a financial asset whose value has been reduced must take into account the fair value of the collateral.
- Because of that, the total "risk provisions on loans and advances to customers" item in the semi-annual financial statements for 30 June 2014 is understated by at least EUR -3.8 million.
- Hypo SEE Holding AG was included in the financial statements of Heta by way of full consolidation. The related assets and debt, income and expenses are reported together with those of the parent company and the other companies that belong to the group. This constitutes a breach of IFRS 5, according to which special disclosure provisions in the statement of comprehensive income (IFRS 5.33 to 36A) and in the balance sheet (IFRS 5.38 to 40) as well as special information obligation in the notes (IFRS 5.41 to 42) apply to discontinued operations and groups of dispositions, which are classified as held for sale.

In addition, Heta notes that the errors that were identified relate to the semi-annual financial report for 30 June 2014. According to the relevant provisions of the International Financial Reporting Standards (IAS 8.44), there is no requirement to retroactively correct the affected interim consolidated financial statements. The incorrect reporting period is not included in future consolidated financial statements, neither as a reference period nor in the form of opening balances, and must therefore not be adjusted during the current reporting period.

The error report pursuant to section 5 (2) Accounting Control Act (RL-KG) can be found on Heta's home page at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investoren → Veröffentlichungen → Veröffentlichungen 2015).

**(132) Employee data**

	31.12.2015	31.12.2014
Employees at closing date (Full Time Equivalent – FTE)	1.329	1.805
Employees average (FTE)	1.612	1.927

The significant reduction in the number of employees (FTE) as at 31 December 2015 by 476 is mainly due to the transfer of employees to the Austrian management holding company for the SEE network, Hypo Group Alpe Adria AG (HGAA AG) (formerly SEE-Holding AG), and the sale of the hotel operation Grand Hotel Lav in Croatia, which was previously included in the consolidated financial statements.

**(133) Severance and pension payments**

The parent company expended the following amounts for severance payments and provisions for severances and pensions:

EUR m

	31.12.2015		31.12.2014	
	Severance Payments	Pensions	Severance Payments	Pensions
Key management personnel	0.0	0.0	0.3	0.1
Other employees	0.4	0.2	2.9	0.8
Members of Executive Board	0.5	0.1	0.0	0.1
<b>Total</b>	<b>0.9</b>	<b>0.3</b>	<b>3.2</b>	<b>0.9</b>

Severance and pension payments include an amount of EUR 0.3 million (2014: EUR 0.9 million) for defined-contribution pension plans.

**(134) Relations with executive bodies**

No advances regarding loans or guarantees were granted for executive bodies during the previous year and in the 2015 financial year.

The remuneration for the members of the Executive Board and the Supervisory Board of Heta as the parent company, which they received for carrying out their functions from this or another group company, are as follows:

EUR m

	31.12.2015	31.12.2014
<b>Executive Board</b>	<b>2.1</b>	<b>1.6</b>
thereof ongoing payments	2.1	1.6
Fixed	2.1	1.6
Variable		0.0
thereof repayments of variable remuneration from previous year		0.0
<b>Supervisory Board</b>	<b>0.3</b>	<b>0.3</b>
<b>Remuneration of former members of the Executive and Supervisory Board and their surviving dependants</b>	<b>0.0</b>	<b>0.0</b>
<b>Total</b>	<b>2.4</b>	<b>1.9</b>

The members of the Executive Board and Supervisory Board during the financial year are shown under note (135) Executive bodies.

**(135) Executive bodies of the company**

1 January to 31 December 2015

**Supervisory Board****Chairman of the Supervisory Board:**

Dipl.-Kaufmann Michael MENDEL, Member from 7 November 2014, Chairman from 7 November 2014

**Deputy Chairman of the Supervisory Board:**

Mag. Alois HOCHEGGER, Member from 23 May 2014, Deputy Chairman from 7 November 2014

**Members of the Supervisory Board:**

Mag. Regina FRIEDRICH, from 23 May 2014

Mag. Christine SUMPER-BILLINGER, from 23 May 2014

DI Bernhard PERNER, from 7 November 2014

**Appointed to the Supervisory Board by the Works Council:**

Erwin SUCHER, from 15 February 2015

Mag. Lisa TAUCHHAMMER, from 22 October 2015

Akad. Vkm. Richard JOHAM, until 19 November 2015

**Federal Supervisory Authorities****State Commissioner:**

Mag. Alexander PESCHETZ, from 1 July 2012

**Deputy State Commissioner:**

Mag. Stefan WIESER, from 1 August 2014

**Trustees****Trustee:**

Mag. Alexander PESCHETZ, Federal Ministry of Finance, from 1 January 2011; re-appointed from 1 January 2016

**Deputy Trustee:**

HR Mag. Maria HACKER-OSTERMANN, from 1 September 2014

**Executive Board**

Mag. Martin HANDRICH, Member of the Executive Board from 16 March 2015

Wirt.-Ing. Sebastian Prinz von SCHOENAICH-CAROLATH, Chairman of the Executive Board from 16 April 2015

Mag. Alexander TSCHERTEU, Member of the Executive Board from 1 July 2015

Mag. Arnold SCHIEFER, Member of the Executive Board from 1 October 2015

Mag. Johannes PROKSCH, Member of the Executive Board until 30 June 2015

Dr. Rainer JAKUBOWSKI, Chairman of the Executive Board until 16 April 2015, Member of the Executive Board until 31 July 2015



## (136) Material subsidiaries as at 31 December 2015

HETA ASSET RESOLUTION AG	
FINANCIALS	OTHERS
<b>Austria:</b>	<b>Bosnia and Herzegovina:</b>
HAR GmbH, Klagenfurt/WS	HETA d.o.o., Sarajevo
HETA Asset Resolution Leasing GmbH, Klagenfurt/WS	BORA d.o.o., Banja Luka
HETA Real Estate GmbH, Klagenfurt/WS	<b>Serbia:</b>
HETA Luftfahrzeuge Leasing GmbH, Klagenfurt/WS	HETA LEASING D.O.O., BEOGRAD
HETA Grund- und Bau-Leasing GmbH, Klagenfurt/WS	HETA ASSET RESOLUTION D.O.O., BEOGRAD
HETA Leasing Kärnten GmbH & Co KG, Klagenfurt/WS	HETA REAL ESTATE D.O.O., BELGRAD
HETA Immobilien- und Bauconsult GmbH, Klagenfurt/WS	<b>Bulgaria:</b>
	HETA ASSET RESOLUTION Bulgaria OOD, Sofia 1
	HETA ASSET RESOLUTION Auto Bulgaria OOD, Sofia 1
<b>Italy:</b>	<b>Montenegro:</b>
Heta Asset Resolution Italia S.r.l., Udine	HETA ASSET RESOLUTION Leasing d.o.o. PODGORICA
<b>Slovenia:</b>	HETA ASSET RESOLUTION d.o.o. PODGORICA
HETA Asset Resolution d.o.o., Ljubljana 1	<b>Macedonia:</b>
TCV d.o.o., Ljubljana 1	HETA ASSET RESOLUTION LEASING DOOEL Skopje
TCK d.o.o., Ljubljana 1	<b>Hungary:</b>
<b>Croatia:</b>	HETA Asset Resolution Magyarország Zrt., Budapest
HETA Asset Resolution Hrvatska d.o.o., Zagreb	<b>Germany:</b>
HETA Asset Resolution Ulaganja d.o.o., Zagreb	HETA Asset Resolution Germany GmbH, München
H-ABDUCO d.o.o., Zagreb	
	<b>Austria:</b>
	CEDRUS Handels- und Beteiligungs GmbH, Klagenfurt/WS 1
	HYPO ALPE-ADRIA BETEILIGUNGEN GMBH, Klagenfurt/WS
	Hypo Alpe-Adria-Immobilien GmbH, Klagenfurt/WS 1
	HYPO Vermögensverwaltung Gesellschaft m.b.H., Klagenfurt/WS 1
	<b>Performing Real Estate:</b>
	Centrice Real Estate GmbH, Wien
	<b>Croatia:</b>
	REZIDENCIJA SKIPER d.o.o., Savudrija 1
	X TURIST d.o.o., Umag
	Y TURIST d.o.o., Umag
	BLOK 67 ASSOCIATES DOO BEOGRAD
	<b>Serbia:</b>
	ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD – U LIKVIDACIJI 1

Illustrated are the direct fully consolidated subsidiaries of HETA ASSET RESOLUTION AG (except: some companies in liquidation) which are marked with '1'. The other subsidiaries represent fully consolidated second- or third level subsidiaries of HETA ASSET RESOLUTION AG, mainly subsidiaries of HAR GmbH. It is pointed out that this chart does not contain all direct and indirect subsidiaries of HETA ASSET RESOLUTION AG, therefore the illustration is not exhaustive.

**Segment Financials:** Contains the Wind-Down leasing companies and the companies which took over the non-performing financing portfolio from the former sister banks ('brush entities').

**Segment Others:** Contains the subholdings, other subsidiaries and companies which manage the performing real estate portfolio.

**(137) Scope of consolidation**

The consolidated group of companies as defined in IFRS as at 31 December 2015 include the following direct and indirect subsidiaries of Heta using the full consolidation method:

Company	Registered office	Ownership (direct) in %	Ownership (indirect) in %	Closing date
Alpe Adria Privatbank AG in Liquidation	Vaduz	100.0	100.0	31.12.2015
Alpe Adria Snow Fun Park Grundstücks GmbH	Munich	100.0	100.0	31.12.2015
Alpe-Adria poslovodstvo d.o.o.	Zagreb	100.0	100.0	31.12.2015
Alpe-Adria-Projekt GmbH	Munich	100.0	100.0	31.12.2015
BLOK 67 ASSOCIATES DOO BEOGRAD	Belgrade - Novi Beograd	100.0	100.0	31.12.2015
BORA d.o.o. Banja Luka	Banja Luka	100.0	100.0	31.12.2015
BRODARICA POSLOVNI CENTAR d.o.o.	Zagreb	100.0	100.0	31.12.2015
CEDRUS Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
Centrice Castellum d.o.o.	Zagreb	100.0	100.0	31.12.2015
Centrice d.o.o.	Ljubljana	100.0	100.0	31.12.2015
Centrice Galerija d.o.o.	Zagreb	100.0	100.0	31.12.2015
Centrice Ljubljana d.o.o.	Ljubljana	100.0	100.0	31.12.2015
Centrice Real Estate GmbH	Vienna	100.0	100.0	31.12.2015
Centrice Real Estate Ljubljana d.o.o.	Ljubljana	100.0	100.0	31.12.2015
Centrice Zagreb d.o.o.	Zagreb	100.0	100.0	31.12.2015
DOHEL d.o.o.	Sesvete	100.0	100.0	31.12.2015
EPSILON GRAĐENJE d.o.o.	Zagreb	100.0	100.0	31.12.2015
H-ABDUKO d.o.o.	Zagreb	100.0	100.0	31.12.2015
HAR GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
HETA 2014 Tanácsadó Kft	Budapest	100.0	100.0	31.12.2015
HETA ASSET RESOLUTION Auto Bulgaria OOD	Sofia	(99.8/0.2)	100.0	31.12.2015
HETA ASSET RESOLUTION Bulgaria OOD	Sofia	(99.9/0.1)	100.0	31.12.2015
HETA Asset Resolution d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2015
HETA ASSET RESOLUTION D.O.O. BEOGRAD	Belgrade	100.0	100.0	31.12.2015
HETA ASSET RESOLUTION d.o.o. PODGORICA	Podgorica	100.0	100.0	31.12.2015
HETA Asset Resolution Germany GmbH	Munich	100.0	100.0	31.12.2015
HETA Asset Resolution Hrvatska d.o.o.	Zagreb	100.0	100.0	31.12.2015
Heta Asset Resolution Italia S.r.l.	Tavagnacco (UD)	100.0	100.0	31.12.2015
HETA ASSET RESOLUTION Leasing d.o.o. PODGORICA	Podgorica	100.0	100.0	31.12.2015
HETA ASSET RESOLUTION LEASING DOOEL Skopje	Skopje	100.0	100.0	31.12.2015
HETA Asset Resolution Leasing GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
HETA Asset Resolution Magyarorszá Zrt.	Budapest	100.0	100.0	31.12.2015
HETA CENTER –2 d.o.o.	Ljubljana	100.0	100.0	31.12.2015
HETA d.o.o. Sarajevo	Sarajevo	100.0	100.0	31.12.2015
HETA Grund- und Bau-Leasing GmbH	Klagenfurt am Wörthersee	(99.9/0.1)	100.0	31.12.2015
HETA HOUSE D.O.O. - PODGORICA	Podgorica	100.0	100.0	31.12.2015
HETA Immobilien- und Bauconsult GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2015
HETA LEASING D.O.O. BEOGRAD	Belgrade	100.0	100.0	31.12.2015
HETA Leasing Kärnten GmbH & Co KG	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
HETA Luftfahrzeuge Leasing GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2015

Company	Registered office	Ownership (direct) in %	Ownership (indirect) in %	Closing date
HETA REAL ESTATE D.O.O. BELGRAD	Belgrade	100.0	100.0	31.12.2015
HETA Real Estate GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2015
HTC ENA d.o.o.	Ljubljana	100.0	100.0	31.12.2015
HYPERIUM DOOEL Skopje	Skopje	100.0	100.0	31.12.2015
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
HYPO ALPE-ADRIA-Verwaltung 2011 GmbH	Munich	100.0	100.0	31.12.2015
HYPO ALPE-ADRIA-ZASTUPNIK - Društvo za zastupanje u osiguranju d.o.o. Sarajevo	Sarajevo	100.0	100.0	31.12.2015
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
LOMA CENTER d.o.o.	Ljubljana	100.0	100.0	31.12.2015
Malpensa Gestioni Srl	Tavagnacco (Udine)	100.0	100.0	31.12.2015
MM THETA d.o.o.	Ljubljana	100.0	100.0	31.12.2015
MM ZETA d.o.o.	Ljubljana	100.0	100.0	31.12.2015
O-CENTER d.o.o.	Ljubljana	100.0	100.0	31.12.2015
REZIDENCIJA SKIPER d.o.o.	Savudrija	(75.0/25.0)	100.0	31.12.2015
SKIPER HOTELI d.o.o.	Savudrija	100.0	100.0	31.12.2015
SKIPER OPERACIJE d.o.o.	Savudrija	100.0	100.0	31.12.2015
SKORPIKOVA POSLOVNI CENTAR d.o.o.	Zagreb	100.0	100.0	31.12.2015
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Wittenburg	100.0	100.0	31.12.2015
SPC SZENTEND Ingatlanforgalmazó és Ingatlanfejlesztő Kft.	Budapest	100.0	100.0	31.12.2015
TCK d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2015
TCV d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2015
Tridana d.o.o.	Ljubljana	100.0	100.0	31.12.2015
Victor Retail I d.o.o.	Sarajevo	100.0	100.0	31.12.2015
X TURIST d.o.o.	Umag	100.0	100.0	31.12.2015
Y TURIST d.o.o.	Umag	100.0	100.0	31.12.2015
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD - U LIKVIDACIJI	Belgrade - Novi Beograd	100.0	100.0	31.12.2015

The following table shows the companies accounted for at equity:

EUR m

Company+	Registered office	Ownership (direct) in %	Ownership (indirect) in %	Carrying amount of investment as of 31.12.2015	Share of profit for the year
Bergbahnen Nassfeld Pramollo AG	Hermagor	29.5	29.5	0.0	0.2
HETA BA Leasing Süd GmbH	Klagenfurt am Wörthersee	50.0	50.0	0.0	-0.3
HYPO PARK DOBANOVCI DOO	Belgrade	50.0	50.0	3.3	1.9
LANDTRUST DOO BEOGRAD	Belgrade	50.0	50.0	0.5	0.0

The proportion of voting rights in HYPO PARK DOBANOVCI DOO BEOGRAD is 50 %.

**(138) Events after the balance sheet date**

Following the authorisation from the resolution authority, Heta continued the wind-down of the derivative portfolio that began in December 2015 into the first months of the 2016 financial year. Those derivatives that no longer have a hedging relationship to an underlying transaction as a result of the payment moratorium issued on 1 March 2015 (in relation to liabilities), or on the basis of a term that goes beyond 2020 (in relation to the lending business), were terminated. The termination of these derivatives is not expected to lead to any major impacts on the result in 2016 since all negative market values from derivatives were allocated to a pending loss provision in the annual financial statements for 31 December 2015. Because of the imparity realisation principle, it was not possible to report profits from the measurement as at 31 December with regard to those derivatives that featured a positive market value. The termination of these derivatives in 2016 resulted in a profit in the low triple-digit million range. On 20 January 2016 the Kärntner Ausgleichszahlungs-Fonds (K-AF) submitted repurchase offer for those subordinated and non-subordinated debt instruments of Heta for which the State of Carinthia and Kärntner Landesholding (KLH) provided a guarantee. The offer was made public on 21 January 2016, and expired on 11 March 2016. On 14 March 2016, the Kärntner Ausgleichszahlungs-Fonds (K-AF) announced that the creditors had not accepted the offer. For additional details, please refer to note (4) Repurchase offer from the State of Carinthia.

The deadline for the submission of binding offers for Centrice Real Estate GmbH, Vienna (Centrice), which is owned by the group, and the companies combined in its sub-group, ended during the first half of March 2016. Heta is currently reviewing the offers that were received, and expects that the sales process will be concluded successfully during the next six months.

On 10 March 2016, Heta and the buyer of Hypo Group Alpe Adria AG (HGAA) (SEE network) concluded a comprehensive settlement for all CHF exemptions (loan and legal risks) and other outstanding issues under the share purchase agreement from 22 December 2014. As a result of the settlement, the liability limits that apply to the relevant warranties and exemptions, and the maximum liability of the Republic under the hedging instrument with the buyer (and thus also the fee payable to the Republic) were reduced. As per the settlement, the buyer must also ensure that Hypo Group Alpe Adria AG (HGAA) returns to Heta an amount of EUR 150.0 million (CHF denominated) as an early partial repayment of the credit lines provided by Heta as early as March 2016. In addition, the settlement also included an agreement regarding another reduction in the portfolio adjustment transactions that were agreed with the buyer ("Buyer Brush") to EUR 500.0 million (not taking into account the aforementioned hedging of defaults in relation to a non-performing retail portfolio), and the portfolio adjustments transactions that were agreed as a condition for the settlement were also implemented in March 2016. Heta's return consideration under the settlement consisted of the waiver of credit lines provided to Hypo Group Alpe Adria AG (HGAA) (denominated in CHF) at the amount of EUR 325.0 million. The buyer's claims under the settlement were also secured by extending the already existing lien to the credit lines provided by Heta to Hypo Group Alpe Adria AG (HGAA). The settlement was authorised by the resolution authority on 10 March 2016 with a non-prohibition.

Klagenfurt am Wörthersee, 17 March 2016  
Heta Asset Resolution AG

THE EXECUTIVE BOARD

Wirt.-Ing. Sebastian  
Prinz von Schoenaich-Carolath  
(Chairman)

Mag. Martin Handrich  
(Member)

Mag. Arnold Schiefer  
(Member)

Mag. Alexander Tscherteu  
(Member)

## Statement of all legal representatives

“We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business together with a description of the principal risks and uncertainties the group faces”.

Klagenfurt am Wörthersee, 17 March 2016  
Heta Asset Resolution AG

THE EXECUTIVE BOARD

Wirt.-Ing. Sebastian  
Prinz von Schoenaich-Carolath  
(Chairman)

Mag. Martin Handrich  
(Deputy Chairman)

Mag. Arnold Schiefer  
(Member)

Mag. Alexander Tscherteu  
(Member)

# Auditors' Report

## Report on the consolidated financial statements\*

We have audited the accompanying consolidated financial statements of HETA ASSET RESOLUTION AG, Klagenfurt am Wörthersee, for the fiscal year from January 1, 2015 to December 31, 2015. These consolidated financial statements comprise the consolidated balance sheet as of December 31, 2015 the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended December 31, 2015 and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements under Section 245a (UGB). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria, as well as in accordance with International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

### Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of December 31, 2015 and of its financial performance and its cash flows for the fiscal year from January 1, 2015 to December 31, 2015 in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU.

Without restricting the audit opinion, we refer

- a. to the information provided by the company's Executive Board in the notes to the consolidated financial statements under note (7) Measurement basis: Gone concern assumption. A group-wide measurement process for the assets that are relevant to the portfolio wind-down was initiated once the Federal Act on the Creation of a Wind-down Entity (GSA) went into full force at the end of October 2014 following the company's transfer into a partially-regulated but not insolvency-proof wind-down unit. This measurement reflects the short to medium-term disposal intention in saturated markets during a wind-down period of five years, based on the assumption that 80 % of assets would be wound down by 2018. After the initial interim results of the Asset Quality Review (AQR) were announced, which indicated an asset shortfall between EUR -4.0 billion and EUR -7.6 billion, which was thus above the still available state aid range for capital measures approved by the EU Commission for EUR 2.9 billion, along with the expected implications for the company's capital and liquidity situation, the company's owner, the Republic of Austria, announced on 1 March 2015 that no further measures would be taken for the company under the Federal Act on Financial Market Stability (FinStaG). Based on the amended business purpose, the implications of the GSA, which calls for mandatory

self-liquidation after the statutory wind-down objectives have been achieved, the complete disposal of units conducting new business, the over-indebtedness of the company and the Federal Act on the Recovery and Resolution of Banks (BaSAG) ordinance by the resolution authority, the Executive Board no longer had a basis for continuing to prepare the 2014 consolidated financial statements on the basis of the going concern assumption. As a result, the consolidated financial statements for 31 December 2014 were based on the gone concern assumption; this subsequently also applies to the consolidated financial statements for 31 December 2015;

- b.** to the information provided by the company's Executive Board in the notes to the consolidated financial statements under note (7) Measurement basis: Gone concern assumption and note (42) Negative equity (incl. non-controlling interests). In its medium-term plan, which must be prepared by the company's Executive Board, the Board does not provide for interest or capital repayments with regard to the company's debts. Therefore the contents and time-related aspects of the wind-down plan that must be prepared by the resolution authority pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG), and which forms the basis for the subsequent wind-down procedure, may deviate from the company's medium-term plan, but must nevertheless ensure that the company's ability to pay is maintained during the wind-down process. In addition, the orderly wind-down of the company pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG) will also depend on whether circumstances that put the wind-down process pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG) objectives and principles at risk will occur in the future;
- c.** to the information provided by the company's Executive Board in the notes to the consolidated financial statements under note (2.7) Development of the credit engagement vis-a-vis the former Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A., which refers to the risks faced by the company as a result of the sale agreement and the refinancing of Hypo Alpe-Adria-Bank S.p.A. The assessment of the recoverability of the refinancing lines approved by the company in the past, which was carried out on 31 December 2015, is mainly based on the wind-down plan for Hypo Alpe-Adria-Bank S.p.A. as submitted by HBI-Bundesholding AG;
- d.** to the information provided by the company's Executive Board in the notes to the consolidated financial statements under note (2.8) Completion of the sale of the SEE network, which refers to the risks faced by the company as a result of the sale agreement and the refinancing of Hypo Group Alpe Adria (the SEE network). The sale agreement provides a comprehensive list of guarantees and grants the buyer consortium the right, among other things, to transfer certain loan receivables and other assets, as well as risk items, to the company or to companies it has designated for this purpose. Pursuant to contractual provisions, the company is also obligated to continue to maintain the lines of credit in place as at 31 December 2014. In March 2016, the company and the buyer came to an agreement regarding a comprehensive settlement to clean up all contractual CHF exemption claims (credit and legal risks) and other outstanding items in connection with the share purchase agreement. As a result of the settlement, the contractual liability limits that apply to the relevant warranties and exemptions, and the maximum liability of the Republic of Austria under the hedging instrument with the buyer (and thus also the fee that the company must pay to the Republic of Austria) were reduced;
- e.** to the information provided by the company's Executive Board in the notes to the consolidated financial statements under note (99) Liquidity risk, which advises that the company faces a significant structural liquidity risk. From the Executive Board's point of view, the company is no longer in a position to service all of its liabilities by their due date;
- f.** to the information provided by the company's Executive Board in the notes to the consolidated financial statements under note (9) Use of estimates and assumptions/main estimate uncertainties, which advises that in view of the persistent economic weakness in south-eastern Europe, it is possible that additional impairments may have to be applied to the existing loan and leasing portfolio in the future;
- g.** to the information provided by the company's Executive Board in the notes to the consolidated financial statements under note (128.4) Claims in connection with the moratorium imposed according to the Federal Act on the Recovery and Resolution of Banks (BaSAG), which notes that the plaintiffs dispute the recognition of the Financial Market Authority (FMA)'s measures pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG) and - contrary to the deferral ordered in the ordinance - demand payment. Judgements of the court of first instance may be declared as provisionally enforceable against collateral according to German law. Such a treatment of individual creditors would oppose the principle of equal treatment of creditors under Federal Act on the Recovery and Resolution of Banks

(BaSAG), the principle of the (balanced) assumption of losses by the creditors and the principle of ensuring that creditors are not put in a worse position as compared to liquidation measures taken in the course of an insolvency. Therefore there exists the risk that the resolution authority will apply for insolvency proceedings in order to warrant the equal treatment of creditors. Insolvency proceedings would lead to additional losses for creditors because a far more rapid liquidation of assets (using the liquidation processes that apply in the respective countries with regard to insolvency proceedings) would have to be used as a basis for measurement instead of an orderly wind-down process over a period of five years (using the sales procedures commonly used for the respective assets). If such "insolvency or break-up values" are used, it would result in significantly higher losses or significantly lower proceeds.

### Comments on the consolidated Management Report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the consolidated management report is consistent with the consolidated financial statements.

In our opinion, the group management report is consistent with the consolidated financial statements.

Vienna, 17 March 2016

Ernst & Young  
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Ernst Schönhuber mp  
Auditor

Mag. Friedrich O. Hief mp  
Auditor

KPMG Austria GmbH  
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Walter Reiffenstuhl mp  
Auditor

\*) This report is a translation of the original report in German, which is solely valid. Publication of the consolidated financial statements together with our auditor's opinion may only be made if the consolidated financial statements and the consolidated management report are identical with the audited version attached to this report. Section 281 (2) UGB (Austrian Commercial Code) applies.



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Forward-looking statements and forecasts are based on information and data available at the time the annual report was prepared (17 March 2016). Changes after this date could influence the facts and forecasts provided in the annual report. We have drawn up this report with the greatest of care and the data upon which it is based has been checked. Rounding errors or mistakes in transmission, typesetting or printing cannot be ruled out, however. The English version of the annual report is a translation. Only the German is the authentic language version. All uses of the third person pronoun in the masculine form in this annual report that were used in the interests of better legibility also cover the feminine form. The annual report was produced using Fire.sys.