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### Annual Financial Report 2014

Heta Asset Resolution

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## **Annual Financial Report 2014**

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 Heta Asset Resolution AG

Please note that the company operating under the name “HYPO ALPE-ADRIA-BANK INTERNATIONAL AG” has been renamed to “HETA ASSET RESOLUTION AG” (or “Heta”) in the 2014 financial year. 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 2014 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 (UGB/BWG). The management report refers to these separate financial statements. Both documents are also published on the internet ([www.heta-asset-resolution.com](http://www.heta-asset-resolution.com)).

## 1. Overview of Heta Asset Resolution AG

The current Heta was founded in 1896 as a Landes- und Hypothekenbank 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. Liabilities with a guarantee by the State of Carinthia were placed on the market with a volume of more than EUR 20 billion.

As a result of years of aggressive growth with no respective risk limitation, over-optimistic assessments of market developments and serious operating deficiencies in all major units of the bank, Hypo Alpe Adria experienced ever greater turmoil during the global financial crisis and had to be rescued by nationalisation at the end of 2009. In December 2009, the Republic of Austria became the bank's sole owner and since then the bank has been in a phase of restructuring.

On 3 September 2013 the European Commission (EU Commission) announced its final decision in the state aid investigations of the former Hypo Alpe Adria which had been underway since 2009. The decision of the European Commission foresaw for the sale of the Austrian subsidiary by 30 June 2014 and the reprivatization of the SEE network by 30 June 2015 (signing) or 31 December 2015 (execution) comprising banking subsidiaries in Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro, a holding company in Austria, and the disposal of the remaining segments of the bank in such a way as to preserve value. An important step towards implementing the plan was the disposal of the Austrian subsidiary Hypo Alpe-Adria-Bank AG Klagenfurt am Wörthersee to investor group Anadi Financial Holding Pte. Ltd in the 2013 financial year within the period set by the Commission.

The next key milestone on the path to restructuring was the timely reprivatization of the SEE network, which is considered to be a long-standing, respected partner in the financial services sector in SEE countries and specialises in supporting retail customers and small and medium-sized enterprises. Signing of the transaction took place in the second half of 2014, whereas execution is expected for mid 2015.

On 18 March 2014, the federal government made a decision regarding the subsequent wind-down procedure of the former Hypo Alpe-Adria-Bank International AG. At that time it was the intent of the owner to permit winding down the bank without entering insolvency. The SEE network is to be sold as quickly as possible and the rest of the bank is to be transformed into a partially regulated company organised as a private enterprise and provided with statutory licenses. Its business activities are restricted to the disposal of all existing assets which shall be liquidated to maximise value.

The Council of Ministers decided on a legislative package consisting of the Federal Law on the Creation of a Wind-Down Unit (GSA), the Federal Act Incorporating a Federal Wind-down Holding Company for Hypo Alpe-Adria-Bank S.p.A. (HBI-Bundesholdinggesetz), the Federal Act Incorporating a Federal Wind-down (Public Limited) Company (AB-BAG-Gesetz), the Hypo Alpe Adria Restructuring Act (HaaSanG) and a federal law amending the financial market stability law and the financial market supervisory authority law. This legislative package was subsequently passed by the National Council and Federal Council, and came into force on 1 August 2014. With the publication of the Austrian Financial Market Authority (FMA) regulation on 7 August 2014, the liabilities of the former Hypo Alpe-Adria-Bank International AG listed in the Austrian Financial Market Authority (FMA) regulation in the amount of about EUR 1.6 billion expired or were deferred by law. Of this amount, EUR 0.8 billion (nominal value) consisted of subordinate liabilities to third parties and EUR 0.8 billion (nominal value) of certain liabilities of Bayerische Landesbank (BayernLB). Most of the affected parties filed suit against these measures, so that there is an intrinsic legal risk in regards to the annual financial statements and the amount of equity reported in the same that these amounts may have to be recognised as liabilities again due to a court order.

To implement the measures defined in the legislative package to convert Hypo Alpe-Adria-Bank International AG into a wind-down unit it was necessary to transfer the ongoing regulated operations, the share in the SEE network and its Austrian holding company (carve-out) to Finanzmarktbeilegung Aktiengesellschaft des Bundes (FIMBAG). All shares in Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) were transferred to HBI-Bundesholding AG (HBI-BH) as part of an additional carve-out measure.

The Austrian Financial Markets Authority (FMA) resolved that the conditions for the surrender of the banking license granted by the Financial Markets Authority (FMA)

under the Austrian Banking Act (BWG) and that the Hypo Alpe-Adria-Bank International AG no longer conducted deposit business and had no qualifying investment in a credit institution or securities company were met on 30 October 2014 and that Hypo Alpe-Adria-Bank International AG could continue as a wind-down unit under the Federal Law on the Creation of a Wind-Down Unit (GSA). The wind-down unit has a statutory license pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) and can continue to conduct banking and leasing transactions, buy and sell interests and conduct ancillary transactions provided this business directly or indirectly serves the unit's purpose pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA). Certain provisions of the Austrian Banking Act (BWG) as listed in section 3 (4) of the Federal Law on the Creation of a Wind-Down Unit (GSA) continue to apply to the wind-down unit, but not those relating to minimum capital requirements. The wind-down unit is subject to supervision by the Austrian Financial Market Authority (FMA).

As a result of the transformation, "HYPO ALPE-ADRIA-BANK INTERNATIONAL AG" was renamed "HETA ASSET RESOLUTION AG" (in short form: Heta). Since then Heta Asset Resolution AG has been carried on as an only partly regulated wind-down unit with statutory licenses organised as a private enterprise according to the Federal Law on the Creation of a Wind-Down Unit (GSA). According to the legal mandate, it is obligated to wind down the portfolio as quickly as possible but also to the best possible advantage. Then the company is to be liquidated. Section 3 of the Federal Law on the Creation of a Wind-Down Unit (GSA) defines this as follows:

*"(1) The wind-down unit is required to manage its assets with the objective of ensuring orderly, active exploitation to the best possible advantage (portfolio wind-down). The portfolio wind-down has to be realised according to the wind-down plan pursuant to section 5 Federal Law on the Creation of a Wind-Down Unit (GSA) and must be accomplished as quickly as possible within the scope of the wind-down objectives. The wind-down unit has to work towards compliance with Paragraph 1 through 5 by the legal entities in which it holds the majority of voting rights, directly or indirectly. [...]"*

*(7) As soon as the wind-down unit has realised the portfolio wind-down, a liquidation resolution has to be passed."*

A rapid exploitation perspective was therefore established for the assets of Heta, which had to be reflected in the valuations of these annual financial statements.

Heta concluded a sales contract (signing) for the SEE banking network on 22 December 2014 with the Advent/EBRD bidder consortium based on a power of attorney from FIMBAG. The European Commission has set a deadline

of 31 December 2015 for the closing of the sales contract, which has not taken place to date.

As at 31 December 2014, Heta is represented through its subsidiaries in Austria, Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Bulgaria, Germany and Hungary. The number of employees at the end of the year amounted to 1,805 fulltime equivalents (FTEs), of which 1,396 work in the core business, Asset Resolution Companies, and 409 provide services to the former bank subsidiaries and the SEE network or assist in the liquidation of certain tourism businesses.

As at 1 January 2015, the Federal Act on the Recovery and Resolution of Banks (BaSAG) came into force. In accordance with Section 162 (6) Federal Act on the Recovery and Resolution of Banks (BaSAG), the powers and instruments defined in the fourth part of the Act are applicable to Heta Asset Resolution AG.

As part of its conversion as a wind-down unit under GSA, a group-wide Asset Quality Review (AQR) was conducted which was to reflect the targets of winding down the portfolio as quickly as possible. Following the announcement on 27 February 2015 of an asset coverage shortfall of between EUR -4.0 billion and EUR -7.6 billion identified in the Asset Quality Review (AQR), the Republic of Austria informed Heta that it would no longer provide any capital or liquidity and that Heta would not be able to fully utilise the aid approved by the EU decision. In view of the circumstances, the resolution authority 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 "eligible liabilities" of Heta until 31 May 2016 in preparation for the application of the instrument involving the participation of creditors.

In these financial statements as at 31 December 2014 according to UGB/BWG (separate financial statements) Heta reported negative equity of EUR -7.0 billion, total assets of EUR 9.6 billion and liabilities of EUR 16.6 billion. The balance sheet is therefore significantly over-indebted.

## 2. General economic conditions

Against the backdrop of a rise in private consumption, it is the economic recovery of industrialised countries rather than emerging economies which is the driving force behind global growth. The recovery of the economy in the EU and the eurozone gained momentum in 2014. The European Union registered growth of 1.3% (2013: 0.0%), while the overall eurozone gained 0.9% (2013: -0.5%). Due to the effects of the economic crisis which lasted several years in the EU, the upward trend was comparatively modest in 2014. The economic conditions in the core markets are as follows:

Austria is apparently on a stable road to recovery with GDP growth of 0.3% (2013: 0.2%), although economic activity is not very dynamic. This reflects the internal and external

factors plaguing the country. Domestically, reduced consumer confidence and subdued corporate sentiment is hampering growth as are the negative employment market trends. A glance at external factors shows that low demand for Austrian exports in other eurozone countries had an adverse effect. A somewhat more promising economic climate is expected to lead to better economic growth in 2015, however this will remain subdued.

Italy's GDP fell for the third consecutive year in 2014 (-0.4%) and it therefore remains one of the below-average EU countries in terms of economic development. The reason for the decline is weak capital spending which in turn is a result of the ongoing clean-up of company statements of financial position and strict lending conditions – two factors that curtail GDP growth. Without the positive impact of net exports based on higher demand from abroad, the decline would have been steeper. In 2015, a marginal increase in GDP growth is expected due to a pick-up in capital spending. Given the ongoing uncertainty in terms of reforms (e.g. public administration) and the risks associated with a further increase in demand from abroad, the downside risks are greater.

In Croatia, the decline in private consumption, the ongoing deleveraging in the private economy and a lower level of investments caused GDP in 2014 to decline less than expected (-0.4%). The only positive contribution was net exports, thanks to an ongoing strong tourist season and greater demand from abroad. A low level of capital expenditure and fiscal consolidation demanded by the EU continued to weigh down on GDP, which is expected to either remain stagnant or slightly increase in 2015. Although net exports and domestic demand are expected to increase, growth was nonetheless weak, as the ongoing deleveraging in the private economy coupled with the EU requirements regarding fiscal consolidation and the reduction of jobs were not positive signals with regard to final consumption or capital expenditure.

The decline in Serbian GDP in 2014 (-1.8% after +2.6% in the previous year) was largely due to weak private consumption and a lower level of investment as well as the negative impact of net exports relating to the flooding in May and budget consolidation measures. Given the adverse effects of budget consolidation on public and private spending, GDP growth is also likely to be negative in 2015.

Bosnia and Herzegovina registered surprisingly strong growth in 2014 (1.4%). After considerable impediments to growth due to the flooding in May 2014, the second half of the year saw a robust recovery. Increased construction activity (thanks to rebuilding following the floods) and higher-than-expected private consumption provided positive impulses. On the back of ongoing construction and investments relating to the floods, GDP is likely to be significantly positive in 2015 and continue to outperform that of the eurozone. High demand from abroad is also good news for industrial production and exports. Political risks and uncertainty remain the primary causes of downside growth risks. The

country will remain dependent on international funds (particularly from the IMF).

At 2.6% Slovenian GDP growth exceeded expectations in the previous year. The main reasons were higher net exports on the back of a recovery in demand from abroad as well as greater EU spending on infrastructure. Private consumption rose mainly as a result of lower unemployment and an increase in disposable income. GDP growth of a similar volume is expected for 2015. The reason is most likely a further increase in demand from the EU due to (i) the sharp decline of the Euro Effective Exchange Rate Index (Euro EER Index), (ii) the drop in oil prices, (iii) significantly improved financing conditions, and (iv) the confidence-boosting effect of the ECB's broader-than-expected quantitative easing measures. In our view, there are some downside risks in connection with (geo) political risks and a potentially adverse development of the eurozone's economy or exports.

(Economic data for Bosnia and Herzegovina in 2014 are preliminary values)  
(Source: HGAA Research Department)

### 3. Significant events in the 2014 financial year

#### 3.1. Changes to the Executive Board and Supervisory Board of Heta Asset Resolution AG

On 10 January 2014, Chief Risk Officer (CRO) Wolfgang Edelmüller announced that he would resign as member of the Executive Board of the former Hypo Alpe-Adria-Bank International AG as at 28 February 2014. Chairman of the Executive Board Alexander Picker, who has been in office since 1 January 2014, succeeded Wolfgang Edelmüller as CRO on an interim basis. On 26 August 2014, the Supervisory Board announced the appointment of Rainer Jakubowski as CRO with effect from 15 September 2014.

On 30 October 2014, Alexander Picker and Rainer Sichert resigned as members of the Executive Board of the former Hypo Alpe-Adria-Bank International AG as a result of the bank's restructuring. They joined the Executive Board of Hypo Group Alpe Adria AG (HGAA), the holding company of the SEE network. At the end of 2014, Rainer Jakubowski and Johannes Proksch were as such active members of the Executive Board of Heta Asset Resolution AG.

On 26 February 2015, the Supervisory Board appointed three new members to the Executive Board. Sebastian Prinz von Schoeneich-Carolath was appointed Chairman of the Executive Board. Martin Handrich and Alexander Tscherteu were also appointed to the Executive Board. Martin Handrich assumed his responsibilities as at 16 March 2015 and Sebastian Prinz von Schoeneich-Carolath took up his responsibilities as at 16 April 2015. Alexander Tscherteu will join the company as at 1 July 2015. While Rainer Jakubowski will remain member of the Executive Board, the previous CFO Johannes Proksch will resign from the Executive Board of Heta Asset Resolution AG of his own accord in mid 2015.

On 4 February 2014, Ludwig Scharinger resigned as member of the Supervisory Board. As at 21 February 2014, Klaus Liebscher resigned as chairman of the Supervisory Board. With effect from 23 May 2014, all other members of the Supervisory Board of the former Hypo Alpe-Adria-Bank International AG, comprising Deputy Chairman Rudolf Scholten, Helmut Draxler, Alois Steinbichler and Adolf Wala, resigned. At the extraordinary shareholders' meeting held on the same day, the shareholder, the Republic of Austria, represented by the Federal Ministry of Finance, appointed Herbert Walter, Wolfgang Hartmann, Christine Sumper-Billinger, Regina Friedrich and Alois Hochegger to the Supervisory Board of the former Hypo Alpe-Adria-Bank International AG. The term of the Supervisory Board was set to the legally admissible maximum term at the extraordinary shareholders' meeting on 18 September 2014. In the inaugural meeting of the Supervisory Board on 3 June 2014, the Supervisory Board appointed Herbert Walter as Chairman and Wolfgang Hartmann as Deputy Chairman.

At the general shareholders' meeting on 7 November 2014, Michael Mendel and Bernhard Perner were appointed as new members of the Supervisory Board and the former Chairman of the Supervisory Board, Herbert Walter, and Deputy Chairman, Wolfgang Hartmann, resigned as members on the same day. After the general shareholders' meeting, Michael Mendel was appointed as Chairman and Alois Hochegger as Deputy Chairman of the Supervisory Board. The Supervisory Board of Heta Asset Resolution AG therefore comprises the Chairman Michael Mendel, the Deputy Chairman Alois Hochegger and members Christine Sumper-Billinger, Regina Friedrich and Bernhard Perner. From the Works Council, Erwin Sucher and Richard Joham were appointed to the Supervisory Board.

### 3.2. EU state aid investigation

The EU's state aid investigation into the former Hypo Alpe Adria was concluded in September 2013 by the decision of the Commission of the European Union (European Commission). The basis for the decision of the European Commission communicated on 3 September 2013 was the restructuring plan of Hypo Alpe Adria announced by the Republic of Austria at the end of June 2013.

Based on the decision of 3 September 2013, the capital measures previously granted by the Republic of Austria were approved as well as other capital and liquidity measures. Of the future capital measures of up to EUR 5.4 billion that were approved by the EU decision, EUR 2.5 billion were paid to the company by the owner by 31 December 2014. The additional liquidity of EUR 3.3 billion as approved by the European Commission, which was supposed to cover the liquidity shortfall in 2016/2017 pointed out in the restructuring plan, was not granted.

The execution of the sale of the Austrian subsidiary Hypo Alpe-Adria-Bank AG, Klagenfurt, which had been scheduled for mid-2014 by the latest, was already completed at the end

of 2013. The signing of the deal between Heta and Advent/EBRD for the sale of the SEE network on the basis of a power of attorney from FIMBAG took place on 22 December 2014. The European Commission set a deadline of 30 June 2015 for the signing and 31 December 2015 for the execution of the sales agreement (with the option of extending it by a maximum of three months due to possible delays in approval by the authorities). Compliance with the new business restrictions for the marketable units (SEE network) imposed by the European Commission's decision was necessary until the signing as part of reprivatization. The new business restrictions continue to apply for the wind-down unit, Heta Asset Resolution AG, and the former subsidiary HBI, which is now owned by HBI-BH. Compliance with the terms of the European Commission's decision is regularly monitored by an independent monitoring trustee and is reported on as part of the quarterly reports of the European Commission.

### 3.3. Capital measures of the Republic of Austria

In the extraordinary shareholders' meeting held on 9 April 2014, the Republic of Austria as the sole owner of Heta passed a resolution to implement a capital increase of EUR 750.0 million which was paid up in April. This was intended primarily to eliminate the shortfall of regulatory capital as a result of the negative annual profit as at 31 December 2013.

With the creation of a partially regulated wind-down unit with statutory licenses under private law, Heta is no longer subject to the Austrian Banking Act (BWG) capital regulations applicable to credit institutions as at 30 October 2014. Because the future state aid approved by the European Commission continues to apply, deregulation has not fundamentally eliminated the possibility of further contributions (capital, liquidity) by the state by application of the Federal Law on the Creation of a Wind-Down Unit (GSA).

To date the Republic of Austria has granted Heta equity of EUR 4.4 billion and an asset guarantee of EUR 0.2 billion. The latter is still in place as at 31 December 2014. The Republic assumed guarantees for bonds issued by Heta in the amounts of EUR 1.4 billion (2009) and EUR 1.00 billion (2012). While bonds of EUR 1.35 billion were redeemed in full between 2011 and 2013, a state-guaranteed EUR 1.0 billion bond (subordinated bond) is still on the market as at 31 December 2014. A total of EUR 0.2 billion in commission fees was reported for these liquidity measures and guarantees as at 31 December 2014.

The Republic of Austria resolved on 1 March 2015 not to provide Heta Asset Resolution AG with any further funds, i.e. capital or liquidity aid. See item 3.14 Capital and liquidity requirements of the company, gone concern.



EUR m

Financial year	Republic of Austria			HETA
	Equity capital measures	Guarantees for issued bonds	Received guarantee	Fees paid for liquidity measures and guarantee
2008	900.0			-
2009	0.0	1,350.0		8.0
2010	450.0		200.0	19.0
2011	0.0	-751.7		29.0
2012	500.0	1,000.0		24.3
		-14.8		
2013	1,750.0	-583.5		75.7
2014	750.0			70.8
<b>Total</b>	<b>4,350.0</b>	<b>1,000.0</b>	<b>200.0</b>	<b>226.8</b>
<b>of which paid (in)</b>	<b>4,350.0</b>	<b>1,000.0</b>	<b>0.0</b>	<b>226.8</b>

### 3.4. Legislative package to wind-down the former Hypo Alpe Adria

On 18 March 2014, the Austrian Federal Government made a decision regarding the further winding-down of the former Hypo Alpe-Adria-Bank International AG. Based on this decision, the SEE network is to be split off as a functioning entity and sold as quickly as possible, and the remaining bank is to be transferred to a partially regulated, private company with statutory licenses, in a value-preserving way. It was also made clear that it is essential to include the bank's subordinated and participation capital lenders in the solution, initiate negotiations regarding an equalisation with Bayerische Landesbank and the Free State of Bavaria and to seek a commitment of the State of Carinthia towards the wind-down.

The Council of Ministers agreed on a legislative package to wind-down the former Hypo Alpe-Adria-Bank International AG, based on the Federal Law on the Creation of a Wind-Down Unit (GSA), the Federal Law incorporating a federal wind-down holding company for Hypo Alpe-Adria-Bank S.p.A. (HBI-Bundesholdinggesetz), the Federal Act Incorporating a Federal Wind-down (Public Limited) Company (ABBAG-Gesetz), the Hypo Alpe Adria Restructuring Act (HaaSanG) and a federal law to amend the Financial Markets Stabilisation Act and the Law on the Financial Market Supervisory Authority (FIMBAG).

This legislative package was passed by the National Council on 8 July 2014 and by the Federal Council on 24 July 2014. After being signed by the Federal President, the laws were published in the Federal Law Gazette on 31 July 2014 and entered into effect on 1 August 2014.

### 3.5. Redemption of participation capital

With the resolution of the general shareholders' meeting of the former Hypo Alpe-Adria-Bank International AG held on 23 May 2014, the Executive Board was authorised according to section 103q (14) of the Austrian Banking Act (BWG) in conjunction with section 26b (2) (2) of the Austrian Banking

Act (BWG) to withdraw, with the approval of the Supervisory Board, participation capital issued to the company in full or regarding individual issues of participation capital or separate tranches defined already at the issue, while guaranteeing equal treatment of the parties authorised up to and including 31 December 2015. The Executive Board resolved on 7 July 2014 to exercise its authority and to withdraw participation capital issued by the company in part, and to withdraw the participation capital 2009 – which was not subscribed to in accordance with the Financial Markets Stabilisation Act (FinStaG) – at a nominal value of EUR 64,428,867.95 (after reduction by resolution of the general shareholders' meeting held on 30 May 2011), for cash consideration of zero with approval from the Supervisory Board. The Supervisory Board approved the redemption with its resolution of 8 July 2014. This required approval from the Austrian Financial Markets Authority (FMA). Application for approval was submitted to the Austrian Financial Markets Authority (FMA) on 24 July 2014 and approved on 18 September 2014.

The auditor appointed by the respective court to audit the redemption plan drawn up by the Executive Board, in particular the reason stated in accordance with section 26b (4) of the Austrian Banking Act (BWG) regarding the defined appropriate cash consideration for the authorised parties, taking into account the terms of the participation capital, confirmed that the cash consideration of zero was appropriate. On 26 September 2014, the resolution of the Executive Board and approval by the Supervisory Board, whereby the participation capital 2009 is to be fully considered withdrawn, was announced in the official gazette of the Wiener Zeitung in accordance with section 26 b (6) of the Austrian Banking Act (BWG). The participation capital lenders requested a court audit of the appropriateness of a cash consideration of zero.

### 3.6. Adoption of the regulation pursuant to the Hypo Alpe Adria Restructuring Act (HaaSanG)

The Hypo Alpe Adria Restructuring Act (HaaSanG) designates the Austrian Financial Markets Authority (FMA) as the authority empowered to implement the reorganisation as provided by the law. The Hypo Alpe Adria Restructuring Act (HaaSanG) stipulates that with the announcement of a regulation adopted by the Austrian Financial Market Authority (FMA) for this purpose would (i) expire specific subordinated liabilities and shareholder liabilities of Hypo Alpe-Adria-Bank International AG and (ii) defer the maturity of certain contested liabilities until a final decision is made with regard to the contested liabilities in question. The measures provided pursuant to the Hypo Alpe Adria Restructuring Act (HaaSanG) will become effective immediately without the issuer needing to take further action or the liabilities needing to be formally withdrawn pursuant to their terms and conditions. With the announcement of the Austrian Financial Market Authority (FMA) Regulation on 7 August 2014, the termination and deferment of the liabilities of the former Hypo Alpe-Adria-Bank International AG listed in the Austrian Financial Market Authority (FMA) regulation takes effect which means that repayment sums, interest or other ancillary fees owed by the former Hypo Alpe-Adria-Bank International AG, where applicable, will automatically be reduced to zero. The payment date for disputed liabilities was postponed to 30 June 2019 at the earliest.

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. The derecognition of liabilities had an impact on profit or loss; the respective income was reported in the extraordinary result. On the basis of the judgment of first instance of the Higher Regional Court of Munich I, which relates to the equity substitution case between BayernLB and Heta, provisions of EUR 0.9 billion were recognised in the financial statements as at 31 December 2014.

### 3.7. Lawsuits in connection with the Hypo Alpe Adria Restructuring Act (HaaSanG)

The Austrian Hypo Alpe Adria Restructuring Act (HaaSanG) entered into force on 1 August 2014 and foresees the expiration of all supplementary capital issues and subordinated liabilities of around EUR 0.8 billion held by third parties with guarantees by the State of Carinthia. Furthermore, this law concerns some EUR 0.8 billion in liabilities to the former major shareholder, Bayerische Landesbank (BayernLB), which were granted after the first capital measure pursuant to the Financial Markets Stabilisation Act (FinStaG) in December 2008. 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 will expire.

As at the reporting date 16 June 2015, 33 charges had so far been brought against Heta Asset Resolution AG in which creditors challenge the constitutional legitimacy of the Hypo Alpe Adria Restructuring Act (HaaSanG) and demand confirmation of the existence of the receivables and payment. In many of these lawsuits, the proceedings were interrupted by the courts due to appeals to the Constitutional Court of Austria to examine the constitutional legitimacy of the law. Should the Constitutional Court of Austria repeal the law entirely, this would negatively impact the future income statement and equity by around EUR -0.9 billion.

### 3.8. Carve-out of the SEE network and the signing of a sales agreement for the reprivatisation of the SEE network

In addition to the bidding process for the privatization of the SEE network, which started in 2012, the shares held in Hypo Group Alpe Adria AG, Klagenfurt (HGAA; formerly: Hypo SEE Holding AG) had to be transferred to the Republic of Austria or another federal institution as a condition for the withdrawal of the license granted by the Austrian Financial Market Authority (FMA) pursuant to the Austrian Banking Act (BWG) from the then Hypo Alpe-Adria-Bank International AG.

The signing and execution relating to the sale of HGAA were concluded on 30 October 2014 pursuant to the resolution of the general shareholders' meeting of the Hypo Alpe-Adria-International AG held on 16 October 2014. The share purchase agreement (SEE carve-out agreement) relating to all of the HGAA shares held by Heta was concluded with FIMBAG, which will hold the shares in trust for the Republic of Austria.

HGAA, including its subsidiary banks in South-East Europe, left the scope of consolidation of Heta following the conclusion of the share purchase agreement and the delivery of the global note to FIMBAG. Taking into account the supplementary agreements dated 18 and 25 November 2014 (first supplement) and 22 December 2014 (second supplement), Heta was authorized within the scope of the carve-out (power of attorney) to sell the shares in HGAA to the highest bidder.

Following intensive negotiations, especially at the end of the fourth quarter of 2014, the consortium of bidders, consisting of Advent /EBRD, came out as the winners from an open, transparent and unconditional disposal process.

The power of attorney was initially limited until 20 and 27 November 2014 (extension pursuant to the first supplementary agreement).

The negotiations on the Republic's hedge between the Republic of Austria and bidders Advent/EBRD were not successfully concluded by 27 November 2014; as a result, the offer authorized by the bidders at the end of October 2014 could not be approved. Heta did not have a power of attorney after this date to sell the SEE network, which was

then owned by FIMBAG. FIMBAG then continued the sales process.

In this case, the carve-out agreement provided that the wind-down scenario would take effect when determining the purchase price. Heta informed the public of this fact in an ad hoc announcement.

The general shareholders' meeting of Heta held on 22 December 2014 approved the conclusion of the second supplementary agreement on the share purchase price agreement dated 30 October 2014. The second supplementary agreement again granted power of attorney and placed Heta in the sale scenario once again.

The conclusion of the sales agreement was preceded by comprehensive internal deliberations at Heta. In particular, the Executive Board of Heta assessed in detail the advantages of the sale of the SEE network compared to the wind-down of the SEE network on the basis of the opinions of internal and external experts and weighed this out together with Heta's Supervisory Board. The Executive Board came to the unequivocal conclusion that the sale of the SEE network was more advantageous than a winding-down. In a further step, the Executive Board conducted commercial and legal analyses of the final offers received during the sales process and compared them.

It was on this basis that the general shareholders' meeting held on 22 December 2014 approved the sale to the consortium of bidders on the basis of the power of attorney from FIMBAG. The sales agreement regulates the transfer of all shares in HGAA to the buyers on the basis of FIMBAG's power of attorney. The conclusion of the sales agreement is 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. These conditions precedent must be fulfilled by 30 June 2015. Heta expects the transaction to be completed around mid-2015.

The sales agreement provides for a basic purchase price subject to purchase price adjustment mechanisms relating to specific key figures for 2014 and 2015 compared to defined reference values. Upper and lower limits are in place for the final purchase price, i.e. the purchase price after adjustments.

The sales agreement provides for an additional comprehensive list of guarantees. Heta considers this list of guarantees to be understandable given the history of Heta and the SEE network and the public discussion concerning these, as well as the complexity of the business areas in which the SEE network operates.

Guarantee claims are subject to normal liability rules, particularly liability limitations. Heta's liability for exemption claims is limited; however, the maximum liability far exceeds the highest possible purchase price.

Certain of the buyer's claims against Heta under the sales agreement, particularly claims relating to breaches of warranty or from exemptions that are hedged by means of a hedging instrument of the Republic of Austria. Heta is re-

quired to pay an appropriate fee to the Republic of Austria for this hedging instrument on the basis of the stipulation included in the SEE network carve-out agreement. The buyer's claims against Heta under the sales agreement, particularly claims relating to breaches of warranty or from exemptions, that are also hedged by means of a pledge of the lines of credit granted to HGAA by Heta for the benefit of the buyer.

The sales agreement grants the buyer the right to transfer certain loans and advances, other assets and risk positions up to a value of EUR 800 million (net statement of financial position as at 31 December 2014) to Heta or one of its nominated subsidiaries ("buyer brush option"). Retransfers must be completed by no later than March 2016. The lines of credit granted to HGAA will be reduced as consideration for the retransfer of assets and to hedge the risk positions to be transferred.

Pursuant to contractual provisions, Heta is obligated to continue to maintain the lines of credit in place as at 31 December 2014 (EUR 2.0 billion; expandable up to EUR 2.4 billion). The conditions will be raised gradually up to a normal bank financing level. The lines of credit, which are not offset against exemption or guarantees, must be repaid by no later than 2022, taking into account the retransferred assets and risk positions.

Pursuant to contractual stipulations, the purchase price agreed with FIMBAG pursuant to the SEE carve-out agreement dated 30 October 2014 was determined by an independent auditor. This auditor also determined FIMBAG's profit participation pursuant to the contractual provisions. The commission fee to be paid to the Republic of Austria for the takeover of counter guarantees (hedging instrument) was calculated actuarially on the basis of the expected repayment profile of the lines of credit.

Corresponding provisions were made in the financial statements for the buyer's expected claims relating to guarantees and exemptions as well as for the shift in credit risks resulting from the retransfer of credit portfolios.

A forecasted portfolio volume and the group-wide measurement guidelines prepared within the scope of the AQR are applied when determining the extent of these credit risks. Due account is taken of the fact that loans and advances to the SEE network bear low interest rates and therefore an impairment had to be recognised in the amount of the difference between the contractual interest rates premiums and the minimum interest rates as defined in the internal measurement guidelines.

This results in a disposal loss before taxes of approximately EUR 1.8 billion.

There is uncertainty for the 2015 financial year as to whether the sales agreement will in fact be executed. The SEE network must be wound down in the event that the sale falls through before the end of the deadline set by the European Commission (execution deadline: 31 December 2015); this would place additional high financial burdens on Heta.

In this case, the purchase price mechanism of the carve-out agreement would be based on a negative wind-down scenario, rather than a sale scenario. In such a scenario, it is highly likely that the nominal value of the loans and advances to HGAA of EUR 2.0 billion as at 31 December 2014 will be completely irrecoverable, which would lead to an additional loss of up to EUR 1.0 billion.

### 3.9. Carve-out of the Italian subsidiary bank

In meeting the statutory requirements of the Federal Law on the Creation of a Wind-Down Unit (GSA) and the HBI-Bundesholdinggesetz, Heta had to transfer all shares it held in Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) to HBI-Bundesholding AG (HBI-BH). A total of 318,187,083 shares in HBI with 99.9% of the capital stock were therefore sold to HBI-BH with the share purchase agreement dated 8 September 2014 ("carve-out"). Heta also has liabilities vis-à-vis HBI-BH in the event of a negative outcome of the criminal proceedings which is pending for HBI in connection with the Italian joint liability law. Heta recognised provisions for possible future utilization.

The closing of the transaction took place after receiving approval from Banca d'Italia on 30 October 2014, so that HBI was excluded from the Heta group on that day.

The share purchase agreement calls for Heta as the seller to pay HBI-BH as the buyer the negative enterprise value of HBI in the amount of EUR -2.4 million determined on 30 June 2014. It also foresees that the buyer, as at the closing of the agreement, is responsible for ensuring that the Tier 1 minimum capital ratio prescribed by Banca d'Italia is maintained.

To meet this obligation, HBI-BH needs sufficient external funds. At present the Executive Board of Heta cannot judge to what degree the owner of HBI-BH (Republic of Austria) will undertake capital measures to ensure that HBI-BH is capable of fulfilling this obligation.

The agreement also calls for the contracting parties to select an audit firm that values HBI on 31 October 2014, as quickly as possible after concluding the contract and in any case before the closing. According to the HBI contract for the establishment of a separate legal structure, the results of the audit firm's report are binding for both parties. The audit firm, which was jointly selected with HBI-BH, presented its valuation report on 25 October 2014, determining the objective enterprise value of HBI on the valuation date of 31 October 2014 at EUR -12.3 million. The difference has already been paid.

The existing refinancing lines of Heta to HBI as at 31 December 2014 are around EUR 1.6 billion. In the course of the carve-out, Heta also obligated itself to provide what is known as an emergency liquidity facility of up to EUR 300 million in case customer deposits are withdrawn from HBI. The emergency liquidity line, which had not been utilised as at 1 March 2015, is deferred by the moratorium imposed in the meantime by the Austrian Financial Market

Authority (FMA) as the resolution authority and can no longer be utilised by HBI. Due to the Federal Act on the Recovery and Resolution of Banks (BaSAG) moratorium Heta is no longer able to meet its contractual obligations which is leading to an ongoing deterioration in HBI's liquidity situation, which without external support is unable to offset the constant outflow of deposits.

The refinancing lines should be fully repaid in the short to medium term or need to be replaced within the wind-down procedure of HBI. In terms of the recoverability of these receivables a figure needed to be recognised in the financial statements by Heta for its valuation which would be realistic according to a regulatory wind-down procedure in Italy. In this context provisions of some EUR 1.2 billion were recognised.

Heta is currently in discussions with representatives of the Republic of Austria as to how to prevent such a procedure in Italy given the current restrictions of the Federal Act on the Recovery and Resolution of Banks (BaSAG) in order to ensure that Heta receives a higher repayment amount for funds tied up with HBI.

### 3.10. Transformation into a wind-down unit pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA), change in the name of the company

The license granted to the Hypo Alpe-Adria-Bank International AG by the Austrian Financial Market Authority (FMA) to conduct banking activities according to BWG was terminated by the resolution of the Austrian Financial Market Authority (FMA) on 30 October 2014. Pursuant to statutory provision, this company will now be operated as a wind-down entity pursuant to the Federal Law on the Creation of a Wind-Down Entity (BGBl I 2014/51, Federal Law on the Creation of a Wind-Down Unit (GSA)). Preconditions were that Heta Asset Resolution AG 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. The business purpose of Heta from now on focuses on the winding-down of assets; within this framework, the company is authorised to, among other things, conduct banking or leasing transactions for this purpose.

Pursuant to section 3 (4) of the Federal Law on the Creation of a Wind-Down Unit (GSA), Heta is subject to a limited extent to the provisions of the Austrian Banking Act (BWG) but is not subject to minimum capital regulations. The scope of the Austrian Banking Act (BWG) relates to the application of bank-specific accounting standards as well as notification duties vis-à-vis the Austrian Financial Market Authority (FMA). The Austrian Financial Market Authority (FMA) continues to be the responsible regulatory authority and is obligated, pursuant to section 8 of the Federal Law on the Creation of a Wind-Down Unit (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 statute was amended in view of the transformation into a wind-down unit; the company name 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 GSA - transactions required to fulfil the company's task (complete reduction of the portfolio as quickly as possible). Article 2.4 of the amended articles of association foresees 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 from that date. As this amendment relates exclusively to the name of the company and not the reestablishment of the company, this does not affect the legal person of the company itself or any of its contractual obligations.

After the disposal of the qualifying participations in credit institutions and investment firms in the meaning of CRR and the expiry of the bank license granted by Austrian Financial Market Authority (FMA) according to BWG, the Federal Law on the Creation of a Wind-Down Unit (GSA) became directly applicable at the end of October 2014 and Heta continued to operate as a wind-down unit (under the Federal Law on the Creation of a Wind-Down Unit (GSA)). According to the statutory provisions of the Federal Law on the Creation of a Wind-Down Unit (GSA) (see section 3 (1) of the Federal Law on the Creation of a Wind-Down Unit (GSA)), the exploitation is to be orderly, active and to the best possible advantage in accordance with the wind-down targets. To reflect these targets in the asset valuation method, Heta - with the help of an external, independent expert - issued new valuation guidelines as a basis of an Asset Quality Review (AQR). In the valuation guidelines, it is assumed that all assets will be sold to investors within a limited period.

### 3.11. Wind-down plan according to GSA

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. According to section 5 (2) the wind-down plan must contain the following:

- a presentation of the business activities and liquidation measures planned for the wind-down of the portfolios,
- a timetable for the complete liquidation of portfolio-wind-down-relevant assets,
- periodic reports on net assets, financial position and results of operations including cash flow statements and budgeted balance sheets, budgeted income statements and liquidity plans and
- information on risk management which reflects the wind-down targets."

The wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) is prepared in accordance with the accounting principles of the Austrian Commercial Code/Austrian Banking Act (UGB/BWG) and refers to Heta (single institution). The Heta Executive Board has weighed up the wind-down objectives of an orderly, active exploitation to the best possible advantage with the legal requirements of "a portfolio wind-down as quick as possible" and subsequently defined a time frame of five years as adequate for the complete wind-down of the relevant portfolios. The plan, which is currently being prepared, solely presents the liquidation of assets (assets side) and the expenses accrued in the wind-down process. On the equity and liabilities side, the plan foresees no interest or capital repayments, merely an increase of cash reserves. Due to the provisions formed for the personnel and material expenses relating to the wind-down of the portfolio in the 2014 financial statements of Heta prepared pursuant to UGB/BWG, cumulative no further losses are expected from today's point of view for the entire planning period until 2020..

The target of the wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) is to fully liquidate all portfolio-wind-down-relevant assets by the end of 2020. As a milestone, around 80 % of the assets are to be liquidated by the end of 2018 starting with the figures as at 31 December 2014. To achieve the targets, receivables and real estate are to be sold to investors through individual and, increasingly, through package and portfolio transactions. Preparations for the first package and portfolio transactions began in the first half of 2015. The receivables from HBI and HGAA are to be viewed separately and are likely to be still in place after 2020 as well as performing mortgage loans in accordance with the wind-down plan.

Performing loans and securities with short residual terms are to be recovered through regular repayment and those with longer terms are to be liquidated in the medium term by being placed on the market. Underlying collateral for non-performing loans should only be collected if they can be expected to be sold immediately (within 12 months). Repossession should only be carried out in exceptional cases.

According to section 6 of the Federal Law on the Creation of a Wind-Down Unit (GSA), the management of the wind-down unit is obliged to report to the Supervisory Board. This is to be conducted either on a regular basis in the form of quarterly and asset reports or on an ad-hoc basis in the form of special reports.

In parallel to the creation of the wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA), the Austrian Financial Market Authority (FMA) is preparing a resolution-down plan in its role as the resolution authority, which contains the final valuation under section 57 Federal Act on the Recovery and Resolution of Banks (BaSAG) (as at valuation date 1 March 2015).

### 3.12. Asset Quality Review (AQR) / adjustment of valuation parameters due to the Federal Law on the Creation of a Wind-Down Unit (GSA)

In order to fulfil the statutory requirements under section 3 (1) GSA, Heta conducted an Asset Quality Review (AQR) of its assets. The objective of the AQR was to value all assets of Heta relevant to the wind-down of the portfolio based on the wind-down objectives. From now until 2020, the liquidation of the asset positions should be at the centre of the company's business activities. According to the company's articles of association, the company should then dissolve itself.

To ensure this target is achieved Heta has drawn up new guidelines for measuring loans and real estate with the help of an auditing company as an independent expert. The measurement parameters were defined on the basis of sound expert estimates. These parameters formed the basis of the subsequent valuation of the loans and real estate by Heta. To measure loans a realisable sales value (RSV) and for real estate a market value under special assumptions (MV<sub>usa</sub>) were established.

These values represent the best possible estimate of the sales value of assets in saturated markets as at 31 December 2014, which can be achieved by proper and professional sales procedures during a limited timeframe.

The group-wide valuation of loans and real estate led to a devaluation result of around EUR -3.3 billion which resulted in impairments on the own cross-border loan portfolio and internal group refinancing lines granted to subsidiaries in the annual financial statements under UGB/BWG (separate financial statements). The following factors were primarily responsible for the impairments:

- As part of the AQR all loans and real estate (inventory) were valued whereas individual reviews are only carried out during regular audits or if there is any indication of impairment.
- The parameters were determined based on an investor's perspective. Each price is calculated according to the price a potential investor would acquire the assets relevant to the portfolio wind-down for in their current conditions taking into account special legal circumstances (e.g. documentation) and the respective markets (e.g. limited circle of buyers).
- Whereas as the liquidation of loans is generally carried out as a partial or full financing of the buyer by the bank selling them, this is not the case in this AQR as it would contradict the wind-down targets according to GSA. It was assumed that potential buyers would have to fully refinance themselves on the market calculating a risk premium.
- Real estate markets in Southern Eastern Europe (SEE) and Italy are marked by declining prices, a rising vacancy rate and a diminishing number of transactions. This was taken into account when determining the AQR parameters.

- Many of Heta's properties (collaterals) are not in central or attractive locations (e.g. city centers, near the coast etc.) but in peripheral areas or rural areas where a stronger decline in prices and demand has been observed. Due to their previous use (e.g. industrial land), many land assets are only suitable for an extremely limited circle of potential buyers (e.g. no ongoing returns from rents).
- The conditions of the assets, particularly of those where the borrower has not fulfilled his payment obligations, has deteriorated rapidly due to the lack of adequate maintenance and repairs as most of the remaining non-performing loans have been in default for more than three years. In addition several properties were also severely affected by the flooding in the Balkans in May 2014. For collected collaterals (bail-out purchases/repossessions) maintenance measures are only permitted after relevant proof has been submitted and the EU trustee has been informed, which also led to a deterioration of the condition of these assets.
- Findings regarding the disposal of an own portfolio of non-performing loans (NPL) in SEE countries ("DI-NARA") project in mid 2014, which revealed extremely low realisable prices, were also taken into account when determining parameters from an investor's perspective as well as recent results from other sales procedures, initial contact from investors and the experience of the assisting audit company relating to similar transactions in Eastern Europe.
- In cases where collaterals cannot be collected through negotiation, the risks of legal enforcement (lasting for several years) are reflected in the discounted realisable market values.
- Due to the condition of collaterals, the largely second-rate locations and the fact that Heta has no possibility of investing in improving the value of the property, Heta is unlikely to be able to profit from a potential recovery of the overall market in SEE countries. On the contrary, it is more likely to face further losses if it waits any longer to liquidate the assets. Subsequently, in the majority of cases, the emphasis is on a swift liquidation to gain the best possible result.
- The market values of Heta's assets is also suffering from negative media coverage and reputational damage, which also had or will have a negative impact on valuations.

It should be taken into account that the valuation of real estate as part of the AQR was largely based on desktop analyses using available documentation and according to the current conditions of the assets. Regardless of this, the Executive Board is confident that the assets, based on the application of the group-wide AQR valuation guidelines, are valued at realisable market values which can be achieved in a prop-

er portfolio wind-down. According to the Executive Board, this also meets the final measurement requirements under section § 57 BaSAG as defined by the resolution authority.

Given that other banks and wind-down companies will also place their loan portfolios on the market during the defined liquidation period, it might also prove difficult for Heta to achieve its budgeted targets. It is uncertain whether investors with adequate financial backing will make offers. The ability of realising these values also largely depends on the attractiveness of the markets to investors, whereby a stable economic environment (economic growth, exchange rates, unemployment, public safety etc.) and a stable political and social framework are essential factors. Should any of these factors deteriorate significantly, this would have a direct impact on the recoverability of Heta's assets.

### 3.13. Entry into force of the Federal Act on the Recovery and Resolution of Banks

The Federal Act on the Recovery and Resolution of Banks (BaSAG) came into force on 1 January 2015. According to section 162 (6) of the Federal Act on the Recovery and Resolution of Banks (BaSAG), the authorisations and instruments defined in part 4 of the law apply to Heta. Among the instruments applicable to Heta is the instrument of participation of holders of relevant capital instruments.

While at the time of the initial results from the AQR 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), second half of the sentence of the 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.

The Executive Board of Heta promptly informed the Supervisory Board of the results (special report pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA)). On 27 February 2015, the company notified the Republic of Austria as the sole shareholder of the shortfall, and asked whether it would be willing to compensate for the expected liquidity gaps in 2016 and 2017 and the capital shortfall through suitable measures on the basis of this new information and the application of the Federal Act on the Recovery and Resolution of Banks (BaSAG). On the same day, the Executive Board also submitted a precautionary notice according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) to the resolution authority 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 and Heta on 1 March 2015 that no further measures will be implemented for Heta Asset Resolution AG under the Federal Act on Financial Market Stability (FinStaG). On the same day, the resolution authority issued a decision ordering resolution measures according to the Federal Act on the Recovery and

Resolution of Banks (BaSAG). This decision in accordance with section 58 (1) (10) of the Federal Act on the Recovery and Resolution of Banks (BaSAG) on the preparation for the applying instrument which involves the participation of creditors, placed all so-called "eligible liabilities" of Heta under a moratorium until 31 May 2016. With regard to additional information, we refer to the decision of the Austrian Financial Market Authority (FMA) dated 1 March 2015 which is published on the FMA's homepage [www.fma.gv.at](http://www.fma.gv.at) and can be found also on Heta's homepage under [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Press → Austrian Banking Restructuring and Resolution Act).

An appeal against the decision from the resolution authority – a notice issued without conducting previous preliminary investigations – could have been submitted within three months after it was released (1 March 2015), but this is without suspensory effect. Affected investors have announced they will also take legal steps against Heta itself. As at 16 June 2015 2 lawsuits have been filed against Heta Asset Resolution so far by German investors for payments of bonds which were not paid on the original date of maturity due to the moratorium imposed on 1 March 2015. In addition, legal proceedings were initiated against Heta by the State of Carinthia and the Kärntner Landesholding (KLH) in relation to legal proceedings initiated by an investor against the State of Carinthia and the Kärntner Landesholding (KLH) on the basis of the state guarantee relating to bonds affected by the moratorium. According to media reports, further lawsuits have already been filed or will shortly be filed with German courts.

It should also be noted that the written decision of Regional Court Munich I in the first instance in the case between Heta and the Bayerische Landesbank (BayernLB) with regard to the Austrian Equity Substituting Capital Act (EKEG) was provided to Heta's legal team on 2 June 2015.

In this proceeding the court rejected the recognition in Germany of recent measures of the Austrian legislator and the regulatory authorities in connection with the wind-down of Heta and did not take into consideration the deferral ordered by the resolution authority according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) due to mainly formal reasons. The deferral is based on the Federal Act on the Recovery and Resolution of Banks (BaSAG), with which the European guidelines on bank restructuring were implemented in Austria. For this reason, Heta believes that this deferral order should also be recognised in another EU member state Heta reported equity-substitution loans from BayernLB of EUR 1.5 billion in its balance sheet; of this amount, EUR 0.8 billion was declared as expired in accordance with the Hypo Alpe Adria Restructuring Act (HaaSanG) and the resolution released in relation to this Act (HaaSanV) as at 7 August 2014 and are no longer reported in the balance sheet.

### 3.14. Capital and liquidity requirements of the company, gone concern

Up to and including the preparation of the financial statements for 2013, the company based the going concern assessment on the assumptions underlying the group's restructuring plan dated June 2013 as approved by the European Commission. Those assumptions foresaw capital measures planned for subsequent years to maintain the going concern assumptions, in order to cover the losses accrued as part of the portfolio wind-down. The European Commission decision provided for future capital measures of up to EUR 5.4 billion, EUR 2.5 billion of which were paid to the company by 31 December 2014 by means of contributions from the owner. Additionally, the European Commission also approved liquidity measures from the owner of EUR 3.3 billion, which would have been used to cover liquidity gaps in 2016/2017 shown in the restructuring plan. In total a maximum of EUR 2.9 billion in capital as well as an additional EUR 3.3 billion in liquidity subsidies that was approved but not yet paid out would therefore have been available.

The short- and medium-term plan, which was updated in April 2014 in the course of recapitalisation, revealed in various scenarios that the forecast capital and liquidity requirements in the planning period would have been within the range of the approved state aid, meaning that there were no doubts at that time that the require no further support from the owner.

Based on the decision of the Council of Ministers on 18 March 2014, which followed the recommendations of the task force established by the Federal Minister of Finance and prevented the insolvency of Hypo Alpe Adria, it was established that the former Hypo Alpe-Adria-Bank International AG would be transformed into a structure which no longer requires the company to comply with regulatory capital regulations.

After the transformation of Heta into a partially regulated but not insolvency-proof wind-down unit became fully effective through the Federal Law on the Creation of a Wind-Down Unit (GSA) at the end of October 2014, a group-wide valuation of all assets relevant to the portfolio wind-down was promptly initiated. This reflected the short to medium-term disposal intention in saturated markets in 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, indicating an asset shortfall between EUR -4.0 billion and EUR -7.6 billion as well as forming the basis for the valuation of assets in the financial statements for 2014 and the wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA), as well as the expected implications for the company's capital and liquidity situation, the Republic of Austria as the company's owner announced on 1 March 2015 that no further measures would be taken for Heta under the Federal

Act on Financial Market Stability (FinStaG). Subsequently the Austrian Financial Market Authority (FMA) (resolution authority) issued a decision on 1 March 2015 ordering wind-down measures according to the Federal Act on the Recovery and Resolution of Banks (BaSAG). This decision placed all so-called "eligible liabilities" of Heta Asset Resolution AG under a moratorium until 31 May 2016.

Based on the amended business purpose, the implications of the Federal Law on the Creation of a Wind-Down Unit (GSA), which calls for mandatory self-liquidation after achieving the statutory wind-down objectives, 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) decision by the resolution authority, the Executive Board no longer has a basis for continuing to prepare the financial statements based on the going concern assumption. Instead the financial statements as at 31 December 2014 are based on the gone concern assumption.

### 3.15. Negative equity on 31 December 2014 (over-indebtedness)

In the valuation of assets and liabilities, the requirements of the Federal Law on the Creation of a Wind-Down Unit (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG) are taken into consideration as well as the gone concern assumptions. Section 3 Federal Law on the Creation of a Wind-Down Unit (GSA) stipulates that the portfolio wind-down should take place as quickly as possible within the scope of the wind-down objectives, whereas sections 54 and 57 Federal Act on the Recovery and Resolution of Banks (BaSAG) provides for a cautious valuation approach to guarantee that no further losses are accrued from the assets in future.

In view of the accounting standards under UGB and BWG applicable to the separate financial statements of the Heta resolution unit, the respective parameters and estimates were determined such that they were most appropriate to meet the above-mentioned criteria. In addition a provision for future personnel costs and material costs in connection with the wind-down was also recognised according to BaSAG and the specifications of the gone concern approach. In recognising impairments and provisions, no major expenses or loss are expected in connection with the liquidation of the portfolio or related expenses from a today's point of view.

As at 31 December 2014, Heta's separate financial statements according to UGB/BWG reported total assets of EUR 9.6 billion and liabilities of EUR 16.6 billion. At EUR -7.0 billion the company is extremely over-indebted (negative equity). This negative equity is due to loss of EUR 8.0 billion incurred in the financial year 2014 which is largely the result of the following:



- Recognition of losses from the group-wide Asset Quality Review (AQR) following transformation into a wind-down unit according to GSA, which directly affects Heta through its own loan portfolio or indirectly via measurement of refinancing lines to the subsidiaries.
- As part of the carve-out or disposal of the SEE network in the fourth quarter of 2014, extensive liabilities and exemptions were entered vis-à-vis the buyer with a term until 2022 which were to be recognised as provisions in 2014.
- For the remaining risks related to the ongoing financing of the former Italian subsidiary, which are expected as part of the unit's ongoing winding down, Heta also had to set aside large provisions.
- All other assets of Heta were evaluated in terms of saleability or the realisable disposal proceeds and impairments or provisions were recognised (especially for negative market values from derivative transactions).
- Future losses expected from the sale of performing loans and from exchange rate increases after the balance sheet date, provisions according to section 57 (1) BWG were set aside to a permissible extent.
- All personnel and material costs which are still expected in connection with the wind-down expected in the future were fully covered in accordance with the gone concern valuation method.

It should be noted that section 67 Insolvency Act (IO, overindebtedness under insolvency law as a reason for initiating insolvency proceedings) does not apply to Heta in accordance with section 7 (1) Federal Law on the Creation of a Wind-Down Unit (GSA).

In the required wind-down plan that is currently being prepared pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA), the Executive Board does not provide for interest rate or capital repayments for the company's liabilities. The timing and contents of the resolution plan that is prepared by the resolution authority pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) can differ from that for Heta, which is why the Executive Board is of the opinion that uncertainties exist (especially for the time frame after the current moratorium) as to whether it is possible to wind-down Heta in an orderly manner at any time outside of an insolvency.

### 3.16. Forensic investigation of the past

Since its introduction as part of the line organisation of Heta, the Forensics department has been concerned with investigations into the past, and particularly with the determination of the causes of the loss of value before nationalisation. It focuses on protecting, preparing and describing the results of forensic investigations.

By 31 December 2014, a total of 94 cases (124 individual cases) in Austria and abroad had been reported to the relevant public prosecutors. In addition, seven civil law suits against former senior executives and third parties are currently pending before civil courts in Austria, in which claims for around EUR 109 million are being asserted.

To date, the findings made in the course of forensic investigations into the past, and the statements of fact that could be derived from those investigations, have resulted in 13 convictions, of which six are binding judgements with prison sentences of multiple years. In 2014, a settlement was reached in the "special dividends/consultants" civil suit for EUR 19.1 million. In future, activities will be continued to the necessary extent in line with the requirements in terms of financial prudence and efficiency of the Federal Law on the Creation of a Wind-Down Unit (GSA).

### 3.17. Bayerische Landesbank equity substituting loans

At the end of 2012, the former majority shareholder of Hypo Alpe-Adria-Bank International AG (now Heta Asset Resolution AG - Heta), Bayerische Landesbank (BayernLB), sought a declaratory judgement from the Munich I regional court 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 redeemed until further notice. The former Hypo Alpe-Adria-Bank International AG submitted a comprehensive statement of defence against the application and contested the order sought in its entirety.

After receiving the original, contractual maturity for the majority of the financing on 31 December 2013, BayernLB almost completely converted the order sought into an action for performance. In the 2014 financial year (as already in November 2013), there were several hearings with testimonies given by witnesses and experts. Both sides submitted extensive expert reports on legal issues and relevant commercial matters.

The former Hypo Alpe-Adria-Bank International AG had also made repayments from August 2008 until knowledge of the existence of the conditions for an interest and repayment ban under the Equity Substituting Capital Act on refinancing lines of BayernLB, which were subsequently recognised as substituting for equity following a thorough analysis into the circumstances (particularly due to historical equity shortfalls which led to a "crisis" in terms of equity substitution regulations). Based on the Austrian Equity Substituting Capital Act (EKEG), Heta is therefore entitled to claim these interest payments and repayments back from BayernLB. In order to avert the threat of time-barring, the former Hypo Alpe-Adria-Bank International AG was compelled to judicially enforce the respective repayments it had made by means of counterclaim in the proceedings named above against BayernLB in Munich. A total of five counterclaims have been made against BayernLB for repayment of an amount totalling around EUR 4.8 billion.

In a hearing on 8 May 2015, the Regional Court Munich I verbally announced a first-instance decision in the case between Heta and Bayerische Landesbank (BayernLB) relating to the Austrian Equity Substituting Capital Act (EKEG). The written ruling was delivered to the lawyers representing Heta in this matter on 2 June 2015. The court allowed nearly all claims of BayernLB and rejected the counter claims (repayment claims) of Heta. The reason is primarily based on four arguments: firstly, the court regards the shortfall in regulatory capital as claimed by Heta (crisis according to section 2 (3) of the Austrian Equity Substituting Capital Act (EKEG)) as non-existent. With regard to the knowledge of the capital shortfall or other breaches of due diligence by BayernLB, (alternatively demanded) by the court, the court regards that there is no evidence – neither in principle nor in terms of case law according to the interpretation of the Austrian Equity Substituting Capital Act (EKEG) in this case. Secondly, according to the court, Heta was not significantly over-indebted during the period in question (crisis in the meaning of section 2 (1) (2) of the Austrian Equity Substituting Capital Act (EKEG)) as the court stated a positive going concern assumption for Heta based on the continuation of Heta after 2009. Based on the assessment of these two points, the court did not carry out any evidence taking in terms of key aspects (historical capital shortfall or over-indebtedness). Thirdly, the court rejected the application of the Hypo Alpe Adria Restructuring Act (HaaSanG) and subsequent measures by the authorities to recover receivables under German law as asserted by a German court. The reason given was that the Austrian Financial Market Authority (FMA) Resolution on the Hypo Alpe Adria Restructuring Act (HaaSanV) issued by the Austrian Financial Market Authority (FMA) based on the Hypo Alpe Adria Restructuring Act (HaaSanG) does not represent a restructuring measure in the meaning of the restructuring regulation (guideline 2001/24/EU). The court also rejected that a court measure or measure by the authorities is at hand (a condition for recognition) because according to the court, the Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV) issued by the Austrian Financial Market Authority (FMA) was already determined by the Hypo Alpe Adria Restructuring Act (HaaSanG) and Austrian Financial Market Authority (FMA) could not make a decision at its discretion. Fourth, the court rejected the application of the decision of Austrian Financial Market Authority (FMA) of 1 March 2015 on the basis of the Federal Act on the Recovery and Resolution of Banks (BaSAG), which deferred the disputed receivables of BayernLB until 31 May 2016. The reason given was that the Federal Act on the Recovery and Resolution of Banks (BaSAG), which is legally applicable to Heta, does not comply with the provisions of the wind-down guideline/BRRD (guideline 2014/59/EU) and is therefore not recognised in Germany.

Heta is of the opinion that key arguments in the dispute relating to legal issues of the proceeding are not sufficiently

taken into account by the senate (as well as by experts appointed by the court). The rejection of a crisis based on a shortfall in capital (section 2 (3) of the Austrian Equity Substituting Capital Act (EKEG)) was based on a legal opinion which has no precedent in legal writings or supreme court rulings and is in contradiction with the clear wording of the law. If the law had been interpreted correctly the court would have taken evidence where Heta could have proven a historical shortfall in capital. Rejection of a crisis on the grounds of significant over-indebtedness (section 2 (1) (2) of the Austrian Equity Substituting Capital Act (EKEG)) is also based on a simplified opinion based on the continued existence of Heta after the period in question (after 2009); the fact that the Republic of Austria had to pay in billions into the capital as sole shareholder to avoid insolvency was totally ignored. The applicability of the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Austrian Financial Market Authority's (FMA) Resolution on the Hypo Alpe Adria Restructuring Act (HaaSanV), which is based on it, was rejected on the grounds of mere formalities without considering the fact that the restructuring guideline (unlike the wind-down guideline / BRRD) does not determine how to set up restructuring measures, which provided the Austrian legislators with a certain leeway which they used. The non-recognition of the Austrian Financial Market Authority's (FMA) Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV) as an official measure also rejects its legal quality (adopted by an Austrian agency authorised to issue statutory regulations). The court's rejection of the legal effectiveness of the decision of 1 March 2015 is incomprehensible because – as legal writings shows – the applicability of the Federal Act on the Recovery and Resolution of Banks (BaSAG) for Heta is not only valid under EU law, it also on the legislator's obligation to uphold it.

In view of all these arguments, Heta will extensively review this decision, file an appeal with the Higher Regional Court Munich within the specified period and, after carefully weighing up the chances of success, make a decision on the material contents of the appeal. The legal avenue of appeal has no suspensory effect under German law. BayernLB can, in principle, draw on the assets of Heta on the basis of the judgement, on the condition that it can provide the surety required under German law and in accordance with the decision of the Munich I Regional Court. At the moment, there is a significant risk that the decision could also be enforced in Austria. Based on the decision of first instance, a provision of EUR 0.9 billion would have to be formed in the financial statements as at 31 December 2014.

### 3.18. Audit conducted by the Österreichische Prüfstelle für Rechnungslegung

On 13 May 2014, the Österreichische Prüfstelle für Rechnungslegung (OePR) initiated a special audit of the consolidated financial statements as at 31 December 2013 regarding the valuation of the assets belonging to the SEE network. Subsequently the audit was expanded to include the interim report as at 30 June 2014. The performed audit was related both to a sample of individual credit cases in the SEE countries and the valuation of the entire SEE network in the (interim) consolidated financial statements of Heta. The separate financial statements of Heta were not object of the audit.

The OePR announced the results of the audit on 10 April 2015 and, regarding the statement of financial position item "Credit risk provisions for customers", noted that these were too low in the consolidated financial statements as at 31 December 2013 by at least EUR -8.1 million and in the interim report as at 30 June 2014 by at least EUR -3.8 million. It was also noted that the "Provisions" statement of financial position item in the interim report as at 30 June 2014 with a corresponding effect on results was too high by EUR -1.12 billion, since in the opinion of the OePR the conditions for recognising a provision for the loss on disposal were not given as at 30 June 2014. Insofar as permitted by the relevant IFRS standards, the assets side of the group would instead have to be remeasured regarding the assets of the SEE network.

According to the opinion of the OePR, the losses reported as at 30 June 2014 would have been significantly lower than those actually reported by recognising a provision in the amount of the expected loss on disposal.

Since it is the opinion of the Executive Board that there was an obligation to recognise a provision for the disposal of the SEE network as at 30 June 2014, Heta notified the OePR on 27 April 2015 that it objects to the results of the audit. The Austrian Financial Market Authority (FMA) is pursuing the case.

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

The decision of the European Commission, which foresees the privatisation of the SEE network and the implementation of the statutory requirements for the wind-down of Heta according to the Federal Law on the Creation of a Wind-Down Unit (GSA), led to an urgent need for restructuring at the level of the parent company, Heta Asset Resolution AG. After the systematic division of continued and wind-down portfolios at the level of the subsidiaries in recent years, the banking operations in Southern Eastern Europe of Hypo SEE Holding AG, which is now called Hypo Group Alpe Adria AG (HGAA), that were earmarked for privatisation were bundled in accordance with corporate law in the first quarter of 2014.

From the second quarter of 2014, these activities were grouped into a project initiated by the shareholder together with the Federal Law on the Creation of a Wind-Down Unit (GSA) requirements in order to be able to turn the Italian subsidiary Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) into a related company and to transform the former Hypo Alpe-Adria-Bank International AG into a wind-down unit besides establishing the SEE Holding.

These milestones were successfully achieved in the fourth quarter of 2014. The disposal of HGAA (SEE network) to FIMBAG took place in the fourth quarter 2014. Heta then sold HGAA on 22 December 2014 to the bidder consortium Advent/EBRD based on FIMBAG's power of attorney. The closing of this transaction is planned for mid 2015. As the contractually agreed transfer of employees could not be carried out immediately, a general framework service agreement (FSA) and individual service level agreements (SLA) were required for the proper management of HGAA's business operations and to secure the required level of services which Heta provides to HGAA. Other activities in connection with this project relate to the establishment of a separate IT infrastructure for HGAA, to obtain a banking license and other spatial and organisational measures to establish the business operations of HGAA. HBI was hived off and transferred to its own holding company. Follow-up projects have been set up for both Heta and HGAA in order to implement the closing conditions and to ensure a smooth separation of the two companies in terms of services.

The previous bank structures at Heta must be adjusted to the new legal framework in order to ensure that portfolios are wound down in a proper, proactive and value-sustaining manner in accordance with the wind-down targets and that assets are liquidated quickly.

For this purpose, a comprehensive Heta Implementation Program (HIP) was established at the end of 2014 to ensure that a relevant Target Operating Model (TOM) is developed. The objective is to create a stable, functioning and flexible management and infrastructure and to adapt the business model to the wind-down unit so that the targeted systematic reduction of the portfolio can be implemented at the level of the operations. The procedural and structural organisation need to be optimised and agreed with the decision makers, and existing responsibilities for the wind-down need to be defined more accurately. A lot of effort is also being put into drafting a wind-down plan according to Federal Law on the Creation of a Wind-Down Unit (GSA) on time. The requirements relating to the processes, organisation and management structure which arise from this plan are integrated into TOM and subsequently implemented at Heta Asset Resolution AG. The wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) will also be decisive for personnel-related measures at Heta. In 2014, a redundancy scheme for the employees of Heta Asset Resolution was drawn up with the works council in an arbitration proc-

ess which will run until 31 December 2018. Relevant wind-down measures will be defined in the HIP in 2015.

### 3.20. Rating

In November 2011, the former Hypo Alpe-Adria-Bank International AG retained 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 ratings and also all associated Moody's publications is published on the group's website ([www.heta-asset-resolution.com](http://www.heta-asset-resolution.com)) in the Investors section.

## 4. Business development in Heta

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

In the 2014 financial year, total assets of Heta, which as the central holding and management company for the group performs the main funding function, were significantly reduced. On the one hand, this was due to high impairment write-downs on refinancing lines for subsidiaries and the internal cross-border loan book, which is associated with the wind-down status and the resulting valuation of the loan portfolio. On the other hand, high provisions were made in connection with former subsidiaries that were separated from Heta in 2014. In addition to the impairment write-down on the investment book values amounting to EUR 0.6 billion, risk provisions also had to be formed to appropriately take into account the sales agreement regarding the disposal of the South-Eastern European banking network (SEE banking network) and the disposal and further negative developments at the former Italian subsidiary.

Total assets fell overall by -45.4 % from EUR 17.6 billion to EUR 9.6 billion (EUR -8.0 billion).

#### Total assets

in EUR bn

26.4	2010
22.7	2011
21.1	2012
17.6	2013
9.6	2014

Balances at central banks increased by over EUR 0.8 billion to EUR 2.4 billion in the financial year 2014.

Loans and advances to customers, which also covers internal funding for the subsidiaries, at EUR 3.2 billion, was EUR -5.8 billion or -63.8 % below the level of the previous year (EUR 9.0 billion). The risk provisions for loans and advances to customers increased in the 2014 financial year, from EUR 2.1 billion to EUR 7.0 billion. The EUR 4.9 billion increase is primarily due to the rise in risk provisions on refinancing lines for subsidiaries, which were formed particularly for existing and forecasted negative equity at subsidiaries in order to adequately provide for any necessary recapitalisation measures. Furthermore, high impairment write-downs were required on Heta's third-party loan portfolio.

Loans and advances to credit institutions reduced in the 2014 financial year from EUR 4.3 billion to EUR 2.5 billion, which equates to a reduction of EUR -1.7 billion or -40.7 %. The refinancing lines extended in the course of the sale of

<sup>1</sup> Based on the adoption of a gone-concern measurement, which became necessary in the fourth quarter of 2014, comparisons with previous year figures is only possible to a minor extent.

the SEE network to the newly implemented SEE management holding company in Austria served to bundle the lines of credit previously directly extended to the SEE subsidiaries. The newly extended loans connected to the SEE sales agreement involved a below market interest rate that was to be accounted for with impairment write-downs. Furthermore, provisions had to be formed for all risks related to the carve-out agreement (FIMBAG) and the share purchase agreement (Advent/EBRD). A provision was made in the amount of the obligations entered into towards the Republic of Austria and FIMBAG, while possible claims that may be asserted up to 2022 by the buyer were primarily accounted for through a provision on existing refinancing lines. This resulted overall in effects on profit and loss amounting to EUR -1.4 billion. A provision also had to be established for the still existing lines of credit to Hypo Alpe-Adria-Bank S.p.A. (HBI), which became an affiliated company in 2014, in order to provide for any effects from a regulatory winding-down procedure. These risk provisions amounted to EUR -1.2 billion in the separate financial statements.

Shares in affiliated companies fell from EUR 1.2 billion to EUR 0.5 billion in the reporting period. In addition to the derecognition of the amounts recorded for the SEE network and the Italian subsidiary, impairment write-downs on the participations in both securities investment companies were conducted in order to reflect the swift sale of securities sub-portfolios with low liquidity as well as costs related to the termination of contractual relationships with existing minority shareholders.

Liabilities to customers as well as debt evidenced by certificates amounted to EUR 10.3 billion as at 31 December 2014 (2013: EUR 11.4 billion) and were thus below the previous-year level as a result of repayments of liabilities by EUR 1.2 billion. Based on the over-indebtedness (excess of liabilities over net assets) disclosed as at 31 December 2014, these items make up 107.0 % of total assets (2013: approximately: 64.8 %).

Liabilities to credit institutions at EUR 2.9 billion were below the previous year's level (EUR 3.8 billion). The decrease is the result of the expiry of liabilities to a former majority shareholder due to HaaSanG in connection with HaaSanV in August 2014.

Provisions increased during the reporting period by EUR 1.9 billion to EUR 2.1 billion, which primarily resulted from provisions formed in connection with the judgement of the first instance court, i.e. Regional Court of Munich I (EUR 0.9 billion), provisions for internal and external costs related to the wind-down (EUR 0.5 billion), for liabilities related to the sale of participations (EUR 0.3 billion) as well as from negative market values of derivatives (EUR 0.2 billion).

The equity item declined in the 2014 financial year from approximately EUR 0.2 billion to EUR -7.0 billion and is thus highly negative. The equity injection of EUR 0.75 billion conducted in April 2014, which was necessary to balance the loss incurred in 2013, could not compensate for the loss resulting from the conversion of Heta to a wind-down unit (in accordance with GSA).

The balance sheet structure is as follows:

	EUR m				
Assets	2014	2013	2012	2011	2010
Loans and advances to credit institutions	2,520	4,251	4,465	9,081	12,312
Loans and advances to customers	3,246	8,971	10,432	8,989	9,235
Fixed income securities, shares and investment funds	645	1,271	1,059	1,365	1,223
Shares in associated and affiliated companies	505	1,181	2,473	2,634	2,854
Other assets	2,693	1,913	2,629	601	730
<b>Total assets</b>	<b>9,609</b>	<b>17,587</b>	<b>21,058</b>	<b>22,670</b>	<b>26,354</b>

	EUR m				
Equity and Liabilities	2014	2013	2012	2011	2010
Equity	-6,987	162	1,160	891	1,056
Funds for general banking risks	0	0	153	0	0
Liabilities to credit institutions	2,929	3,788	3,905	4,264	4,202
Liabilities to customers	1,668	1,630	1,681	1,768	1,798
Liabilities evidenced by certificates and subordinated capital	9,712	11,663	13,876	15,419	18,588
Other liabilities	2,287	344	283	328	710
<b>Total assets</b>	<b>9,609</b>	<b>17,587</b>	<b>21,058</b>	<b>22,670</b>	<b>26,354</b>

## 4.2. Development of results

The results for Heta in the 2014 financial year were characterised by high losses resulting from impairment write-downs on participations and refinancing lines to former and existing subsidiaries as well as risk provisions on the internal third-party loan portfolio. The annual loss reported for 2014 amounts to EUR -7,899.6 million.

Owing to the generally low level of interest rates and the repayment of refinancing lines for subsidiaries, the net interest result fell significantly compared with the previous year's level by EUR -76.4 million to EUR -53.4 million (2013: EUR 23.0 million). As a result, interest expenses exceeded interest income.

Income from securities and participations declined by EUR -4.0 million year on year to EUR 3.4 million (2013: EUR +7.4 million), which was predominantly due to the very small number of subsidiaries that were able to pay out dividends to the parent company in 2014.

Net fee and commission income, as the net result between fee and commission income (EUR +4.9 million) and expenses (EUR -72.9 million), came to EUR -68.0 million in 2014 (2013: EUR -71.4 million). Along with the effects of lower operating fee and commission income from existing business, the result for the year under review was once again adversely affected by fee and commission expenses associated with the guarantee agreements.

Net income from trading activities resulted in a positive result of EUR 6.0 million (2013: EUR -2.0 million).

Other operating income, at EUR 59.0 million, was EUR 40.5 million up on the previous-year result of EUR 18.5 million and resulted primarily from the recharging of services rendered centrally for group subsidiaries and from the reversal of provisions for anticipated contractual penalties that were formed in previous years, but for which the legal basis no longer exists.

The operating income declined in the 2014 financial year from EUR -24.5 million to EUR -53.0 million, which amounts to a reduction of EUR -28.5 million.

Headcount declined in the 2014 financial year from 552 (annual average in 2013) to 535 (annual average in 2014) as a result of the implementation of HGAA as the holding and management unit for the SEE banking network. The headcount was 548 on the balance sheet date. Personnel expenses of Heta amounted to EUR -56.2 million and were roughly on par with the previous year (2013: EUR -55.8 million).

Other material costs amounted to EUR -88.1 million and increased year on year by EUR -38.3 million. The increase is particularly due to higher IT and consultancy costs incurred in the context of projects aimed at removing HGAA and HBI from the Group. In addition, consultancy expenses also included provisions for pending lawsuits.

Other operating expenses, at EUR -30.4 million, were lower than expenses in the previous year (2013: EUR -31.1 million). This item included expenses and provisions for

finances from the breach of contractual obligations as well as a provision for a group internal leasing agreement regarding a corporate asset (real estate).

In total, the operating result, being the balance of operating income and operating expenses, reduced by EUR -69.1 million from EUR -166.4 million to EUR -235.5 million in 2014.

The result from the measurement and disposal of receivables and securities held as current assets came to EUR -5,574.8 million in the 2014 financial year (2013: EUR -850.8 million) and was thus highly negative. EUR -2,737.0 million (2013: EUR -517.0 million) resulted from the allocation of provisions for refinancing lines to (former) subsidiaries. The credit risk provisions to third parties increased considerably during the financial year, which resulted in a net allocation of EUR -2,297.8 million (2013: net allocation of EUR -346.0 million). This increase is primarily due to the wind-down status of the company and the AQR valuations.

Provisions were also made in the amount of EUR -226.0 million in accordance with section 57 (1) BWG that were related to a planned sale of performing loans as well as to expected negative effects from the exchange rate increase of the Swiss Francs (CHF) in January 2015.

The item also includes an expense of von EUR -229.1 million (2013: EUR -1.9 million) based on the allocation of a provision for anticipated loss related to negative market values of derivatives that were necessary in connection with the termination of previously existing hedging relationships.

In the 2014 financial year, the result of the securities portfolio classified as current assets was negative and amounted to approximately EUR -38.9 million (2013: EUR -2.3 million). This was due to the reclassification of all securities held in financial assets and also to the consideration of impairment write-downs on securities with low liquidity, which was necessary in order to ensure the quickest possible sale of these securities in view of valuation.

The result from the measurement and disposal of financial assets, participations and investments in affiliated companies came to EUR -2,355.2 million in the 2014 financial year (2013: EUR -1,835.4 million). While negative effects of EUR -1,458.5 million from the measurement of banking participations in South-Eastern Europe were recorded in the 2013 financial year, these had to be written down again in the 2014 financial year by EUR -605.3 million (excluding sale results). Other subsidiaries caused write-downs amounting to EUR -514.1 million (2013: -359.2 million). A significant share of these impairment write-downs on participations related to an indirect participation with which the performing real estate portfolio of the Group was bundled in 2014 and which received equity injections for this purpose. This also includes impairment write-downs on investments in securities investment companies which will be liquidated in the near future.

This item included expenses of EUR -1,252.1 thousand for provisions related to pending sales losses. The income from banking book securities classified as fixed assets came to EUR +15.5 million and was thus higher than the previous-year amount (2013: EUR +3.2 million).

Taking into account all the above-mentioned effects, a loss from ordinary activities of EUR -8,165.4 million was recorded for 2014 (2013: EUR -2,852.7 million).

The item extraordinary result, which came to EUR +280.2 million (2013: EUR 129.7 million), includes EUR -42.8 million (2013: EUR -23.3 million) in expenses for the analysis of Heta's past ("CSI" or "Forensics") that will be incurred in the future. The expenses relate to costs in connection with the management of Heta's lawsuits in the forensic and legal area as well as to costs of legal proceedings that will be incurred in the future. Furthermore, this item includes income of EUR +1,675.3 million that is related to the derecognition of subordinated liabilities and contingent liabilities to a former majority shareholder, which were deemed expired in the course of HaaSanG in connection with HaaSanV. It also includes expenses of EUR -886.5 million as provisions related to the EKEG proceedings and EUR -481.1 million as a provision related to closure costs.

Income tax expenses for the financial year came to EUR -19.4 million (2013: EUR -3.3 million) and were primarily due to the tax allocations from the domestic tax group and to foreign withholding tax expenses.

After taking into account other taxes of EUR 5.0 million, which consists primarily of partial refunds of the banking tax imposed in 2013, the net loss for the 2014 financial year was EUR -7,889.6 million (2013: EUR -2,747.6 million).

#### 4.3. Earnings ratios

The cost/income ratio, which is operating expenses in relation to operating income, and capital-related figures are not disclosed because these figures are not meaningful in view of the losses and negative equity.

## 5. Analysis of non-financial Key performance indicators – human resources

The headcount at Heta decreased slightly during the financial year 2014 from 580 employees as at 31 December 2013 to 548 employees as at 31 December 2014, which was due to the transfer of employees to HGAA (transfer of 37 employees in 2014) as well as to the necessary capacity adjustments.

### Employees

Figures from 2010 to 2014



In the first half of 2015, HGAA hired 152 employees from HETA in the context of a transfer of undertakings. As a result, the number of employees at the wind-down unit will be reduced significantly in 2015.

## 6. Public Corporate Governance Codex

The Austrian Federal Public Corporate Governance Code (B-PCGK) includes measures and regulations that prescribe a high degree of corporate governance in state-owned and quasi-government businesses. Heta considers this Codex to be an important code of practice and therefore introduced the observance of the rules of the Austrian Federal Public Corporate Governance Code (B-PGK) into its articles of association in July 2013.

One of the specific measures was to adapt the by-laws of the Supervisory Board and the Executive Board in strict accordance with the provisions of the Austrian Federal Public Corporate Governance Code (B-PCGK). The by-laws now serve as the basis for the business practices of these bodies. Subsequently, the provisions of the Austrian Federal Public Corporate Governance Code (B-PCGK) are successively adopted by implementing them in the respective documents of the individual group companies and the process is likely to be completed in the 2015 financial year.

Subsequently, Heta is committed to reporting annually on the observance of the Code. Compliance with the rules will be reviewed every five years by an external specialist.

## 7. Risk report

Heta Asset Resolution AG (formerly Hypo Alpe-Adria-Bank International AG) has been a deregulated wind-down unit since the end of October 2014 and is subject to the Federal Law on the Creation of a Wind-Down Unit (GSA). Its goal is to ensure the orderly, active exploitation to the best possible advantage (portfolio wind-down) of its assets. Only transactions that serves to fulfil the wind-down objectives are conducted. According to the Federal Law on the Creation of a Wind-Down Unit (GSA), “proprietary transactions involving financial instruments are permitted at the wind-down unit for the purposes of controlling interest risk, currency risk, credit risk and liquidity risk within the scope of wind-down activities”. Furthermore, the wind-down required under the Federal Law on the Creation of a Wind-Down Unit (GSA) must include “details on risk management that takes the wind-down objectives into account”. 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 any resulting risks. Heta (formerly Hypo Alpe-Adria-Bank International AG) was a regulated financial institution until the end of October 2014. Until this time, Hypo Alpe-Adria-Bank International AG had to fulfil the regulatory requirements applicable to a bank. This risk report specifically concerns the re-alignment of the wind-down unit and the resulting risks. A comparison with risk data from the previous year is no longer relevant due to the circumstances detailed in note (4) Valuation principles of the gone concern assumption. The risk data therefore refers exclusively to 2014. This is due to the carve-out of HGAA and HBI in October 2014; the Federal Law on the Creation of a Wind-Down Unit (GSA); the resulting discontinuation of deposit and new credit business; the expiry of certain subordinate liabilities and shareholder liabilities of the former Hypo Alpe-Adria-Bank International AG in accordance with the Austrian Hypo Alpe Adria Restructuring Act (HaaSanG); the deregulation in October 2014; the Federal Act on the Recovery and Resolution of Banks (BaSAG), which came into force during the period in which the balance sheet was prepared; the debt moratorium imposed by the wind-down authorities; the switch from the going concern to the gone concern accounting principle; and the remeasurement of assets relevant to the portfolio wind down under gone concern assumptions carried out during the AQR.

Within the scope of its holding function, Heta primarily performs Group controlling tasks. For this reason, most of the measures initiated at holding level are cascaded down into responsibilities or projects within the Heta Group. The measures are to a large extent also centrally managed and monitored directly by Heta. Due to the wind-down strategy,

the focus of risk management is on risk measurement and risk limitation. Active risk management is only possible to a limited extent due to restricted access to the market as a wind-down unit and the restrictions imposed under the Federal Law on the Creation of a Wind-Down Unit (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG).

### 7.1. 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, it influences the business and risk policies of its investment companies through its involvement in shareholder and supervisory committees. In the case of investment companies, compatible risk control processes, strategies 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 are aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest.
- Appropriate, mutually compatible procedures are determined and implemented for the purpose of identifying, analysing, measuring, combining, directing and monitoring the different risk types.

Primary risk types are controlled by limits and reduced through active measures to wind-down assets.

### 7.2. Risk organisation and Group Audit

Ensuring adequate risk management and controlling structures and processes is the responsibility of the group's Chief Risk Officer (CRO), who is a member of the Heta Executive Board. The CRO acts independently of market and trading units, with a focus on the minimum standards of credit business as well as appropriate internal controls.

The core task of risk management is to ensure the “orderly, active and best possible exploitation of its assets(portfolio wind-down)”. Core tasks also include supporting 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 the Group Risk Governance Rules of Heta, risk management consists of three pillars. This concept is cascaded – in other words the three-pillar principle is implemented consistently – both at group and country level. The respective Country CROs must ensure compliance with



the risk principles among all subsidiaries situated in the country. The following overview shows the three-pillar management of Heta's risk management:

The Group Risk Control pillar includes the following main functions:

- Identifying risks
- Determining risk policy guidelines and limits
- Providing risk methods and models
- Performing risk analysis, limitation, monitoring and risk reporting.

The Single Case Risk Management pillar includes the following main functions:

- Retaining the principle of dual control in the portfolio wind-down process, as well as in restructuring and termination measures
- Back office for performing loans
- Balance sheet analysis and implementing ratings
- Credit monitoring
- Credit support
- Country risk portfolio management
- Controlling and reporting retail risks
- Loan loss provision calculation.

The Case Operations pillar includes the following main functions:

- Loan and collateral administration
- Justifying, monitoring and managing collaterals
- Carrying out back office activities
- Compiling a group of borrowers.

Since the termination of the banking license, the monitoring of compliance with regulatory capital requirements is no longer required.

The Group Audit division is a permanent function that audits the business activities of Heta. In terms of organisation, it is dedicated to the Chairman of the Executive Board and also reports in detail to the Executive Board and the Supervisory Board. Auditing activities are based on a risk-oriented audit approach, and cover all activities and processes of Heta. Group Audit carries out its work independent of the tasks, processes and functions to be audited, and in consideration of the applicable statutory and regulatory requirements.

### 7.3. 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 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. This ensures that the actual and documented processes coincide at all times.

Heta has clearly defined responsibilities for all of these risk guidelines, ranging from preparation, review and update to subsidiary roll-out. 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.

## 7.4. Projects

### 7.4.1. Transformation from a retail bank to a wind-down unit – Heta Implementation Program project

In order to “ensure orderly, active and best possible exploitation (portfolio wind-down)”, the former banking structures must be adapted to the new legal frameworks and there must be a stronger focus on the establishment of a tailor-made organisational structure (TOM – Target Operating Model). The aim of the Heta Implementation Program (HIP) project is to establish a stable, functional and flexible controlling structure and infrastructure and adapt the wind-down unit's business model in such a manner that the anticipated constant portfolio reduction does not lead to any operating problems, rather the wind-down can continue to be guaranteed in a professional and flawless manner. Organisational structure and workflow management are therefore to be optimised and coordinated with the relevant senior executives and the existing wind-down responsibilities must be tightened. Implementing the TOM during the course of 2015 guarantees that risks are wound down responsibly and also offers the chance to ensure that the wind-down process preserves the value of the assets. The preliminary work for the project began in late 2014, while the official project start took place in February 2015. The wind-down plan defines the direction of the TOM and is being developed promptly. The corresponding requirements are covered in the TOM and implemented on a step-by-step basis, resulting in prompt operational fulfilment in Heta.

### 7.4.2. Performing the Asset Quality Review (AQR)

#### Starting point

Heta is currently working on a draft wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) with the aim of “ensuring orderly, active and best possible exploitation (portfolio wind-down)”. In this respect, an asset review (Asset Quality Review) was performed with the aim of assessing all of the company's assets and collateral items that are relevant to the portfolio wind-down un-

der standardised criteria in consideration of an orderly, active and best possible exploitation of assets.

The AQR was carried out on the basis of the separate financial statements as at 31 December 2014. In order to guarantee the result of this assessment, the process was professionally accompanied by a number of independent external appraisers to ensure objective valuation.

### Application

The AQR is based on the selection of material portfolios (such as non-performing loans, performing loans and physical assets from emergency acquisitions) and the determining of a lower threshold based on which the assets were subject to an individual analysis (net group exposure larger than EUR 3 million for commitments recognised at Heta or rather for commitments recognised at subsidiaries with a net group exposure greater than EUR 1 million). Commitments lower than this in size were valued on the basis of portfolio approaches.

In order to perform the AQR, Heta assigned acclaimed external experts with sufficient knowledge and experience. They provided support in process management and method development and provided expert appraisals in the valuation of collateral items.

### Methods

The applied methods essentially reflect Heta's mission to liquidate assets as best and as quick as possible. The result provided by the AQR is a value (realisable sales value) at which it is possible to sell the asset to a third party (investor) within a certain period of time. The process takes into consideration the current conditions of the individual commitments, the expected cash flows (sorted by amount and date), the enforceability of collateral items, general market circumstances, particular legal risks and yield entitlements from investors.

As part of the AQR process, realisable sale values of loans, assets and real estate are determined on the basis of these measurement approaches.

### Result

All results of the AQR were validated in the responsible committees on the basis of the respective individual commitment and approved in accordance with relevant competencies. On balance, risk provisions have risen considerably compared to the previous year's financial statements, which were prepared according to going concern assumptions. It should be noted that, since the disposal of the regulated bank subsidiaries (Austrian Anadi Bank AG, HGAA and HBI) in the Corporates and Retail segments, 90% of the primary wind-down portfolio of Heta consists of non-performing loans, some of which have not been serviced for over three years. There is no prospect of recovery both in terms of the economic situation of the creditors and the nature of the collaterals (e.g. non-performing real estate at second-class

locations) in the foreseeable future. In fact, there are fears that waiting even longer to liquidate collaterals will result in the loss in value observed over the past few years due to the recession accelerating. For this reason, Heta has decided to set the liquidation timeframe for the non-performing portfolio as short as possible to meet the objective of best possible liquidation in the sense of the Federal Law on the Creation of a Wind-Down Unit (GSA). The increased risk provisions for non-performing loans resulting from the AQR, as well as impairments on real estate and liquidity premiums for illiquid securities, are taken into account in the separate financial statements. The difference between the carrying amounts and the realisable sales values for assets recognised at amortised costs determined in the AQR are taken into account in the balance sheet as general loan loss provisions as defined in section 57 (1) Austrian Banking Act (BWG).

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

The management of all collateral at Heta is defined in the "Collateral Policy". All guidelines are updated once a year.

The foundations of collateral management, which are implemented by a separate department within "Group Credit Processing", are built on the data collection of all collaterals by allocating a reference number to each collateral. This reference number is alphanumeric and is called "GSI" (Group Collateral ID) and "DSI" (Detailed Collateral ID). All "GSI/DSI" numbers are checked once a month.

The appraisals underlying the market values are updated throughout the group every three years and once a year for residential real estate" and commercial real estate respectively. All commercial real estate with a market value above EUR 1.0 million is assessed individually, and all real estate is evaluated with the help of a valuation tool using statistical methods. A "collateral workflow" for commercial real estate worth more than EUR 1.0 million has been implemented. It ensures that the required process is maintained, which, in turn, ensures that all data is up to date. All evaluations are requested on the part of the market three months before revaluations are due. The specifically assigned evaluation unit Corporate Real Estate Management / International Valuation ("CREM/IV") as well as Real Estate Asset Management at a local level ("REAM") re-evaluates all real estate and forwards the results to the employees that maintain collateral in the collateral systems. The CREM/REAMs have well-trained, predominantly internationally certified employees, who have all completed the internal "Valuation Academy".

As part of the 2014 AQR, the "REV Standard Group Policy" (Real Estate Valuation Standard) was updated specifically for Heta to serve as the basis of the international real estate valuation standards. In this policy, two standardised risk premiums for countries and asset classes are taken into consideration on the basis of a market value calculated in accordance with international standards. These special assumptions, as well as a "gone concern" assessment, have

resulted in an “MV usa” (market value under special assumptions) since 31 December 2014, reflecting the wind-down strategy. The risk premiums each contain real estate risk and Heta-specific risks with regard to the market and sale strategy, in order to determine a realistic sales value required for the wind-down of the portfolio and the asset.

All real estate valued according to the new group policy are also subject to a property and market rating (“TEGoVA”) during the valuation process in order to obtain qualitative statements on the individual real estate. These results are to be taken into account in wind-down planning in the future. The various property rating results are allocated to individual liquidation strategies.

The manuals mentioned above, especially the “Collateral Policy”, also stipulate the haircuts of market values underlying the securitisation values (Internal Collateral Value – “ICV”). The reductions are binding for all recognised collateral. These reductions are only applied when no “market value under special assumption” (MVusa) has been determined by the appraiser. If an MVusa is available, this is maintained in the collateral system as the current ICV without the application of further reductions.

## 7.6. Risk reporting

Timely, independent and risk-adequate reporting for decision makers is guaranteed for all risk types. Requests for ad hoc reports are honoured at all times.

The risk report was adjusted to the new situation of Heta Asset Resolution AG in 2014. The report consists of the management summary and credit risk, market risk, liquidity risk and operational risk components. The migration report was also reviewed and now shows the migration to the Watch and Non-Performing Loan areas.

Uniform guidelines on liquidity risk and market risk reporting have been introduced; these include standardised daily, weekly and monthly reporting.

In cases of stress, the frequency of reporting on market risk and liquidity risk is increased.

## 7.7. Credit risk (counterparty default risk)

Material credit risk (net exposure) has been significantly reduced on account of the risk provisions formed during the course of the AQR and the remeasurement of assets and loan collateral. In the course of its business activities, which is now the value-preserving wind-down of assets, Heta is systematically reducing the remaining credit risk.

The “purchaser brush” option agreed as part of the agreement to sell HGAA represents an additional measurement risk. The relevant HGAA brush portfolio, which is measured under going concern principles and can be transferred back to Heta under certain conditions, conceals the risk of further rating migrations. Heta has formed corresponding provisions for risks from the brush portfolio on the basis of the new valuation guidelines.

### 7.7.1. Definition

In terms of scope, credit risk is the most significant risk at Heta (single institution). Risks mainly arise from the lending 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 of unsecured portions. This definition includes default and surety risks from credit transactions as well as issuer, replacement and fulfilment risks from trading transactions.

Other risk types that are also included under credit risk, such as country and equity risk.

### 7.7.2. 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 risk control methods, and is supplemented by further policies as well as specific directives.

In line with a group-wide 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 risk management’s analysis units.

The Credit Committee is a permanent institution of Heta and the highest ranking body for making credit decisions, second only to the Executive Board.

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

### 7.7.3. Risk measurement

Heta uses its own rating procedures to analyse and review 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.

In terms of the part of the portfolio in default, risk provisions are measured and monitored on a monthly basis in relation to the associated exposure. The newly formed risk provisions significantly mitigated structure credit risk for the wind-down period as a result of the measurement of the credit portfolio from a purely wind-down perspective within the scope of the Asset Quality Review.

### 7.7.4. 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 set and monitored independently by Risk Controlling.

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.

The valuation is processed in line with the collateral policy, which defines in particular the valuation procedures as well as valuation discounts and frequencies of individual collateral types. Framework contracts for netting out mutual risks (close-out netting) are usually agreed on for 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.

#### 7.7.5. Portfolio overview – credit risk

The figures presented in the credit risk report reflect gross exposure, which comprises on-balance-sheet and off-balance-sheet components and does not take hedges and netting agreements into consideration.

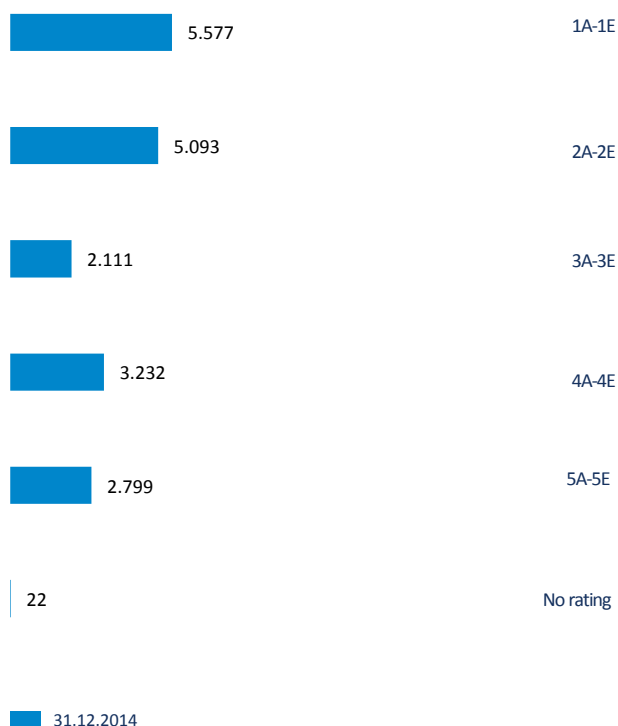
All credit risk overviews show third party liabilities and all loans and advances from Heta that are part of the UGB scope of consolidation, which also guarantees the presentation of the subsidiaries.

#### Gross exposure by rating class at Heta Asset Resolution AG

Around 57% of gross exposure is categorised as rating classes 1A to 2E. This high percentage is largely due to the liquidity reserves at the OeNB.

##### Exposure by rating class

in EUR m

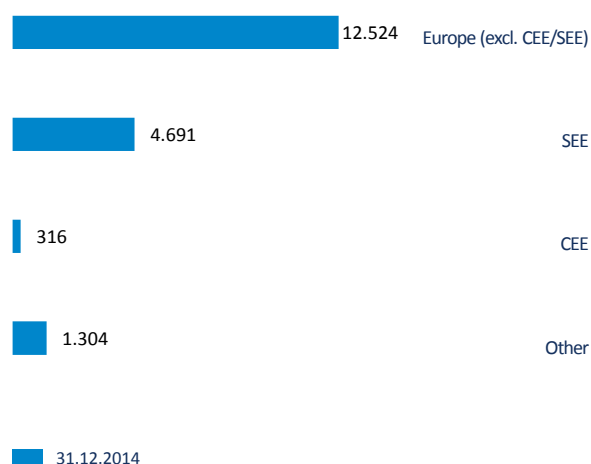


#### Gross exposure by region at Heta Asset Resolution AG

The country portfolio of Heta is concentrated on the EU and SEE regions. There was, essentially, a reduction in gross exposure in each country/region. The Austria exposure rose due to the deconsolidation of Hypo Group Alpe Adria AG and the remaining refinancing facilities.

##### Exposure by region

in EUR m



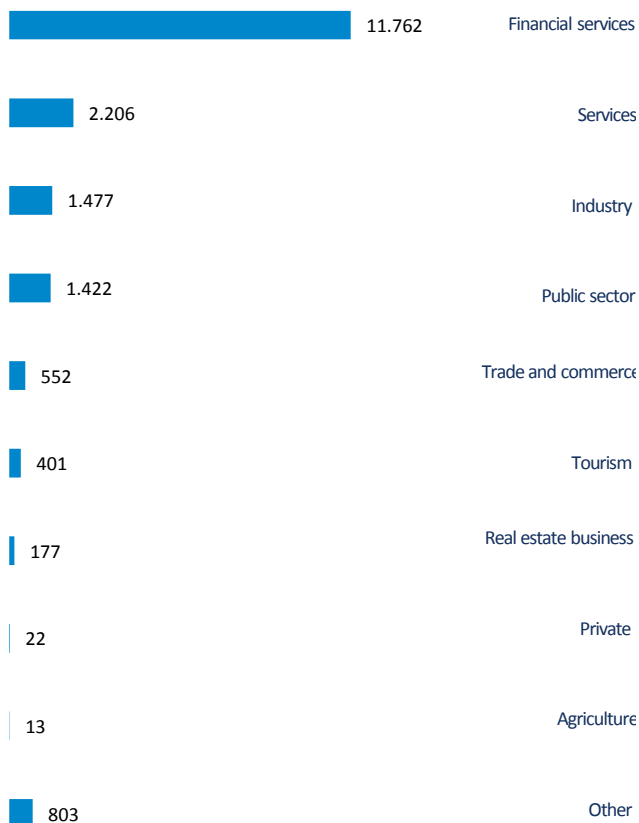
#### Gross exposure by business sector at Heta Asset Resolution AG

A uniform classification code (NACE Codes 2.0) is used at Heta for presentation of gross exposure by business sector. This code is mapped into ten industry sectors for reporting purposes. The lower-risk industry groups – credit institutions and the public sector – account for a share of 70%.

Concentration risks relating to the industry sector have arisen in the real estate and tourism sectors. These risks are being reduced in a targeted way.

**Exposure by business sector**

in EUR m



31.12.2014

**Gross exposure by size category of the transactions**

Heta's portfolio is exposed to an increased concentration risk which is reflected in the presentation of exposure by size category of the transactions. In specific terms, 95.8% of exposure is contained in the size category greater than EUR 10 million.

The lion's share of exposures in this range is due to banks or the public sector. These transactions are necessary for securing liquidity, long-term investments and hedge transactions, but also result from refinancing obligations to former subsidiaries HGAA and Hypo Alpe-Adria-Bank S.p.A.

The group of affiliated clients is used as a basis for determining size category distribution.

Size classes	EUR m 31.12.2014
< 500.000	16
500.000-1.000.000	20
1.000.000-2.500.00	132
2.500.000-5.000.000	225
5.000.000-10.000.000	399
10.000.000-25.000.000	790
25.000.000-50.000.000	1.204
50.000.000-100.000.000	855
100.000.000-500.000.000	3.378
> 500.000.000	11.815
<b>Total</b>	<b>18.835</b>

### 7.7.6. Exposure of financial assets by level of impairment

Financial assets which are neither overdue nor impaired:

Rating class	EUR m	
	Exposure	Collateral
1A-1E	5.577	743
2A-2E	2.701	206
3A-3E	491	297
4A-4B	24	6
5A-5E	42	18
No rating	22	0
<b>Total</b>	<b>8.858</b>	<b>1.270</b>

Financial assets which are overdue but not impaired:

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

Impaired financial assets:

	EUR m		
	Exposure	Collateral	Provisions
Financial investments	0	0	0
Loans and advances to credit institutions	1.909	674	1.235
Loans and advances to customers	7.890	2.212	5.678
<b>Total</b>	<b>9.799</b>	<b>2.886</b>	<b>6.913</b>

Note: During the course of the Asset Quality Review, the estimation parameters in the calculation and evaluation of collateral values and realisable sales values were adapted in line with the Real Estate Valuation Standard policy and the Loan Valuation Guidelines.

### 7.7.7. Forbearance

In financial year 2014, Heta continues its monitoring activities concerning customer agreements, which fall under “forbearance measures” as defined by the European Securities and Markets Authority (ESMA). This procedure is associated with reporting to independent monitoring trustee, who is responsible for monitoring behavioural measures defined under the EU restructuring plan.

All customers who found themselves having financial difficulties were included in the calculation for 2014 (and so belonging to the asset classifications “non-performing” or “watch”); they were reviewed with respect to the following criteria:

- Modification of original contractual conditions due to financial difficulties (this also includes prolonging existing loans, restructuring, partial write-offs, the reduction in the interest rate margin, breaches of contract tolerated by the bank, etc.)
- Complete or partial refinancing approved on the basis of the customer suffering financial difficulties.

### 7.8. 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, liability risks (e.g. letters of comfort) or profit/loss transfer agreements (loss absorption).

Prior to 2009, Heta (or a subsidiary) had invested in companies that either served to expand its business spectrum, provide services for the bank or function as purely financial holdings to achieve its business objectives. The year 2014 was characterised by the ongoing restructuring measures at Heta leading to portfolio rationalisation and to disposals in individual cases.

The handling of equity risks is regulated by the group participation policy. Heta influences the business and risk policy of associated companies through its representation on shareholder and supervisory committees. In addition, all equity investments are monitored for results and risk on a continuous basis. In the course of its business activities, which are now the value-preserving winding down of assets, Heta is systematically reducing participation risk.

### 7.9. 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 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 prohi-

bitations, moratoria, embargos, wars, revolutions or coups in the respective countries.

### 7.10. Concentration risk

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

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

- Counterparty default concentrations
- Industry sector concentrations
- Geographic concentrations
- Collateral concentrations.

### 7.11. Market price risk

Market price risks at Heta originate from the wind down securities portfolio; the credit and securities portfolios in different currencies, which is also to be wound down; the derivative portfolio 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.

In the course of the AQR, significant write-downs were made on receivables in foreign currencies, which resulted in an open currency position (predominantly CHF) at Heta. A general loan loss provision was formed for risks resulting from the open currency positions in accordance with section 57 (1) Austrian Banking Act (BWG).

Due to the results of the AQR, the Executive Board and the resolution authority Austrian Financial Market Authority (FMA) believes that there are specific objective indications that the company will no longer be in the position to meet due debts and liabilities in the near future. The resolution authority Austrian Financial Market Authority (FMA) issued a resolution on the wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) in the period in which the balance sheet was prepared (see note (2) Important events). As part of this decision, a moratorium was placed on all “eligible liabilities” of Heta until 31 May 2016 in preparation for the application of the instrument involving the participation of creditors. Due to this measure, liability swap hedges were no longer effective and therefore the respective hedge relations were terminated on 31 December 2014. Furthermore, all asset swap hedges based on transactions with a longer term than the wind-down plan were terminated. The negative market values of the stand-alone derivatives are taken into account in the separate financial statements with a provision for impending losses.

#### 7.11.1. Definition

Market price risks consist of potential losses arising from a change in market prices. Heta classifies market price risks according to the risk factors in changes to interest rates, 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 Risk Control is responsible for all market risks at group level.

Market liquidity risks result from illiquid securities and shares in the portfolio.

#### 7.11.2. General requirements

The general requirements for the Heta market risk strategy comprise the draft wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG).

#### 7.11.3. Risk measurement

Heta calculates its market risk as part of daily monitoring 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 market context (correlations). In the year under review, the calculation of specific interest risk was further refined, also taking into account the increased significance of credit spread risk in the current market situation.

While the VaR that is determined for monitoring requirements is used to forecast potential losses under normal market conditions, forecast analyses using extreme assumptions are also carried out. Market positions are subjected to exceptional market price changes, crisis situations and worst case scenarios as part of so-called "stress tests", and analysed for hazardous risk potentials using the simulated results. The stress scenarios are monitored for appropriateness and adjusted if required.

#### 7.11.4. Risk limitation

The limits at Heta for market risk are closely adapted in line with risks currently in the portfolio, ensuring that these limits correspond with the company's purpose as a wind-down bank and no new business can be conducted. In addition, corresponding target volume limits are also defined to allow comparison between actual values and target values.

They also allow to monitor, control and document wind-down progress at Heta.

#### 7.11.5. Risk controlling and monitoring

Daily and monthly reports are prepared within the scope of risk controlling.

The daily reports contain value at risk and performance figures for the trading book, the banking book and the market risk steering figures.

The monthly report contains disclosures on wind-down progress and the current market risk situation across all Heta risks, as well as information on the results of back-testing and stress tests with details of any particularly important developments.

The Asset Liability Committee – which consists of the group's Executive Board as well as key staff in Treasury, Risk Management, Financial Controlling and Accounting – meets on a regular basis to analyse and decide on measures related to balance sheet structure and liquidity controlling based on risk reports. In addition to group-level monitoring and controlling, all subsidiaries and subsidiary portfolios are also monitored and controlled.

Limits are set to monitor risks. Should limits be exceeded, there are escalation processes defined up to the level of the Executive Board.

#### 7.11.6. Overview – market risk

Material market risks are interest risk, foreign currency risk and credit spread risk.

##### 7.11.6.1. Interest rate risk

The interest rate risk from the Heta (formerly Hypo Alpe-Adria-Bank International AG) 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. The stochastic cash flows are modelled with uniform group standards. Value at risk serves as a basis for calculating interest rate risk and thus for limiting risks.

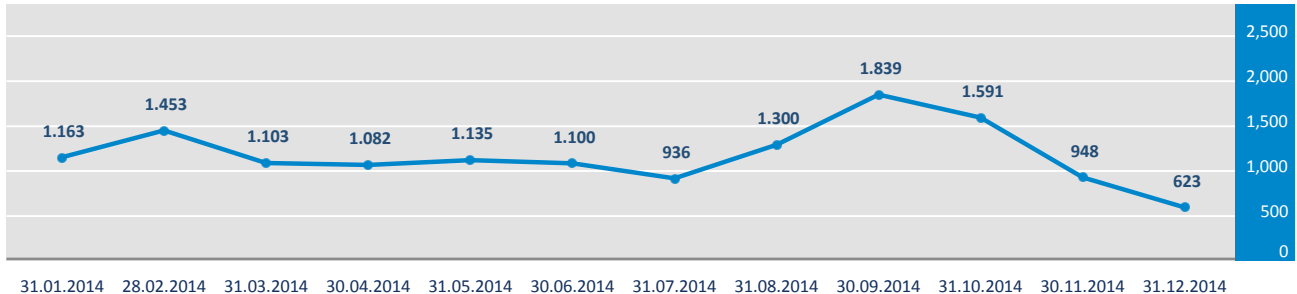
The interest rate risk from the trading book is calculated on the basis of a daily VaR. Interest rate risk is controlled by means of interest derivatives available on the market. The primary interest rate risk is the lack of interest derivative partners on the market.

The following chart shows the progression of interest rate risk (banking book & trading book) on a value at risk basis at Heta (formerly Hypo Alpe-Adria-Bank International AG) for the year 2014.



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

EUR thousand

**7.11.6.2. Foreign currency risk**

The data base for determining the value at risk for for the foreign currency risk of Heta is based on the figures in the MW52 report and contains operational business activities. Foreign currency risk thereby covers the entire FX risk of Heta. HRK and CHF currencies are the primary open currency positions of Heta. The value at risk for this FX risk was

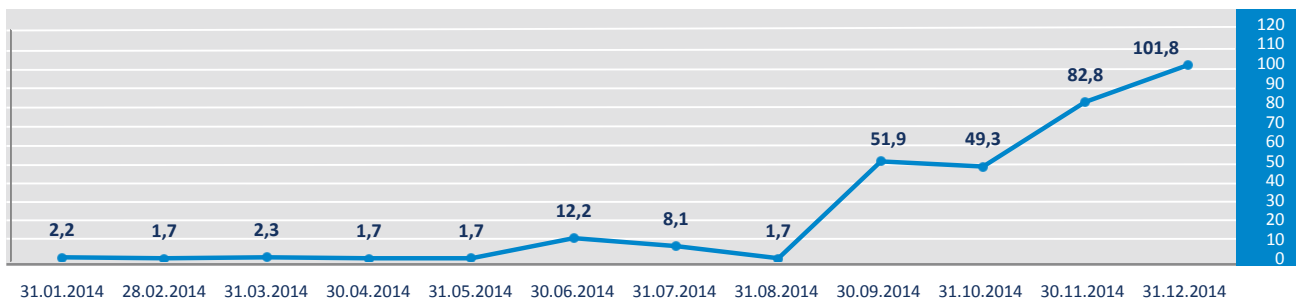
approximately EUR 0.1 million per day at a confidence interval of 99%.

Foreign currency risk is controlled by means of FX derivatives available on the market. The primary foreign currency risk is the lack of FX derivative partners on the market.

The following chart shows the changes in the foreign currency risk of Heta (Hypo Alpe-Adria-Bank International AG until September 2014) in 2014:

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

EUR thousand

**7.11.6.3. Credit spread risk**

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 swiftly and in a value-preserving manner.

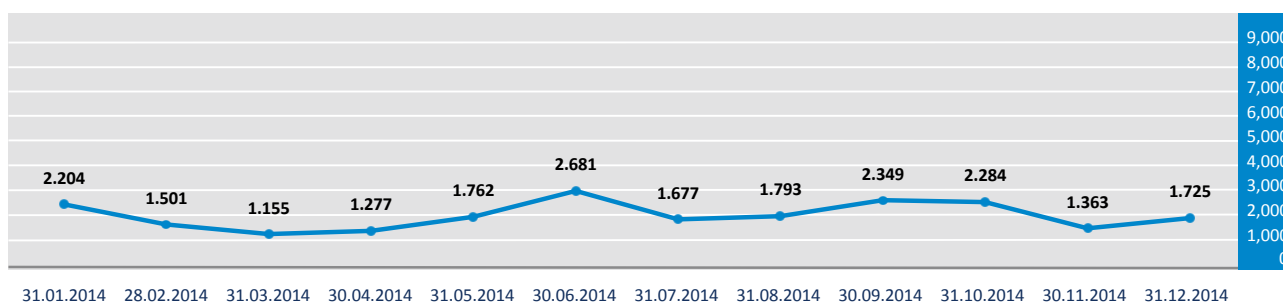
The liquidity reserve consists of highly liquefiable and marketable funds. The liquid credit spread risk within Heta was EUR 1.73 million at year-end 2014 with a one-day value at risk at a confidence level of 99%. The illiquid credit spread risk was EUR 0.04 million at year-end 2014.

As a result, the credit spread risk is the primary market risk driver at Heta.

The following chart shows the changes in the credit spread risk of Heta (formerly Hypo Alpe-Adria-Bank International AG) in 2014:

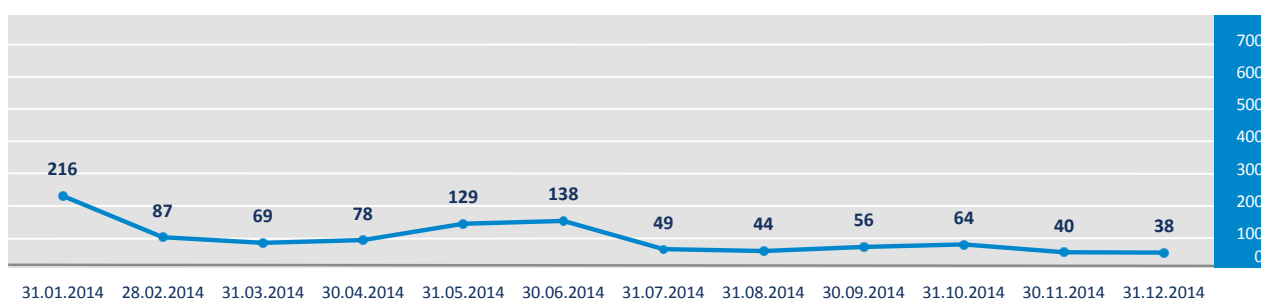
#### Credit Spread Risk (liquid) – VaR (99%, 1 day)

EUR thousand



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

EUR thousand



## 7.12. Liquidity risk

Heta is exposed to a significant structural liquidity risk and, in the view of the Executive Board, there are specific objective indications that the company will no longer be in the position to meet due debts and liabilities in the near future. In the period in which the balance sheet was prepared, the wind-down authorities issued a resolution on the arrangement of wind-down measures in accordance with the Federal Act on the Recovery and Resolution of Banks (BaSAG) (see note 2 Important events). Under this resolution, a moratorium was imposed until 31 May 2016 on all “eligible liabilities” of Heta in preparation of the application of the creditor participation instrument. The regulations that came into force in the time up until mid-2015, such as the Hypo Alpe Adria Restructuring Act (HaaSanG), the Directive on the Expiry of Certain Subordinate Liabilities and Shareholder Liabilities of the Former Hypo Alpe-Adria-Bank International AG, the Federal Act on the Recovery and Resolution of Banks (BaSAG) and the Austrian Financial Markets Authority (FMA) Mandate over the Imposition of a Debt Moratorium had a short-term stabilising effect on the liquidity situation of Heta. The following report is based on liquidity risk management after deregulation. Since deregulation, independent refinancing opportunities no longer exist. Available liquidity reserves

are managed in accordance with the requirements of the draft wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA). Various legal proceedings against Heta Asset Resolution AG and its subsidiaries can significantly impair existing liquidity reserves if not found in favour of Heta (GSA) (see note 40 Important proceedings).

### 7.12.1. 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 of market prices.

### 7.12.2. General requirements

The strategic principles of handling liquidity risks at Heta are defined in the risk strategy. The overriding objective of liquidity risk management and controlling is to measure Heta's capacity to make payments and undertake refinancing activities as well as to determine in advance any potential liquidity risks and escalate and report issues to the Executive Board, the Supervisory Board, the Austrian National Bank

(OeNB), the Austrian Financial Market Authority (FMA) and the wind-down authorities.

Liquidity steering and management at group level are in the responsibility of the Group Balance Sheet Management & Treasury division of Heta. The steering of situational and structural liquidity has been managed by this division. Group Risk Control is responsible for liquidity risk controlling at Heta. Risk measurement and the timely and consistent reporting are in the responsibility of Group Risk Control. In accordance with the Federal Act on the Recovery and Resolution of Banks (BaSAG), the wind-down authorities have defined powers and instruments applicable to Heta. Instruments include the involvement of owners of relevant capital instruments. The wind-down authorities receive regular reports on progress in this regard.

#### 7.12.3. 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 potential quantifies the capacity of the wind-down unit – in terms of amounts and dates – to procure liquid funds at the earliest possible opportunity. It highlights options regarding the coverage of liquidity gaps, and hence all liquidity risks related to payment flows. The most important components of the wind-down unit's liquidity potential are as follows:

- Highly liquid, available securities,
- Central bank funds

In addition to the normal scenario, other scenario analyses such as pending lawsuits are added to the spectrum of risk-measurement.

On the basis of the liquidity overviews, key indicators are determined for the different scenarios, which allow a compact assessment of the liquidity situation.

#### 7.12.4. Risk controlling

A bundle of liquidity reserves ensures that the Heta maintains its ability to pay at short notice even in stress situations.

Moreover, the bank holds its own liquidity buffer for defined stress situations, composed of securities that are highly liquefiable and balances at the Austrian National Bank (OeNB).

A cash flow statement composed of deterministic, stochastic data and the wind-down plan forms the basis of liquidity risk control.

Any occurring gaps are compared to the liquidity potential. The liquidity reserves are controlled to the extent possible as a wind-down unit and subjected to a regular review as well as stress situations.

Total short-term liquidity potential per 31 December 2014 amounted to EUR 3,061 million. The short- to medium-term liquidity risk, which primarily comprises maturities of own issues in 2016 and 2017, can no longer be borne using own funds at the current time.

In 2014, the counterbalancing capacity of Heta Asset Resolution AG was as follows:

EUR thousand

Liquidity Buffer	Heta AG countable
High Quality Securities (incl. Credit Claims)	614.560
Central Bank Reserves	2.358.727
Cash	0
Counterbalancing Measures	Heta AG countable
Other liquifiable Assets (short-, medium term)	87.988
Intragroup Liquidity Support	0
Committed/Required Credit Lines	0
New Issuance	0
Securitization	0
Covered Pool Potential	0
<b>Total Counterbalancing Capacity</b>	<b>3.061.275</b>

#### 7.12.5. Risk monitoring

The monitoring of short-term liquidity risk is carried out, on the one hand, on the basis of an internal "liquidity coverage ratio" and also through the integration of structural liquidity gap balance for Heta Holding and its subsidiaries.

Limits for short-term liquidity have been set and are monitored constantly. Long-term structural liquidity is constantly monitored.

The liquidity overviews as well as other relevant key indicators form a part of regular risk reports to the Executive Board, the Supervisory Board, the responsible the controlling units, the Austrian National Bank (OeNB), the Austrian Financial Market Authority (FMA) and the wind-down authorities.

### 7.12.6. Overview – liquidity situation

Overall, the liquidity situation of Heta was characterised by short-term over-liquidity in 2014. Aside from ongoing interest and loan redemption revenue, liquidity is generated at the wind-down unit primarily from the exploitation of credit, real estate and security portfolios. In 2014 the liquidity reserve had not been used. No capital market activities were performed in 2014.

In 2014, capital measures of EUR 750 million were performed by the owner, the Republic of Austria. Through repayments of refinancing lines from subsidiaries and capital measures, the liquidity position at year-end 2014 stood at roughly EUR 2.3 billion. For 2015, an adequate liquidity position can also be expected due to the imposed debt moratorium and on the basis of the anticipated inflows and outflows. Medium- to long-term liquidity no longer exists.

Below is a listing of due dates for the financial liabilities of Heta, based on the following conservative assumptions:

- Current accounts, call money and cash collaterals are due on the next working day;
- Dead stock cash flows (primary funds, in accordance with the Federal Law on the Creation of a Wind-Down Unit (GSA)) are excluded (only legal due date is decisive) and are also set as due on the next working day;
- Equity components, accruals, impairment write-downs and positions not relevant to liquidity are not represented.

EUR m

At 31. December 2014	1 Y -2015	2 Y -2016	3 Y -2017	4 Y -2018	5 Y -2019	> 5 Y (> 2019)	Total
<b>Financial liabilities*</b>							
Liabilities to credit institutions	2.267	74	0	0	0	0	2.341
Liabilities to customers**	12	0	0	0	0	0	12
Liabilities evidenced by certificates	2.398	1.768	3.548	0	363	250	8.327
Other liabilities	356	384	930	40	150	84	1.944
Subordinated capital and hybrid capital	0	0	0	0	0	1.084	1.084
<b>Total</b>	<b>5.033</b>	<b>2.226</b>	<b>4.478</b>	<b>40</b>	<b>513</b>	<b>1.418</b>	<b>13.708</b>

\*relevant to liquidity

\*\* in accordance with GSA

As the table shows, the main due dates for issues and refinancing instruments out to 2017, in addition to the conservative, realistic modelling of liabilities in the first maturity band.

The due date analysis for derivatives covers interest rate swaps, cross currency swaps and FX swaps, which are divided into portfolios, which are relevant for controlling:

EUR m

At 31 December 2014	1 Y -2015	2 Y -2016	3 Y -2017	4 Y -2018	5 Y -2019	> 5 Y (> 2019)	Total
<b>Net cash flow from derivatives</b>							
Banking Book	-20	-18	-14	-11	-10	-49	-122
Market Risk Steering ALM	193	171	110	16	5	-4	491
Market Risk Steering B2B	1	0	0	0	0	0	1
Market Risk Steering FVO	12	10	10	-2	-4	-32	-6
Market Risk Steering FX	-133	4	-34	-37	0	0	-200
Market Risk Steering HA	5	4	1	1	1	4	16
<b>Total</b>	<b>58</b>	<b>171</b>	<b>73</b>	<b>-33</b>	<b>-8</b>	<b>-81</b>	<b>180</b>

### 7.13. Operational risk

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 reputational risks, but does not contain strategic risks.

The aim of operational risk management at Heta is the use of a "proactive approach" (risk management) instead of a "reactive approach" (managing losses).

Operational risks are identified and evaluated, in order to have suitable measures for the prevention, reduction, trans-

fer or acceptance of risks, including priorities for the implementation of safety and protection measures, can be defined

For this reason, all subsidiaries are taken into account in all areas of the operational risk management.

In order to ensure that synergy effects are achieved, arrangements have been made with Group Legal Services. The operational risk management software ("SAS") will include legal cases, including those which are not associated with OpRisk. The advantage of this approach is that it enables the creation of a common platform for the exchange of information between the different areas.

The operational risk strategy is supported by different instruments and methods which are used to identify and evaluate risks. Measures to limit damages must be planned on the basis of the results.

The following methods are used to support the strategy:

- Loss database for the systematic data capture of operational risks throughout the organisation
- Qualitative instruments such as scenario analyses to determine and evaluate the risks within business processes
- Regular reports as an instrument for communicating significant operational risks to the Executive Board

The current threshold for the reporting of losses within Heta has been set at EUR 5,000.

This process must ensure that all losses from operational risks are reported to Group Risk Control and documented in the database. A detailed analysis is performed for significant losses.

Risk mitigation measures are to be defined on the basis of incurred losses and in consideration of the results of the risk analysis (e.g. operational risk). The effectiveness of these measures should be regularly reviewed.

Due to the great deal of heterogeneous processes, the decentralised group environment and missing documentation of past loans and collateral, Heta is subject to higher operational risks. Organisational changes must be constantly monitored at wind-down units to recognise new risks at an early stage. Furthermore, in order to prevent risks, an adequate network of control mechanisms, fraud prevention, process analysis and process optimisation must be implemented.

#### **OpRisk 2014 milestones and results:**

The focus of OpRisk in 2014 was the analysis of activities carried out in previous years concerning the precise development of risk prevention measures and the recording of operational risk incidents. Vulnerabilities and potential for improvement were identified in cooperation with the Legal, Compliance and Process Management departments and existing processes are adapted.

In 2014, the implementation of an OpRisk framework especially for wind-down units was given priority. New OpRisk policies and manuals were rolled out across the group.

With the realignment of Heta in line with its wind-down objectives, a new "Target Operating Model" has been implemented as part of the "Heta Implementation Program" (HIP). This means that the process environment within Heta will change significantly.

For 2015, the plan is to introduce a new internal control system for new wind-down unit processes and thus ensure the fulfilment of its wind-down objectives. The aims of the operational risk framework are continuously pursued, improved and adapted in line with the new organisational structure and the processes.

#### **7.14. Object risks**

Real estate was remeasured in the course of the AQR. The resulting impairments were taken into account in the separate financial statements. See note (7) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA. Heta understands object risk as all potential losses that could arise as a result of fluctuations in the market value of moveable equipment and real estates in the Heta's possession and that could endanger the planned sale. Real estate risks arising from collateral for mortgages (residual risk) are not taken into account as these are already covered by credit risk.

Heta aims to reduce object risk exposures by proactively selling the assets in question in a timely manner. The market and/or carrying amounts of the assets in question serve as the basis for the measurement of object risk.

#### **7.15. Other risks**

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

- Strategic risk
- Reputation risk
- Business risk.

#### **7.16. Legal risks**

Please refer to note (40) Important proceedings for comments from Heta on ongoing proceedings. Potential losses from these proceedings can have a significantly negative effect on the overall liquidity situation of Heta.

## 8. Internal control system

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

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

The ICS, as part 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 the organisation's resources in order to achieve targeted commercial success
- 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 and the individual financial statements are that the 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 IFRS group handbook, the accounting manual of Heta and in the internal group policy on IFRS accounting reporting are upheld. The aforementioned rules specify the organisation and process of financial reporting as regards accounting procedures.

The 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 systems)
- 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 (Heta Asset Resolution AG) and at the level of the group (Heta Group) in accordance with section 39 (2) of the Austrian Banking Act (BWG)
- 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
- Responsibilities related to the accounting processes for the set-up of the consolidated financial statements and the individual financial statements are clearly and unambiguously regulated
- 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 in place at the group companies are subjected to ongoing evaluation and development. As a result of these efforts to intensify existing systems in a practical way, further qualitative improvements were achieved during the financial year.

Throughout the year, internal financial reporting is produced by Group Accounting & Reporting and submitted to the Executive and Supervisory Boards once a quarter. Financial reports by Group Financial Controlling are produced once a month. Detailed reports and analyses as well as periodic target/actual comparisons and forecasts are also pro-

duced. The budgeting process includes a wind-down plan according to the GSA.

In accordance with the Stock Exchange Act (BoerseG), an interim financial report on the first six months is produced; this report conforms to the requirements of IAS 34.

### 8.1. Internal control system related activities in the 2014 financial year

In 2014, the following activities were performed:

- All accounting related procedures were documented, compared with the accounting manual and subjected to the annual review.
- The account matrix was adjusted.
- All processes were recorded and evaluated in the area of Group Balance sheet Management.
- All balance sheet related processes were recorded in the area of Group Risk Control.

### 8.2. Planned activities for the 2015 financial year

With the realignment of Heta Asset Resolution AG according to its wind-down objectives, a new target operating model is currently being implemented under the Heta Implementation Program (HIP). This is associated with pronounced changes to the process landscape. Plans are in place for the continuous further development of the internal control system and its adaptation to the conditions and new processes of the wind-down unit in 2015. Here, the focus will be on the credit processes so an adequate contribution towards meeting the wind-down objectives will be made in this area.

## 9. Research and development

Heta Asset Resolution AG does not conduct any R&D activities of its own.

## 10. Events after the reporting date

After two members of the Executive Board of Heta left the company in the fourth quarter of 2014 following the disposal of the SEE banking network, three new members were appointed to the Executive Board as at 26 February 2015. Sebastian Prinz von Schoenaich-Carolath was appointed as Chairman of the Executive Board. Martin Handrich and Alexander Tscherteu were appointed as new members of the Executive Board. Martin Handrich took up his duties as member of the Executive Board on 16 March 2015. Sebastian Prinz von Schoenaich-Carolath took up his duties as at 16 April 2015, and Alexander Tscherteu will join the company on 1 July 2015. While Rainer Jakubowski will remain a member of the Executive Board of Heta, the previous CFO, Johannes Proksch, will resign from the Executive Board of Heta of his own accord in mid-2015.

BaSAG entered into effect on 1 January 2015, according to which the resolution authority, FMA, announced a decision on 1 March 2015 regarding the ordering of wind-down measures in accordance with BaSAG, whereby a moratorium was imposed on all "eligible liabilities" of Heta until 31 May 2016 (refer to the management report note (3.13) Entry into effect of the Federal Act on the Recovery and Resolution of Banks, as well as to the notes to the financial statements note (2.5) Federal Act on the Recovery and Resolution of Banks).

On 15 January 2015, the Swiss National Bank (SNB) unexpectedly decoupled the Swiss franc from the euro and the minimum exchange rate of CHF 1.20 per euro, which immediately caused the franc to appreciate sharply against the euro. The SNB justified this decision primarily with the discrepancies in fiscal policies of various key currency regions. We refer to the notes to the financial statements note (35) Net gain/loss from the remeasurement and disposal of receivables for more details on the impact of the unexpected appreciation of the Swiss franc in 2015 on Heta.

On 10 April 2015, OePR announced the results of the audit under way since 14 May 2014. We refer to the statements in the management report under note (3.18) Performance of an audit by the Österreichische Prüfstelle für Rechnungslegung.

The Regional Court Munich I announced on 8 May 2015 an appealable judgement in the case between Heta and Bayerische Landesbank (BayernLB) with regard to the applicability of EKEG for certain outstanding refinancing liabilities of Heta. We refer to the statements in the management report under note (3.17) Equity Substituting Loan of Bayerische Landesbank and the notes to the financial statements under note (40.2) Proceedings connected to Bayerische Landesbank.

## 11. Outlook

2015 will be the first full financial year as a wind-down unit (according to the GSA for Heta. In addition to the legal framework of the EU decision of September 2013 and the Federal Law on the Creation of a Wind-Down Entity (GSA) that came into effect at the end of October 2014, the decision of the financial market supervisory authority ordering wind-down measures under the BaSAG came into force on 1 March 2015. This now constitutes the basis for the further activities of Heta.

Several changes are expected in 2015 according to the altered basis of the business. In addition to executing the contract for the sale of the SEE banking network to the Advent/EBRD bidder consortium on the basis of the power of attorney of FIMBAG, the wind-down plan according to section 5 of the Federal Law on the Creation of a Wind-Down Entity (GSA) has to be finalised, saleable portfolios have to be formed and rapidly exploited, subsidiaries need to be liquidated and staff levels must be adapted to the changes.

On the basis of the power of attorney of FIMBAG, Heta signed a sales agreement on 22 December 2014 regarding the transfer of shares in HGAA to the bidder consortium Advent/EBRD, which was based on an open, transparent and non-discriminatory bidding process. The effects of this agreement were already reflected in the 2014 statement of financial position. Closing this contract is subject to several conditions precedent, such as the approval of the relevant regulatory authorities and the consent of the EU Commission from a state-aid perspective. All parties to the contract are intensively engaged in obtaining the required approvals at this time, and expect the closing of the contract by mid-year. If a positive conclusion of the transaction ultimately fails to be realised, the owner of the SEE network has to liquidate it due to existing EU requirements. In this case Heta expects additional heavy losses since the recoverability of the remaining existing financing to HGAA would be significantly affected by such an event.

Heta will also submit the wind-down plan according to GSA required under law to the Federal Ministry of Finance and the Austrian resolution authority by the middle of 2015 after it is approved by the Supervisory Board. This plan is based on the valuations determined in the course of the AQR. The resolution authority is developing a resolution-plan according to BaSAG in parallel, which may deviate from the Heta wind-down plan in terms of content and timing so that an adjustment to the wind-down plan may be required.

According to these new general conditions, the Heta head office in Austria will continue functioning as the central controlling unit for all wind-down activities going forward. The entire organisation is being dedicated to the wind-down, which also results in numerous internal restructuring measures. Reorganising the company is intended to ensure a clear focus on rapid exploitation of the assets, which can result in the redeployment of employees and subsequently in

a reduction of staffing levels. This internal reorganisation process is intended to be completed in the course of 2015.

The Executive Board expects the internal realignment to result in an even more pronounced focus on the exploitation of the portfolios. According to the change in the business purpose to wind-down, the goal is now to exploit the portfolio wind-down relevant assets within five years; however, 80 % of these assets will be disposed of within three years. In the opinion of the Executive Board, this is a period in which an orderly, active exploitation of Heta's assets can be realised to best possible advantage and as quickly as possible within the scope of the wind-down objectives according to the requirements of the GSA.

It must be noted that such a wind-down horizon is only available if the corresponding conditions are established by implementing adequate wind-down measures. This requires corresponding intensive preliminary work in preparing saleable portfolios. Several major portfolio transactions have already been agreed or concluded in the course of 2015.

The desired exploitation is subject to uncertainty regarding subsequent economic developments in South-East Europe. According to the EU spring forecast from May 2015, the economic recovery in Europe is uneven: While GDP growth of 1.5% is expected for the Eurozone, Austria and the countries in South-East Europe are lagging behind this growth. A plus of 0.8% is predicted for Austria and a plus of 0.3 % for Croatia. The Wiener Institut für Internationale Wirtschaftsvergleiche (WIIW) expects a GDP decrease of 0.5 % for Serbia in 2015.

Economic growth above the average for the Eurozone is expected for Slovenia, Bosnia and Herzegovina and Montenegro. With the exception of Slovenia however, the unemployment rate in the entire region for 2015 according to the WIIW will be in the double-digit range and as high as 26.8 % for Bosnia and Herzegovina. Accordingly a significant improvement in the situation for the NPL portfolios is not expected in the countries for the entire region, which will continue to present challenges for Heta in the course of exploitation.

Pending various legal disputes constitute an additional factor of uncertainty in the 2015 financial year. In the legal dispute between Heta and Bayerische Landesbank (BayernLB) regarding the application of the EKEG to certain refinancing liabilities, the written judgement of the court was delivered to the lawyers representing Heta in this matter on 2 June 2015. The court issued an enforceable judgement subject to appeal in which it decided predominantly in favour of BayernLB and rejected Heta's counterclaim (re-payment claims). Heta believes that key arguments in the dispute on all legal matters relevant to the proceedings have not been adequately recognised by the senate (nor by the appraisers appointed by the courts). Based on existing expert opinions, Heta continues to hold the position that the funds issued qualify as equity substitution according to the Austrian Equity Substituting Capital Act (EKEG) and the



receivables of BayernLB are subject to both the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Federal Act on the Recovery and Resolution of Banks (BaSAG). Therefore, Heta announced on 8 May 2015 that it will appeal the decision before the Munich Higher Regional Court (OLG). Heta will review the extensive written judgement delivered on 2 June 2015, file an appeal in compliance with the deadline and decide upon the content-related execution of the appeal under careful consideration of the chances of success. The judgement is currently enforceable if BayernLB provides the court with an appropriate security deposit.

A decision could also be reached in numerous suits by creditors against the Hypo Alpe Adria Restructuring Act (HaaSanG). A large number of suits demanding a review whether the law is unconstitutional were filed against the law which came into force in 2014 and resulted in the expiration of subordinate bonds in the amount of about EUR 800 million and liabilities of BayernLB in the amount of around EUR 800 million. The Constitutional Court has announced it will review the matter until autumn 2015. If the law were overturned entirely, derecognition of liabilities performed based on the Hypo Alpe Adria Restructuring Act (HaaSanG) would be reversed. While the liabilities would not come due immediately from the perspective of Heta because of the moratorium issued in the meantime according to the Federal Act on the Recovery and Resolution of Banks (BaSAG), the decision would have a significant impact on the financial statements 2015 and especially the amount of equity. Additional lawsuits would also be expected.

Ultimately, the wind-down decision according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) is being fought in the courts as well. The decision of the resolution authority dated 1 March 2015 ordered a moratorium on the repayment of all eligible liabilities until 31 May 2016. In these lawsuits the creditors are also requesting the payment of their liabilities in full. While legally effective clarification by the courts is not expected in 2015, these legal disputes also tie up significant personnel resources of Heta.

In general, according to section 7 (1) GSA, Heta is not subject to section 67 of the Insolvency Ordinance (IO, grounds for opening insolvency proceedings regarding over-indebtedness under insolvency law). The Executive Board does not provide for interest or capital repayment for the company's debt in the wind-down plan to be prepared by the Executive Board according to GSA. The resolution plan to be prepared by the resolution authority according to BaSAG can deviate in terms of time and content from Heta's wind-down plan, so that from the Executive Board's point of view, it is uncertain (in particular for the period after the currently applicable moratorium) if a proper liquidation of Heta would be possible other than within the context of insolvency proceedings.

# FINANCIAL STATEMENTS (UGB/BWG)

## Balance Sheet as at 31 December 2014

	31.12.2014	31.12.2013
	EUR	EUR thousand
<b>Assets</b>		
1. Cash in hand, balances with other banks	2,358,752,540.94	1,559,803
2. Treasury bills and other bills eligible for refinancing with central banks		
a) Treasury bills and other similar securities	233,181,789.58	526,063
b) bills for refinancing with central banks	0.00	0
	<u>233,181,789.58</u>	<u>526,063</u>
3. Loans and advances to credit institutions		
a) Repayable on demand	166,905,350.19	1,152,638
b) Other loans and advances	2,353,507,054.00	3,098,031
	<u>2,520,412,404.19</u>	<u>4,250,669</u>
4. Loans and advances to customers	3,246,407,627.31	8,971,210
5. Bonds and other fixed income securities		
a) Issued by the public sector	28,152,539.95	59,795
b) Issued by others	363,205,534.11	675,946
of which own debt securities	EUR 3,222,721.75	735,741
	<u>391,358,074.06</u>	<u>735,741</u>
	(prior year: EUR 3,230 thousand)	
6. Shares and other non-fixed income securities	20,855,403.07	9,261
7. Shares in associated companies	2,186.29	4,863
thereof: credit institutions	EUR 0.00	
	(prior year: EUR 4,809 thousand)	
8. Shares in affiliated companies	505,252,342.99	1,176,594
thereof: credit institutions	EUR 0.00	
	(prior year: EUR 625,564 thousand)	
9. Intangible fixed assets	3,663,586.32	7,081
10. Tangible fixed assets	4,106,047.54	6,065
thereof:		
Land and buildings used by the company for its own activities	EUR 1,781,244.81	
	(prior year: EUR 3,682 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	316,227,203.69	324,316
13. Drawn capital, which is not called in, but yet deposited	0.00	0
14. Deferred assets	9,305,308.02	15,631
<b>Total assets</b>	<b>9,609,524,514.00</b>	<b>17,587,297</b>
<b>Below-the-line memo items</b>		
1. Foreign assets	4,695,858,894.30	12,246,616

		31.12.2014	31.12.2013
		EUR	EUR thousand
<b>Equity and Liabilities</b>			
1. Liabilities to credit institutions			
a) Repayable on demand	946,420,242.30		2,783,707
b) With agreed maturities or periods of notice	1,982,738,951.22		1,004,623
		2,929,159,193.52	3,788,329
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	0.00	29
b) Other liabilities, thereof:			
aa) Repayable on demand	108,685,228.55		81,344
bb) With agreed maturities or periods of notice	1,559,395,442.37		1,548,905
		1,668,080,670.92	1,630,250
3. Debt evidenced by certificates			
a) Bonds issued	8,616,434,324.04		9,759,828
b) Other debt evidenced by certificates	0.00		0
		8,616,434,324.04	9,759,828
4. Other liabilities		140,578,447.58	125,054
5. Deferred assets		24,702,131.11	34,978
6. Provisions			
a) Provisions for severance payments	5,348,782.00		3,261
b) Provisions for pensions	5,807,654.00		5,981
c) Tax provisions	0.00		0
d) Other	2,111,067,272.09		174,161
		2,122,223,708.09	183,403
6.A Funds for general banking risks		0.00	0
7. Supplementary capital pursuant to part 2, title I (4) of Directive (EU) 575/2013		1,095,566,368.31	1,903,073
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	2,808,637
10. Appropriated paid-in capital		0.00	250,000
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	247,165
13. Net accumulated losses		(10,481,428,448.34)	(3,143,449)
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>9,609,524,514.00</b>	<b>17,587,297</b>



## Income statement for the period 1 January to 31 December 2014

		31.12.2014	31.12.2013
		EUR	EUR thousand
1.	Interest and similar income	622,667,804.28	750,326
	thereof: fixed-interest securities	EUR 27,815,372.90	
	(prior year: EUR 38,984 thousand)		
2.	Interest and similar expenses	(676,051,544.39)	(727,333)
<b>I.</b>	<b>NET INTEREST INCOME</b>	<b>-53,383,740.11</b>	<b>22,993</b>
3.	Income from equity interests and investments		
a)	Shares, other equity interests and non-interest-bearing securities	204,478.42	21
b)	Associated companies	348,716.76	37
c)	Affiliated companies	2,800,069.73	7,368
		3,353,264.91	7,427
4.	Fee and commission income	4,890,108.00	8,985
5.	Fee and commission expenses	(72,892,598.64)	(80,413)
6.	Net income from trading activities	5,989,862.51	(1,965)
7.	Other operating income	59,044,141.97	18,512
<b>II.</b>	<b>OPERATING INCOME</b>	<b>(52,998,961.36)</b>	<b>(24,461)</b>
8.	General administrative expenses		
a)	Personnel expenses: thereof		
aa)	Wages and salaries	(40,967,627.33)	(42,399)
bb)	Costs of statutory social security contributions and other pay-related contributions	(10,250,841.83)	(10,092)
cc)	Other social welfare contributions	(759,191.54)	(804)
dd)	Expenses for pensions and other retirement benefits	(125,681.75)	(991)
ee)	Pension provision allocations	(937,946.00)	(317)
ff)	Expenses for severance payments and contributions to employee severance funds	(3,169,924.05)	(1,158)
		(56,211,212.50)	(55,761)
b)	Other administrative expenses (operating expenses)	(88,057,293.56)	(49,750)
		(144,268,506.06)	(105,510)
9.	Depreciation and amortisation of fixed assets (balance sheet items 9 and 10)	(7,848,205.81)	(5,369)
10.	Other operating expenses	(30,365,749.76)	(31,081)
<b>III.</b>	<b>OPERATING EXPENSES</b>	<b>(182,482,461.63)</b>	<b>(141,960)</b>

		31.12.2014	31.12.2013
		EUR	EUR thousand
<b>IV.</b>	<b>OPERATING PROFIT</b>	<b>-235,481,422.99</b>	<b>-166,420</b>
11./12	Net gain/loss from the remeasurement and disposal of receivables, contingent liabilities, loan exposures and securities held as current assets	(5,574,762,739.45)	(850,802)
13./14	Net gain/loss from the remeasurement and disposal of securities treated as financial assets and from investments in associated and affiliated companies	(2,355,170,402.47)	(1,835,436)
<b>V.</b>	<b>PROFIT FROM ORDINARY ACTIVITIES</b>	<b>-8,165,414,564.91</b>	<b>-2,852,659</b>
15.	Extraordinary income thereof: withdrawal from the fund for general banking risks EUR 0.00 (Vorjahr: TEUR 153,000)	1,693,378,955.47	153,020
16.	Extraordinary expenses thereof: allocation to fund for general banking risks EUR (0.00) (Vorjahr: TEUR 0)	(1,413,165,313.89)	(23,285)
<b>17.</b>	<b>Extraordinary result</b>	<b>280,213,641.58</b>	<b>129,735</b>
18.	Income taxes thereof: expenses connected to the taxation agreement (EUR 18,996,786.75) (prior year: EUR -1,447 thousand)	(19,398,397.43)	(3,256)
19.	Other taxes not recognised under the item 18	5,026,548.32	(21,402)
<b>VI.</b>	<b>Net loss for year</b>	<b>-7,899,572,772.44</b>	<b>-2,747,581</b>
20.	Changes in reserves thereof: reversal of liability reserves EUR 247,165,247.42 (prior year: reversal EUR 0 thousand) reversal of capital reserves EUR 2.22 (prior year: reversal EUR 0 thousand) Release of non-committed capital reserves EUR 250,000,000.00 (prior year: reversal EUR 0 thousand)	497,165,249.64	0
<b>21.</b>	<b>Loss carried forward</b>	<b>-3,079,020,925.54</b>	<b>-395,868</b>
<b>VIII.</b>	<b>NET ACCUMULATED LOSSES</b>	<b>-10,481,428,448.34</b>	<b>-3,143,449</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE 2014 FINANCIAL YEAR

## I. Fundamentals

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

Heta (formerly: Hypo Alpe-Adria-Bank International AG) was founded in 1896 as Landes- und Hypothekenbankanstalt, and operates as the parent company of the Heta Group (formerly Hypo Alpe Adria). It has been wholly owned by the Republic of Austria since 30 December 2009. 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 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) to conduct banking activities expired by the resolution of the Austrian Financial Market Authority (FMA) on 30 October 2014. This company is now continuing as a partially regulated wind-down entity pursuant to the Federal Law on the Creation of a Wind-Down Entity (BGBl I 2014/51, Federal Law on the Creation of a Wind-Down Entity (GSA). 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 of Heta in 2014. The business purpose of Heta now focuses on the full wind-down of assets. Within this framework, the company is authorised to, among other things, conduct banking or leasing transactions for this purpose on the basis of the license granted as part of the Federal Law on the Creation of a Wind-Down Entity (GSA).

Pursuant to section 3 (4) of the Federal Law on the Creation of a Wind-Down Entity (GSA), Heta is subject to a limited extent to the provisions of the Austrian Banking Act (BWG) and is therefore required to comply with the reporting and notification duties vis-à-vis the Austrian Financial Market Authority (FMA). The Austrian Financial Market Authority (FMA) continues to be the responsible regulatory authority and is obligated, pursuant to section 8 of the Federal Law on the Creation of a Wind-Down Entity (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 statute was amended in view of the then-pending transformation into a partially regulated wind-down unit and the company name was also amended, from "HYPO ALPE-ADRIA-BANK INTERNATIONAL AG" to "HETA ASSET RESOLUTION AG". In addition, the obligation to prepare a voluntary liquidation resolution following the completion of the portfolio wind-down was implemented into article 2.4 of the statute. These statute amendments were entered in the commercial register on 31 October 2014 and have been effective as from that date. The amendment to the name of the company did not constitute the reestablishment of the company, meaning that the change of company name did not affect the legal person of the company itself.

The financial statements are published in the Wiener Zeitung and under [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Financial Reports). They are disclosed in the commercial register and at Heta Asset Resolution AG in 9020 Klagenfurt am Wörthersee, Alpen-Adria-Platz 1.

### (2) Important events

#### 2.1. Legislative package on the wind-down of the former Hypo Alpe Adria

On 14 March 2014, the Federal Minister of Finance publicly announced the further course of action to be taken in relation to the then Hypo Alpe-Adria-Bank International AG, and thus put an end to the widespread public discussion of insolvency issues at the beginning of 2014, which had also spread through the media across the borders into the Southern European countries and Italy.

The decision by the Austrian Federal Government on 18 March 2014 gave specific form to the bank's wind-down strategy, providing for the sale of the SEE network as quickly as possible and the transfer of the bank's wind-down unit into a partially regulated company organised on private sector principles. It was furthermore decided that the subordinated capital and participation capital lenders – Bayerische Landesbank (BayernLB) as the majority owner prior to nationalisation and the State of Carinthia – should make significant contribution to the wind-down. As a result, the Republic of Austria resolved as sole shareholder at the shareholders' meeting held on 9 April 2014 a capital measure of EUR 750.0 million, which was contributed on 11 April 2014. The measure largely served to restore the regulatory capital shortfall of Heta Asset Resolution AG (single institution) resulting from the negative result for 2013 and to ensure the continuation of the company as a going concern.

<sup>2</sup> "HYPO ALPE-ADRIA-BANK INTERNATIONAL AG" was renamed "HETA ASSET RESOLUTION AG" in the 2014 financial year effective as of 31 October 2014. This company continues to be the parent company of the Heta Group (formerly: "Hypo Alpe Adria"). This annex generally uses the name 'Heta' for the company in the reporting period.

To implement these requirements of the resolution, the Council of Ministers agreed on a legislative package to wind down the former Hypo Alpe-Adria-Bank International AG, consisting of the Federal Law on the Creation of a Wind-Down Entity (GSA), the Federal Law on the Establishment of a Holding Company for Hypo Alpe-Adria Bank S.p.A (HBI-Bundesholdinggesetz), the Federal Act Incorporating a Federal Wind-down (Public Limited) Company (ABBAG-Gesetz) and the Hypo Alpe Adria Restructuring Act (HaaSanG), and also a Federal act amending the Financial Market Stability Act (FinStaG) and the Federal Act on the Financial Market Supervisory Authority. The legislative package was passed by the Austrian National Council (Nationalrat) on 8 July 2014 and by the Austrian Federal Council (Bundesrat) on 24 July 2014. It was proclaimed on 31 July 2014 in the Federal Law Gazette for the Republic of Austria (Bundesgesetzblatt) and came into operation on 1 August 2014.

## 2.2. Federal Law on the Creation of a Wind-Down Entity (GSA)

The Federal Law on the Creation of a Wind-Down Entity (GSA) provides for Hypo Alpe Adria-Bank International AG to continue to operate in the form of a partially regulated wind-down unit. The former Italian banking subsidiary Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) was deconsolidated from Hypo Alpe-Adria-Bank International AG and transferred to a specially created wind-down holding company HBI-Bundesholding AG, (carve-out HBI). The transfer of shares in HBI could have been carried out on a legal basis or via transfer order. The Republic of Austria decided on the conclusion of a sales agreement and therefore a legal transfer which was carried out on 30 October 2014. The business purpose of HBI-Bundesholding AG is to manage the shares in HBI and to sell them directly or indirectly. For more details see note (9.1) Carve-out of the Italian subsidiary (HBI).

On 3 September 2013 the European Commission reached a final decision in the state aid investigation of the former Hypo Alpe-Adria-Bank International AG underway since 2009. The decision provided for the division of the company into the marketable, reprivatizable units of the SEE network and the wind-down unit. The SEE network<sup>3</sup> in Slovenia, Croatia, Bosnia-Herzegovina, Serbia and Montenegro are to be reprivatized by the end of 2015 (closing). To prepare for the implementation of GSA HGAA was deconsolidated from the group in the fourth quarter of 2014. HGAA applied for a banking license in the first half of 2014 which was granted at the beginning of September 2014. HGAA acts as a management holding company for its subsidiaries in South-East Europe. The application period until the end of October 2014 was marked by extensive preparatory work, to obtain a banking license for HGAA, implementing the respective organisational requirements and conducting additional portfolio transfers from HGAA to the Heta wind-down unit. The shares in HGAA were transferred to FIMBAG as trustee of the Republic of Austria (carve-out HGAA). This transfer took place on 30 October 2014. See note (9.2) SEE network for more details.

With the FMA decision of 30 October 2014, the banking license of Hypo Alpe-Adria-Bank International AG granted by the FMA according to BWG for banking operations was rescinded. The Austrian Federal Minister of Finance is empowered by the Federal Law on the Creation of a Wind-Down Entity (GSA) to transfer the shares in Heta currently held directly by the Republic of Austria to the wind-down holding company, known for short as ABBAG. The corporate objective of ABBAG consists of managing the shares in the wind-down unit. The transfer of the Heta shares to ABBAG has not yet occurred.

The decision of the Austrian Financial Market Authority (FMA) determined that the following two preconditions existed: firstly, that the bank no longer undertakes any deposit transactions; and, secondly, that the bank no longer either directly or indirectly holds any qualified participations within the meaning of the Capital Requirements Regulation (CRR) in credit institutions or financial securities firms. The termination of the license for in the Federal Law on the Creation of a Wind-Down Entity (GSA) is not to be equated with the termination of the license under section 7 of the Austrian Banking Act (BWG), since, in accordance with section 3 of the Federal Law on the Creation of a Wind-Down Entity (GSA), the wind-down unit continues to have a statutory license to conduct banking activities. For this reason, partial regulation does not create any termination rights, power of approval, other decision-making rights or rights to guarantee receivables that are associated with the necessary circumstances for an expiration under banking law. Neither does the license expire completely, since banking activities can continue to be conducted in the context of the wind-down activities. Heta's present task as a wind-down unit consists of the management of its assets, which it has to liquidate in an orderly, active manner to the best possible advantage. The wind-down unit may only conduct those transactions that serve to wind down the portfolio. Hence, for example, no new business areas may be established or existing areas be expanded. The work to be done is entirely focused on the optimal realisation of assets. The wind-down unit may additionally deliver transitional services to former group companies, those that were included in the consolidated financial statements of former Hypo Alpe Adria on 31 December 2013. However, these services are limited to those that were delivered on a contractual basis on the date of partial deregulation. The duration of these services is limited to two years after the date on which the Republic of Austria holds neither a direct nor an indirect share in the recipient of the services. The Austrian Banking Act (BWG) now applies only to a limited extent to the wind-down unit, the banking

<sup>3</sup> "Hypo SEE Holding AG" was renamed "Hypo Group Alpe Adria AG" effective 30 October 2014. In these notes, the designations "HGAA" or "SEE network" will be used to refer to the company for the reporting period.



license of which was then withdrawn with the partial deregulation by the Austrian Financial Market Authority (FMA) in accordance with the Austrian Banking Act (BWG). In particular, those regulations intended to ensure the long-term viability of the business activities in the context of normal banking operations lapse, such as, in particular, minimum capital and liquidity rules. In order to ensure the supervision that is nevertheless needed in the sub-areas, the Federal Law on the Creation of a Wind-Down Entity (GSA) renders individual provisions of the Austrian Banking Act (BWG) applicable. The wind-down unit is forbidden to accept money from the public or to provide investment services. As a wind-down unit, Heta continues to be subject to regulation by the Austrian Financial Market Authority (FMA).

Based on a power of attorney granted by FIMBAG, Heta signed a sales agreement relating to the transfer of these shares to a consortium of bidders comprising the US fund Advent International Corporation (Advent) and the European Bank for Reconstruction and Development (EBRD) on 22 December 2014, which was the result of an open, transparent and unconditional bidding procedure. If the sale is not concluded by 2015, these companies are to be wound down. At present, the Executive Board of Heta assumes that the closing of the sale of HGAA to Advent/EBRD will take place by mid 2015. Closing is dependent on the fulfilment of certain contractual conditions. If closing is not completed with the above-mentioned contractual parties by mid 2015, the sales agreement is no longer contractually binding. If the parties cannot agree on a new date for the closing by the end of 2015 or if a sale is not agreed with an alternative buyer, HGAA and its subsidiaries have to be wound down according to the EU decision of 3 September 2013. In this case Heta could expect additional losses on existing refinancing lines of up to EUR -1.0 billion.

### 2.3. Adoption of the regulation pursuant to the Hypo Alpe Adria Restructuring Act

The Hypo Alpe Adria Restructuring Act (HaaSanG) establishes the Austrian Financial Market Authority (FMA) as the authority authorised to decide the implementation of the restructuring measures provided for in the law. The Hypo Alpe Adria Restructuring Act (HaaSanG) provides that upon the proclamation of a regulation to be issued by the Austrian Financial Market Authority (FMA) for this purpose (i) certain subordinated liabilities and partner's liabilities of Heta expire and (ii) the due date of certain contested liabilities is deferred until a legally binding decision is made on the respective contested liability. This affects around EUR 0.8 billion in subordinated liabilities of the company, all outstanding supplementary capital issues and certain shareholder loans totalling roughly EUR 0.8 billion granted by Bayerische Landesbank (BayernLB) since the first Financial Markets Stabilisation Act (FinStaG) measure in December 2008. The statutory measures provided for in accordance with the Hypo Alpe Adria Restructuring Act (HaaSanG) are directly legally enforceable, without further action on the part of Heta or a formal collection of the liabilities in accordance with their conditions being necessary. Upon the proclamation of the Austrian Financial Market Authority (FMA) regulation, the expiration or deferral of the liabilities occurs with statutory effect, i.e., a repayment amount, interest amounts or other ancillary fees, in so far as these apply, are automatically reduced to zero. For contested liabilities, the due date is deferred until at least 30 June 2019. Under section 3 of the Hypo Alpe Adria Restructuring Act (HaaSanG), as well as the subordinated liabilities, all collaterals, including guarantees for such liabilities, expire. The corresponding regulation (HaaSanV) was issued through the Austrian Financial Market Authority (FMA) on 7 August 2014.

The constitutionality of the Hypo Alpe Adria Restructuring Act (HaaSanG) and its compatibility with EU law are questioned by many of the investors affected. Hence, after the regulation was issued, numerous individual complaints about the legislation were filed against the Hypo Alpe Adria Restructuring Act (HaaSanG) with the Constitutional Court of Austria (VfGH) and a process for examining the legislation was initiated by one-third of the Nationalrat members. As an affected party, Heta was given the opportunity by the Constitutional Court of Austria to make statements on the individual complaints. Heta made use of this opportunity. Furthermore, a total of 33 actions for payment or for declaration of the existence of the respective bonds were filed against Heta (as at the reporting date of 16 June 2015). Please refer to note [40.3] Proceedings in relation to the Hypo Alpe Adria Restructuring Act (HaaSanG) for further details.

The effects resulting from the Hypo Alpe Adria Restructuring Act (HaaSanG) from the derecognition of the liabilities are recognised as non-recurring earnings in the financial statements as at 31 December 2014 in the amount of approximately EUR +1.6 billion. Those subordinated liabilities which had been issued in the past by Hypo Alpe-Adria-Bank International AG and those liabilities towards BayernLB that are covered by the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Austrian Financial Market Authority (FMA) regulation, have been treated as expired liabilities. Derecognition occurred on the basis of the carrying amounts as at 30 June 2014 with a reporting date of 7 August 2014.

Due to the loss allocation performed to date to the supplementary capital issued by the former Hypo Alpe-Adria-Bank International AG under section 23 (7) of the Austrian Banking Act (BWG) (in the respective valid version), the value of this supplementary capital had to be fixed at EUR 0; explicit note was made of this in the preceding financial statements. Due to this circumstance and the supplementary capital already recorded in the separate financial statements with a carrying amount of EUR 0, through the application of the Hypo Alpe Adria Restructuring Act (HaaSanG) no positive balance sheet effects have been achieved from the supplementary capital.

#### 2.4. Organisational changes at Heta – transformation to a wind-down unit under the Federal Act on the Creation of a Wind-down Entity (GSA)

During the 2014 financial year, Heta worked as fast as possible on its transformation into a wind-down unit. Originally, the Austrian Federal Minister of Finance had tasked Österreichische Industrieholding AG (ÖIAG) with setting up and heading a project for the creation of the new wind-down unit. At the time, this was done under the assumption that the wind-down unit to be deregulated in the course of the restructuring process to be planned would be transferred into the direct or indirect ownership of ÖIAG. However the Federal legislation finally passed, the Federal Law on the Creation of a Wind-Down Entity (GSA) and the Federal Act Incorporating a Federal Wind-down (Public Limited) Company (ABBAG-Gesetz), stipulated that the shares in the wind-down unit were to be taken over from ABBAG, which in turn is directly owned by the Republic of Austria. Since ABBAG was only recently set up in autumn 2014, ÖIAG was still tasked by the Austrian Federal Ministry of Finance with the management and co-ordination of the project.

After the appointment of Herbert Walter as chairman of the bank's Supervisory Board, project management was assumed internally by the bank; representatives of the Austrian Federal Government, the Austrian Federal Ministry of Finance and ÖIAG acted in an advisory capacity. The project was completed in the second half of 2014 with the successful implementation of the carve-out of HGAA and HBI and the transformation of Heta into a partially regulated wind-down unit. At present, follow-up projects are being conducted, focussing on the creation of the wind-down plan within the meaning of the Federal Law on the Creation of a Wind-Down Entity (GSA) and the implementation of the target operating model of Heta.

#### 2.5. Federal Act on the recovery and resolution of banks

Following the sale of the qualified participations in credit institutions and financial securities firms within the meaning of the Capital Requirements Regulation (CRR) as well as the withdrawal of the banking license granted by the Austrian Financial Market Authority (FMA) in accordance with the Austrian Banking Act (BWG) the Federal Law on the Creation of a Wind-Down Unit (GSA) became directly applicable end of October 2014. Heta continued its operations as wind-down unit according to this law. As of to section 3 (1) of the Federal Law on the Creation of a Wind-Down Unit (GSA), the portfolio is to be wound down in an "orderly, proactive manner to the best possible advantage". As far as the timeframe is concerned, the GSA does not define any specific deadlines. In view of the wind-down target of liquidating the assets in a "proactive manner to the best possible advantage" and the legal requirement of achieving this "as quickly as possible" according to section 3 (1) of the Federal Law on the Creation of a Wind-Down Unit (GSA), the Executive Board of Heta defined a timeframe of five years for the liquidation as adequate to complete the wind-down of the portfolio, with 80% of the assets to be liquidated by 2018. With the assistance of an external independent expert, Heta issued new measurement guidelines, which were based on a comprehensive measurement of the assets relevant to the portfolio wind-down, a so-called "Asset Quality Review" (AQR), so as to reflect the targets when measuring the assets. Please refer to note 7 Asset Quality Review (AQR) / adjustment of valuation parameters due to the Federal Law on the Creation of a Wind-Down Unit (GSA).

The interim results of the group-wide Asset Quality Review (AQR) were available on 27 February 2015. These results indicated a potential capital shortfall in the range of approximately EUR -4.0 billion to approximately EUR -7.6 billion. Although the company was still able at that time to repay its debts and meet its liabilities when due, the Executive Board had assessed that objective and specific indications existed within the meaning of section 51 (1) (3) second half of the sentence of the Federal Act on the Recovery and Resolution of Banks (BaSAG) which indicated that Heta would no longer be able to repay its debts and meet its liabilities when due in the near future. The Executive Board of Heta immediately reported these developments to the Supervisory board (special report pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) and further informed its sole shareholder, the Republic of Austria, on 27 February 2015 about the potential capital shortfall and inquired whether the Republic of Austria, in light of such new information and the effectiveness of the Federal Act on the Recovery and Resolution of Banks (BaSAG), was prepared to compensate for the future liquidity shortfalls in 2016 and 2017 as well as the capital shortfall by undertaking appropriate measures. On the same day, the company's Executive Board also submitted a notification pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) to the resolution authority as a precautionary measure, proposing that a decision be made in the event that the company's owner did not give a binding commitment to implement appropriate measures.

On 1 March 2015, the Austrian Minister of Finance notified the Austrian Financial Market Authority and Heta that no further measures in accordance with the Federal Act on Financial Market Stability (FinStaG) will be taken. The resolution authority issued a decision on the wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) on the same day. This decision puts a moratorium on all of Heta's "eligible liabilities" until 31 May 2016 pursuant to section 58 (1) (10) of the Federal Act on the Recovery and Resolution of Banks (BaSAG) in preparation for the utilisation of the creditor participation instrument. Please refer to the decision of the Austrian Financial Market Authority (FMA) dated 1 March 2015, which is published on Heta's website [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Press → Austrian Banking Restructuring and Resolution Act (BaSAG)), for more information.

An objection to the decision of the resolution authority could have been filed within three months of the announcement (1 March 2015), although this would not have effected the suspension of the decision. Investors affected by the decision have announced that they will also be taking legal action against Heta Asset Resolution AG themselves.

## **2.6. Legal dispute with BayernLB concerning the Equity Substitution Act (EKEG)**

In the preliminary hearing in the dispute concerning the Austrian Equity Substitution Act (EKEG) between Heta and BayernLB that took place on 8 May 2015, the Regional Court Munich I (first instance) served its judgment orally. The written judgement was sent to the Heta legal team on 2 June 2015. The court ruled primarily in favour of the claims of BayernLB in its not-yet-legally effective ruling and overturned the counterclaims (repayment claims) of Heta. In its ruling, the court opposed the application of both the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Federal Act on the Recovery and Resolution of Banks (BaSAG) and any official measures on claims under German law. The verdict is provisionally enforceable, provided BayernLB pays a corresponding surety to the court.

Heta will review the extensive written judgement delivered on 2 June 2015, file an appeal in compliance with the deadline and decide upon the content-related execution of the appeal under careful consideration of the chances of success. For further details see note (40.2) Proceedings in relation to BayernLB.

Based on the ruling in first instance, a provision for impending claims from creditors of EUR 0.9 billion for liabilities that expired as a result of the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG) was recognised in the financial statements as at 31 December 2014.

## II. BASIC ACCOUNTING PRINCIPLES

### (3) Fundamentals

The annual financial statements of Heta Asset Resolution AG were prepared according to the regulations of the current version of the Austrian Banking Act (BWG) and Austrian Stock Corporation Act (AktG), respectively in the current version.

The provisions of the BWG apply to Heta only to a limited extent following its conversion into a partially regulated wind-down unit under the GSA. Section 3 (4) of the GSA stipulates that the following accounting-related provisions of the XIIth section of the BWG shall apply:

- Sections 43 – 44      General clauses
- Sections 45 - 50      General provisions concerning the balance sheet
- Section 51            Provisions concerning certain balance sheet items
- Sections 52 - 54      Special provisions concerning certain items in the profit and loss account
- Sections 55 - 58      Valuation rules
- Sections 59 - 59a     Consolidated financial statements
- Section 65            Publication
- Sections 66 - 67      Clauses concerning the cover pool in accordance with section 216 of the Austrian Civil Code (ABGB).

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

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

The balance sheet and income statement are structured according to the forms in Attachment 2 to section 43 of the BWG. Certain income statement items were summarised according to the accounting policy choice defined in section 53 (3) and section 54 (2) of the BWG. Figures are generally in thousand euros (EUR thousand). Rounding differences may occur in the tables.

Values are normally stated in thousand euros (EUR thousand). The tables displayed may contain rounding differences.

### (4) Valuation principles of the gone concern assumption

In the financial statements as at 31 December 2013 the Executive Board based its going concern assessment on the assumptions underlying the group's restructuring plan approved by the European Commission. These assumptions foresaw further capital measures planned for subsequent years to maintain the going concern assumption in order to cover losses over the course of the portfolio wind-down. The European Commission's decision dated 3 September 2013, which was based on the former Hypo Alpe-Adria-Bank International AG's restructuring plan as submitted by the Republic of Austria, provided for future capital measures of up to EUR 5.4 billion, of which EUR 2.5 billion had been transferred to the company by 31 December 2014 by means of contributions from the owner. The European Commission also approved liquidity support provided by the owner of EUR 3.3 billion, which was to be utilised in 2016/2017 to cover the liquidity gaps identified in the restructuring plan. In total a maximum of up to EUR 2.9 billion in capital as well as an additional EUR 3.3 billion in liquidity support, would therefore have been available. The short- and medium-term planning available at the time, that was updated in April 2014 within the context of the recapitalisation, included various scenario analyses which showed that the forecast capital and liquidity requirements within the planning period would have been within range of approved state-aid; meaning that at that time there were no doubts regarding the further support of the owner.

Based on the decision of the Council of Ministers dated 18 March 2014, which followed the recommendation of the Task Force established by the Austrian Minister of Finance and prevented the insolvency of Heta, it was determined that the then Hypo Alpe-Adria-Bank International AG was to be transferred into a structure that would no longer require the company to comply with any regulatory minimum capital regulations. This required the regulated continued operations, which comprised the SEE network and its management and the participation in HBI as a credit institute to be carved out from the group at a later date; this was implemented in October 2014.

The valuation of the group's assets relevant to the portfolio wind-down was initiated once the Federal Law on the Creation of a Wind-Down Unit (GSA) fully came into force at the end of October 2014 following the transfer of Heta into a partially

regulated but not insolvency-proof wind-down unit; this valuation reflects the short- to medium-term intention to sell in saturated markets that are limited in their receptiveness in a wind-down period of five years, made the assumption that 80% of assets are to be wound down by 2018.

Pursuant to section 3 (1) Federal Law on the Creation of Wind-Down Unit (GSA), an “orderly, active exploitation of assets to the best possible advantage (portfolio wind-down)” is to be ensured. However, the Federal Law on the Creation of Wind-Down Unit (GSA) does not specify a time frame for the wind-down process. Pursuant to section 3 (1) of the Federal Law on the Creation of a Wind-Down Unit (GSA), the portfolio wind-down is to be carried out “as quickly as possible within the scope of the wind-down targets”. At the same time, it is stated that the wind-down unit serves the purpose of the “long-term exploitation of the portfolio”. The aim of the former Hypo Alpe-Adria-Bank International AG (HBInt) and therefore also the purpose of the company changed from being a full credit institution with a regional and international orientation to a wind-down institution, which winds down its assets over the long term and in an orderly manner. This process is not subject to any specific time frame. This apparent contradiction between a “quick” wind-down process and the lack of a specific time frame is to be resolved as follows: Legislators requested from the Heta Executive Board to weigh up the goal of an “orderly, active exploitation of assets to the best possible advantage” with the requirement of completing the wind-down process “as quickly as possible” and then to define an adequate timeframe for the portfolio-exploitation.

Following the announcement of the interim results of the Asset Quality Review (AQR), which indicated a potential capital shortfall of between EUR -4.0 billion and EUR -7.6 billion and also forms the basis for the assessment of assets in the financial statements for 2014 and the wind-down plan pursuant to the Federal Law on the Creation of Wind-Down Unit (GSA), as well as the expected implications of these for the company’s capital and liquidity situation, the company’s shareholder, the Republic of Austria, announced on 1 March 2015 that no further measures in accordance with the Federal Act on Financial Market Stability (FinStaG) will be taken for Heta. The wind-down authority then issued a decision on the wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) on the same day. This decision puts a moratorium on all of Heta’s co-called “eligible liabilities” until 31 May 2016.

Based on the change in the purpose of the company, the implications of the Federal Law on the Creation of a Wind-Down Unit (GSA), which provides for a compulsory self-dissolution once the statutory wind-down targets have been met, the complete discontinuation of units conducting new business, the state of overindebtedness at the company, the lack of financing commitments, the issuance of the Federal Act on the Recovery and Resolution of Banks (BaSAG) decision by the resolution authority, the Executive Board has no longer a basis for continuing to prepare financial statements based on the going concern assumption.

Instead, the financial statements as at 31 December 2014 are based on the gone concern premise.

Essentially, pursuant to section 7 (1) Federal Law on the Creation of a Wind-Down Unit (GSA), section 67 of the Insolvency Act (IO, opening insolvency proceedings due to overindebtedness under insolvency law) does not apply to Heta.

In its wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit, the Executive Board does not provide for interest or repayments on the company’s debt (see also note 5). The wind-down plan to be created by the wind-down authority may deviate in terms of time frames and content from the Heta wind-down plan, meaning that the Executive Board is uncertain (particularly for the period outside of the current moratorium) whether an orderly wind-down of Heta outside of a state of insolvency is possible.

## **(5) Wind-down plan according to GSA**

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. According to section 5 (2) the wind-down plan must contain the following:

- a presentation of the business activities and liquidation measures planned for the wind-down of the portfolios
- a timetable for the complete liquidation of assets related to the wind-down of the portfolio
- periodic reports on net assets, financial position and results of operations including cash flow statements and budgeted balance sheets, budgeted income statements and liquidity plans and
- information on risk management which reflects the wind-down targets.

The wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) is prepared in accordance with the accounting principles of the Austrian Commercial Code/Austrian Banking Act (UGB/BWG) and refers to Heta (single institution). The Heta Executive Board has weighed up the wind-down objectives of an orderly, active exploitation to the best possible advantage with the legal requirements of “a portfolio wind-down as quick as possible” and subsequently defined a time frame of five years as adequate for the complete wind-down of the relevant portfolios. The plan, which is currently being

prepared, solely presents the liquidation of assets (assets side) and the expenses accrued in the wind-down process. On the equity and liabilities side, the plan foresees no interest or capital repayments, merely an increase of cash reserves. The target of the wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) is to fully liquidate all portfolio-wind-down-relevant assets by the end of 2020. As a milestone, around 80 % of the assets are to be liquidated by the end of 2018 starting with the figures as at 31 December 2014. To achieve the targets, receivables and real estate are to be sold to investors through individual and, increasingly, through package and portfolio transactions. Preparations for the first package and portfolio transactions began in the first half of 2015. The receivables from HBI and HGAA are to be viewed separately and are likely to be still in place after 2020 as well as performing mortgage loans in accordance with the wind-down plan.

Performing loans and securities with short residual terms are to be recovered through regular repayment and those with longer terms are to be liquidated in the medium term by being placed on the market. Underlying collateral for non-performing loans should only be collected if they can be expected to be sold immediately (within 12 months). Repossession should only be carried out in exceptional cases.

According to section 6 of the Federal Law on the Creation of a Wind-Down Unit (GSA), the management of the wind-down unit is obliged to report to the Supervisory Board. This is to be conducted either on a regular basis in the form of quarterly and asset reports or on an ad-hoc basis in the form of special reports.

In parallel to the creation of the wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA), the Austrian Financial Market Authority (FMA) prepares a resolution-down plan in its role as resolution authority, which contains the final valuation under section 57 Federal Act on the Recovery and Resolution of Banks (BaSAG) (as at valuation date 1 March 2015).

### III. ACCOUNTING AND MEASUREMENT POLICIES

#### (6) 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 under observance of the general principle to present a true and fair view of the companies' assets, liabilities, financial position and profit or loss.

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, so the annual financial statements have been prepared on the basis of the gone concern assumption. Due to the conversion of Heta into a wind-down unit pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) and the application of the gone concern principle to the accounting process, the previously applied valuation parameters and model assumptions had to be adapted. The requirements of the Federal Law on the Creation of a Wind-Down Unit (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG) and the gone concern assumption have been taken into consideration accordingly in the measurement of assets and liabilities. Where section 3 Federal Law on the Creation of a Wind-Down Unit (GSA) provides for a wind-down process that is as quick as possible within the scope of the wind-down targets, section 54 Federal Act on the Recovery and Resolution of Banks (BaSAG) stipulates that a "fair, prudent and realistic measurement of assets and liabilities" should be carried out. According to the requirements of the 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 Federal Act on the Recovery and Resolution of Banks (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 Federal Act on the Recovery and Resolution of Banks (BaSAG) by the resolution authority (Austrian Financial Market Authority) 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 2014.

Assets and liabilities in foreign currencies are translated using mean 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 included at their nominal value; risk provisions on loans and advances and those according to section 57 (1) Austrian Banking Act (BWG) have been deducted. Premiums and discounts on issue are recognised under prepaid expenses and deferred income respectively and 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 UGB/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 loan loss allowance is calculated on the basis of 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, with the original effective interest rate being applied 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. We refer in this regard to note 7 Asset Quality Review (AQR) / adjustment of measurement methods due to the Federal Law on the Creation of a Wind-Down Unit (GSA).

To assess the recoverability, the amount, the time period, and the probability of payment is measured. In the case of loans and advances below a value of EUR 3.0 million, specific risk provisions in a global way are determined. 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 homogenous portfolios with comparable risk characteristics. These are determined in consideration of 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 risk provisions have been formed, are not included in the calculation of portfolio risk provisions. Furthermore, risk provisions pursuant to section 57 (1) Austrian Banking Act (BWG) were recognised for the first time in 2014 in order to take into consideration 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 targets of section 3 Federal Law on the Creation of a Wind-Down Unit (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, resulted in the remeasurement of the portfolio within the scope of the Asset Quality Review (AQR), which resulted in a significant increase in the allocation of new credit risk provisions.

The risk of impairment of **lines of credit** to subsidiaries is assessed on the basis of an estimate of expected (negative) equity at the end of the detailed planning period until 2020 included in the subsidiaries’ business plans, which were also prepared in accordance with the gone concern assumption. The provisions are determined by offsetting the (negative) equity as at 31 December 2014 with the discounted (positive and negative) forecasts as at the valuation date. Discounting of the resulting provision amounts only takes place to the extent that the business plans do not contain any intentions for prompt recapitalisation of subsidiaries which show negative equity. The current wind-down plans have been prepared on the basis of assumed ongoing recapitalisation of negative results at subsidiaries (2013: interest rate 3.0%).

**Securities** earmarked for permanent use in the business are shown on the balance sheet as financial assets in accordance with section 56 (1) of the BWG and valued according to the modified lower of cost or market value. Due to the requirements of the Federal Law on the Creation of a Wind-Down Unit (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.

Securities in current assets are recognised at market value in accordance with section 56 (5) Austrian Banking Act (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. Given that no unlimited holding is permitted also for securities in current financial assets due to the Federal Law on the Creation of a Wind-Down Unit (GSA) and these must therefore be sold in the short to medium term, it is ensured that the calculation for less-liquid securities allows the swift disposal of the securities.

Securities forming part of the trading book are included at 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 present value using the relevant interest rate curve. 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 as a result of a higher company value, then the size of the impairment write-down is, at maximum, the total cost of the acquisition. The intrinsic value of their carrying amounts is checked as required, and at least once a year immediately prior to the balance sheet date.

According to section 225 (5) of the Austrian Commercial Code (UGB), associated companies are to 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 of the 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. According to this, 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), measurement is performed based on the assumed liquidation or sale of the respective portfolio and in consideration of costs to be accrued in this regard as well as any contractual claims on the part of co-shareholders.

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%, for movable assets they range from 5% to 33%, and for software they are 25%. If the carrying amount of real estate exceeds the expected disposal gains, unscheduled depreciation is recognised in the amount of the difference.

**Liabilities** are shown either at original nominal values or at the amounts repayable. Any premiums and discounts are written off over the life of the underlying debt and shown in net interest income. Standard issue costs are shown immediately as an expense.

**Provisions for pensions** were calculated actuarially using the unit credit method in accordance with the provisions of IAS 19 – as allowed for pursuant to UGB/BWG – in the year under review. The so-called corridor method of distributing the actuarial gains and losses was not used. The calculation assumed an interest rate of 2.15% (2013: 3.25%) and an unchanged annual pension increase of 2.0% p.a.

Provisions for **anniversary payments** were determined by means of actuarial calculations using the projected unit credit method in accordance with IAS 19. The calculation used an interest rate of 2.15% (2013: 3.25%) and assumed an unchanged salary increase rate of 2.3% p. a. (2013: 3.0%), taking into account a deduction of 6.0% (2013: 6.0%) to reflect employee turnover.

**Provisions for severance payments** were calculated actuarially also using the projected unit credit method in accordance with the provisions of IAS 19 without applying the corridor method along with the claims as at the expected point of termination. The calculation used an interest rate of 2.15% (2013: 3.25%) and assumed an unchanged salary increase rate of 2.3% p.a. (2013: 3.0%), taking into account a deduction of 0.0% (2013: 0.0%) to reflect employee turnover. The provision was calculated assuming retirement at the earliest statutory pensionable age according to the General Social Insurance Act (2004 Pension Reform) and termination by the employee after 10 years of uninterrupted employment. Current service costs for pensions are distributed evenly over the entire period of service, from joining the company until reaching statutory retirement age.

**Other provisions** are based on the amounts expected to be required over and above the amounts of known liabilities. 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 take into sufficient account 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 accrued future personnel and material costs in the planning period to 2020. This provision was allocated in the 2014 financial year to extraordinary income, as were any future releases to compensate for incurred expenses or losses.

**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 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 – and 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. When measuring options, option price models based on the Black-Scholes models or the Hull-White models that take into account actual market parameters are used.



Due to restructuring under the GSA, which does not allow the company to hold non-current securities and loans and advances until their maturity, it had to be assumed for each derivative used in a hedge against such a finance instrument that the hedge would be terminated. If the market value was negative, provisions were formed in the shape of provisions for impending losses. Furthermore, provisions were also made for the risk of a premature termination of derivatives and any resulting expenses.

## **(7) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA**

### **7.1. Adjustment of measurement parameters**

In order to fulfil the statutory requirements under section 3 (1) GSA, Heta conducted an Asset Quality Review (AQR). The objective of the AQR was to value all assets of Heta relevant to the wind-down of the portfolio based on the wind-down objectives. From now until 2020, the liquidation of the asset positions should be at the centre of the company's business activities. According to the company's articles of association, the company should then dissolve itself.

To ensure this target is achieved Heta has drawn up new guidelines for measuring loans and real estate with the help of an auditing company as an independent expert. The measurement parameters were defined on the basis of sound expert estimates. These parameters formed the basis of the subsequent valuation of the loans and real estate by Heta. To measure loans a realisable sales value (RSV) and for real estate a market value under special assumptions (MV<sub>usa</sub>) were established.

To date, real estate classified as investment properties has been recognised at cost or, in the event that the value in use is less than the carrying amount, less write-downs on impairment. Whereas the value in use had previously been determined on the basis of ongoing usage or the generation of ongoing proceeds, this is now determined exclusively on the basis of the amount that the real estate can generate in the event of a short-term sale in markets that are limited in their receptiveness.

For loans, it had previously been assumed that the company itself would manage its loans and advances and that collateral would be liquidated in the long term. The Federal Law on the Creation of a Wind-Down Unit (GSA) stipulates that these may now have to be sold in the short to medium term. The following two valuation methods were selected:

- Loan cash flow valuation approach
- Collateral valuation approach

On the basis of a defined decision-making tree, the first step was to determine whether loans were to be measured using the loan cash flow valuation or collateral valuation methods. To this end, the measurement guidelines were divided into individual steps and the measurement provisions and parameters transferred to a measurement model.

When applying the loan cash flow valuation method, future cash flows were calculated using interest rate and repayment plans; these future cash flows are derived from investors' expected returns as documented in the measurement guidelines, graded according to loan quality, the amount of collateral, the country risk and the future cash flows. When using the loan cash flow valuation method, the amount remaining after the deduction of the prescribed transaction costs corresponds to the realisable sales value discounted to the original effective interest rate as at 31 December 2014.

Individual remeasurements were performed for the following forms of loan collateral where the decision-making tree called for the application of the collateral valuation method:

- Loans with a net exposure > EUR 3.0 million (at the level of Heta; for the subsidiaries > EUR 1.0 million)
- Real assets where these do not consist of immovable assets,
- Financing where the borrower is to be allocated to the retail or corporate sectors,
- Real estate collateral with a market value > EUR 0.5 million.

Deductions for the sales and liquidation strategy, real estate risks, legal enforceability and investor returns as well as other (transaction) costs were deducted from the newly calculated values, a present value was calculated from the value of the collateral taking into account the expected period in which the collateral can be exploited. Any additional cash flows besides the disposal of collaterals were recognised at present value. The resulting present-value amount corresponds to the realisable sales value using the collateral valuation method.

Other loan collateral (net exposure < EUR 1.0 million or real estate collateral < EUR 0.5 million), collaterals from Public Finance and Financial Institutions sector borrowers or collaterals in the form of real assets from movable assets were grouped into homogenous portfolios and discounted using the valuation discounts specified in the measurement criteria. For defaulted loans, the RSV calculated was discounted with the original effective interest rate.

In turn, the findings of the AQR performed at the level of the individual loans led to an adjustment to the parameters established for portfolio risk provisions taken into account for incurred but not yet reported losses of credit portfolios. The following loss estimate parameters were affected by adjustments:

- The amount of the loss given at default (LGD): this has been replaced by an average realisable sales value, which is based on individual analyses in the Asset Quality Review and estimated differently depending on portfolio characteristics (country of the risk position, predominant form of collateral and customer segment).
- The cure rate: this is no longer used given the changed assessment of the going concern of the company.
- The loss identification period (LIP): the minimum threshold for retail and corporate customers was adjusted from 0.5 to 1.0 in the course of the AQR; this is in line with the recommendation of the European Central Bank relating to how an asset quality review should be conducted. The LIP factors currently valid for banks and states remain at 0.1.

The market value under special assumptions, which is the market value under wind-down conditions, of a wind-down unit pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA), taking into account the current market situation (based on macroeconomic market data updated annually) as well as the ongoing recession and illiquidity of SEE markets in the event that assets are sold at short notice, were all determined for real estate. The valuation did not take into account any market recovery, meaning that current market conditions and restrictions were assumed. Greater emphasis was also put on legal object risks as well as risks from the contamination of properties, documentation that is not available or restricted access when conducting the initial examination, and the mentioned specific wind-down aspects (fire sale of a high number and volume of real estate in illiquid markets) using standardised general hair cuts.

It should be taken into account that the valuation of the real estate as part of the AQR was largely based on desktop analyses using available documentation and according to the current condition of the assets. Regardless of this, the Executive Board is confident that the assets, based on the application of the group-wide AQR valuation guidelines, are valued at realisable market values which can be achieved in a proper portfolio wind-down. According to the Executive Board, this also meets the final measurement requirements under section 57 of the BaSAG as defined by the resolution authority.

Based on the AQR method, realisable present values of loans and real estate are determined; these present values are in line with market conditions. All results of the AQR are validated and approved in the appropriate committees on an individual loan basis. A market value was calculated for performing loans on the basis of the planned sale of these loans and advances by 2020. Provisions will be set aside in the UGB/BWG financial statements in the form of a provision pursuant to section 57 (1) of the Austrian Banking Act (BWG) in the event that the carrying amount was lower than the market value.

## 7.2. Impact of the AQR on the 2014 financial statements

The group-wide revaluation of loans and real estate led to a devaluation result of around EUR 3.3 billion which resulted in impairments on the cross-border loan portfolio of the company and portfolios of the subsidiaries in the separate financial statements under UGB/BWG; these impairments in turn has a negative impact on the holding company in the form of impairments on refinancing lines. These impairments are mainly due to the following factors:

- As part of the AQR all loans and real estate (inventory) were valued whereas individual reviews are only carried out during regular audits or if there is any indication of impairment.
- The parameters were determined based on an investor's perspective. Each price is calculated according to the price a potential investor would acquire the assets relevant to the portfolio wind-down for in their current conditions taking into account special legal circumstances (e.g. documentation) and the respective markets (e.g. limited circle of buyers).
- Whereas as the liquidation of loans is generally carried out as a partial or full financing of the buyer by the bank selling them, this is not the case in this AQR as it would contradict the wind-down targets according to GSA. It was assumed that potential buyers would have to fully refinance themselves on the market calculating a risk premium.
- Real estate markets in Southern Eastern Europe (SEE) and Italy are marked by declining prices, a rising vacancy rate and a diminishing number of transactions. This was taken into account when determining the AQR parameters.
- Many of Heta's properties (collaterals) are not in central or attractive locations (e.g. city centers, near the coast etc.) but in peripheral areas or rural areas where a stronger decline in prices and demand has been observed. Due to their previous use (e.g. industrial land), many land assets are only suitable for an extremely limited circle of potential buyers (e.g. no ongoing returns from rents).
- The conditions of the assets, particularly of those where the borrower has not fulfilled his payment obligations, has deteriorated rapidly due to the lack of adequate maintenance and repairs as most of the remaining non-performing loans

have been in default for more than three years. In addition several properties were also severely affected by the flooding in the Balkans in May 2014. For collected collaterals (bail-out purchases/repossessions) maintenance measures are only permitted after relevant proof has been submitted and the EU trustee has been informed, which also led to a deterioration of the condition of these assets.

- Findings regarding the disposal of an own portfolio of non-performing loans (NPL) in SEE countries ("DINARA") project in mid 2014, which revealed extremely low realisable prices, were also taken into account when determining parameters from an investor's perspective as well as recent results from other sales procedures, initial contact from investors and the experience of the assisting audit company relating to similar transactions in Eastern Europe.
- In cases where collaterals cannot be collected through negotiation, the risks of legal enforcement (lasting for several years) are reflected in the discounted realisable market values.
- Due to the condition of collaterals, the largely second-rate locations and the fact that Heta has no possibility of investing in improving the value of the property, Heta is unlikely to be able to profit from a potential recovery of the overall market in SEE countries. On the contrary, it is more likely to face further losses if it waits any longer to liquidate the assets. Subsequently, in the majority of cases, the emphasis is on a swift liquidation to gain the best possible result.
- The market values of Heta's assets is also suffering from negative media coverage and reputational damage, which also had or will have a negative impact on valuations.

## **(8) Use of estimates and assumptions/uncertainties in connection with estimates**

The financial statements contain values based on discretionary decisions and which have been calculated using estimates and assumptions. Important uncertainties relate in particular to establishing risk provisions for loans and advances, assessing fair values, measurement of equity investments, recoverability, other assets, the measurement of legal risks as well as provisions and the treatment of deferred tax risks.

Significant changes were made to estimates and assumptions in the 2014 financial year due to the change in the assessment of the going concern assumption for Heta. Due to the provisions of the Federal Law on the Creation of a Wind-Down Entity (GSA) and the subsequent switch to the gone concern premise, material measurement assumptions and model parameters were adjusted in line with changed future expectations. The effects out of this on the result were recognised in the 2014 income statement.

The AQR involved a comprehensive assessment of the measurement of non-performing loans. In this collectability assessment, the amount, the time period, and the probability of expected repayment is measured. This measurement is based on a detailed analysis of carefully ascertained assumptions which are subject to uncertainties. A different assessment of these assumptions may result in significantly different valuations of risk provisions on loans and advances. The actual loan defaults can therefore differ from the risk provisions for loans and advances 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 input parameters used are based – whenever available – on observable market data. If this is not possible, fair value is established on the basis of estimates. At Heta, fair value is calculated through comparison with the fair value of another financial instrument that is essentially identical and analysis of discounted cash flows and option pricing models.

The measurement of equity investments relates primarily to securities investment companies. In terms of the dissolution of these companies, uncertainties arise with regard to the contractual provisions and, in particular, to the resulting reciprocal effects relating to the statutory provisions of the Federal Act on the Recovery and Resolution of Banks (BaSAG).

Considering the ongoing weakness in the economy in the countries in which the Heta group operates, the possibility cannot be discounted that it will be necessary to make further provisions for the existing loan portfolio. As a result, uncertainties related to the estimates and assumptions may lead to results that will make it necessary to adjust the carrying amounts of the affected assets or provisions in future periods.

## **(9) Discontinued operations**

### **9.1. Carve-out of the Italian banking subsidiary (HBI)**

Heta was required to transfer all of its shares in Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) to HBI-Bundesholding AG (HBI-BH) so as to comply with the statutory provisions of the Federal Law on the Creation of a Wind-Down Unit (GSA) (particularly the termination of the banking license) and the Federal Law on the establishment of a state-owned holding company for Hypo Alpe-Adria-Bank S.p.A. (HBI-Bundesholdinggesetz). 318,187,083 shares were sold to HBI for 99.999% of the share capital of HBI-BH with the share purchase agreement dated 8 September 2014. Heta also assumed guarantees for HBI-BH for the possible negative outcome of the criminal proceedings pending against HBI within the context of the Italian Act on the Responsibil-

ity of Legal Entities for Criminal Offences (VbVG). Heta recognised provisions for possible future utilisation. The closing was completed once approval was granted by Banca d'Italia on 30 October 2014; HBI was excluded for the scope of consolidation of Heta on the same date.

The share purchase agreement provides for the negative company value of HBI of EUR -2.4 million calculated as at 30 June 2014 is to be paid by Heta as the seller to HBI-BH. It also stipulates that the buyer will ensure that HBI will maintain the respective Tier 1 minimum own capital funds ratio as prescribed by Banca d'Italia from the closing of the agreement. HBI-BH will have to receive sufficient funds from an external source to ensure that it can fulfil these obligations. At present the Executive Board of Heta cannot judge to what degree the owner of HBI-BH (Republic of Austria) will undertake capital measures to ensure that HBI-BH is capable of fulfilling this obligation.

The agreement also provides for the parties to the agreement to engage an audit company as soon as possible following the closing; this audit company would be required to evaluate HBI by 31 October 2014. Based on HBI's then valid business plans and not taking into account Heta's low-interest lines of credit, the company was valued at EUR -12.3 million. The contractually agreed settlement was paid to HBI-BH on the basis of the expert opinion presented on 25 October 2014.

Heta's existing refinancing lines provided to HBI amounted to approximately EUR 1.6 billion (in nominal terms) as at 31 December 2014 and have historically a low interest rate, which will remain unchanged following the sale to HBI-BH in the fourth quarter of 2014. Within the scope of the carve-out, Heta has undertaken to provide HBI with a so-called emergency liquidity facility of up to EUR 0.3 billion in the event of an outflow of deposits. The emergency liquidity line has been deferred by the moratorium since imposed by the Austrian Financial Market Authority (FMA) as the resolution authority and can therefore no longer be utilised by HBI. The Federal Act on the Recovery and Resolution of Banks (BaSAG) moratorium means that Heta cannot fulfil its contractual obligations, resulting to a continual deterioration in HBI's liquidity situation, which cannot be compensated for without external support. HBI is required to repay or replace its refinancing lines within the scope of its wind-down. In terms of the recoverability of these receivables a value needed to be recognised in the financial statements by Heta for its valuation which would be realistic according to a wind-down procedure in Italy. In this context provisions for credit risks of some EUR 1.2 billion were set aside.

In its role as HBI's main creditor, Heta is currently holding talks with its owners as well as with representatives of the Republic of Austria which, given the current restrictions of the Federal Act on the Recovery and Resolution of Banks (BaSAG), can help to prevent such a regulatory wind-down process in Italy so as to obtain a higher repayment for Heta that exceeds HBI's committed funds.

## 9.2. SEE network

### 9.2.1. CARVE-OUT OF THE SEE NETWORK AND THE SIGNING OF A PURCHASE AGREEMENT FOR THE REPRIVATISATION OF THE SEE NETWORK

In addition to the privatisation of the SEE network, the shares held in HGAA had to be transferred from the then Hypo Alpe Adria Group to a third party as a condition for the transformation of the then Hypo Alpe-Adria-Bank International AG into a wind-down unit pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA). The Federal Law on the Creation of a Wind-Down Unit (GSA) provides for the transfer of the shares to the Republic of Austria or another federal institution.

The signing and closing relating to the sale of HGAA were concluded on 30 October 2014 pursuant to the resolution of the general shareholders' meeting of then Hypo Alpe-Adria-International AG held on 16 October 2014. The share purchase agreement (also referred to as the SEE carve-out agreement) relating to all of the HGAA shares held by Heta was concluded with Finanzmarktbeihilfung Aktiengesellschaft des Bundes (FIMBAG), which holds the shares in HGAA in trust for the Republic of Austria.

HGAA, including its subsidiary banks in South-East Europe, left the scope of consolidation of Heta following the conclusion of the share purchase agreement and the delivery of the global note to FIMBAG, meaning that all risks and opportunities relating to HGAA were transferred to the new owner from this date. Taking into account the supplementary agreements dated 18/25 November 2014 (first supplement) and 22 December 2014 (second supplement), Heta was authorised within the scope of the carve-out (power of attorney) to sell the shares in HGAA to the highest bidder.

Following intensive negotiations, especially at the end of the fourth quarter of 2014, the consortium of bidders, consisting of Advent/EBRD, came out as the winners from an open, transparent and unconditional disposal process.

The power of attorney was initially limited until 20 and 27 November 2014 (extension pursuant to the first supplementary agreement). The negotiations on the Republic of Austria's hedge between the Republic of Austria and the consortium of bidders, Advent/EBRD, were not successfully concluded by 27 November 2014. However, the offer authorised by the bidders at the end of October 2014 was not accepted due to this fact. Heta did not have a power of attorney after this date to sell the SEE network, which was then owned by FIMBAG. FIMBAG then continued the sales process.

In this case, the carve-out agreement provided that the wind-down scenario takes effect when determining the purchase price. This means that the value of the SEE network would be determined on the basis of the expected outflows from the winding-down of the SEE banks. Internal and external analyses indicated that Heta would likely have seen considerable losses. In that case Heta informed the public of this fact in an ad hoc announcement.

The general shareholders' meeting of Heta held on 22 December 2014 approved the conclusion of the second supplementary agreement on the share purchase price agreement dated 30 October 2014. The second supplementary agreement between Heta and FIMBAG again granted power of attorney and integrated Heta in the sale scenario once again. Heta then signed the Share Purchase Agreement (SPA) on that basis with Advent/EBRD regarding the sale of shares in HGAA. Pursuant to contractual stipulations, the purchase price agreed with FIMBAG pursuant to the SEE carve-out agreement dated 30 October 2014 and FIMBAG's standard profit participation were determined by an independent auditor. With regard to the agreed purchase price it should be noted that this was determined on the basis of the expectations as at the date of the carve-out with regard to the possible risks arising from the SEE network. No adjustments are planned if the risks are not as extensive as initially planned. A draft of the expert opinion was presented on 3 June 2014; both parties have up to 14 days, that is until 17 June 2015, to state whether they agree with the results of the assessment. There is no evidence at present that the other party plans to exercise its contractually agreed veto. The commission to be paid to the Republic of Austria for the takeover of counter guarantees (hedging instrument) is also based on this expert opinion by the independent assessor and was calculated actuarially.

The SEE network must be wound down in the event that the sale falls through before the end of the deadline set by the European Commission (closing deadline: 31 December 2015); this would place high financial burdens on Heta. In this case, the purchase price mechanism of the carve-out agreement would be based on a negative wind-down scenario for Heta, rather than a sales scenario.

#### 9.2.2. KEY ASPECTS OF THE SALES AGREEMENT FOR THE SEE NETWORK

The conclusion of the sales agreement with the consortium of bidders, consisting of Advent International Corporation (Advent) and the European Bank for Reconstruction and Development (EBRD), was preceded by comprehensive internal deliberations at Heta. The Executive Board of Heta assessed the advantages of the sale of the SEE network compared to the winding-down of the SEE network on the basis of the opinions of internal and external experts and weighed this out together with Heta's Supervisory Board. The Executive Board came to the unequivocal conclusion that the sale of the SEE network was more advantageous than a winding-down. In a further step, Heta's Executive Board conducted commercial and legal analyses of the final offers received during the sales process and compared them. It was on this basis that Heta's general shareholders' meeting held on 22 December 2014 approved the sale to the consortium of bidders, consisting of Advent/EBRD.

The sales agreement regulates the sale and the transfer of all shares in HGAA to the consortium of buyers on the basis of FIMBAG's power of attorney. The conclusion of the sales agreement is 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, the extension of HGAA's banking license, the approval by key contractual partners, the provisions of a specified refinancing volume at the level of HGAA through Heta as well as the lack of a material adverse change event. These conditions precedent must be fulfilled by 30 June 2015. Heta expects the transaction to be completed in mid-2015.

The sales agreement provides for a basic purchase price subject to the following purchase price adjustment mechanisms: the first adjustment of the basic purchase price will be made on the basis of the consolidated equity of the SEE network pursuant to the consolidated financial statements as at 31 December 2014 compared to a fixed reference value (net asset value adjustment). The second adjustment will be made on the basis of a comparison of the actual retail provisions for the 2015 financial year compared to budgeted provisions (retail LLP adjustment). Upper and lower limits are in place for the final purchase price, i.e. the purchase price after adjustments.

The sales agreement provides for an additional comprehensive list of guarantees. Heta considers this list of guarantees to be acceptable given the history of Heta and the SEE network and the public discussion concerning these, as well as the business area in which the SEE network operates. Guarantee claims are subject to normal liability rules, particularly liability limitations. Heta's liability for breaches of warranties are generally limited to the purchase price (maximum liability amounts can only be increased under certain circumstances). The company can be held liable for breaches of warranties until 30 June 2016. The exemptions provided by Heta can be split into two categories: "category 1" mainly relates to risks attributable to Heta and its past and can generally be triggered out of the transaction. "category 2" relates primarily to risks originating in or that arising from the SEE network. Exemption claims are subject to normal liability rules, particularly liability limitations. Heta's guarantee for exemption claims per category is limited; however, the maximum guarantee far exceeds the highest possible purchase price. The company can be held liable for exemption claims until 2022 (category 1) and 2020 (category 2).

Claims under the sales agreement, particularly claims relating to breaches of warranties or from exemptions, must generally be met by offsetting these against the outstanding purchase price tranches and then against the lines of credit in place

between Heta and HGAA, even following the sale. The amounts can only be offset if Heta is found to have been liable (e.g., by means of a judgment, arbitration or acknowledgement). Claims are to be paid in cash in the event that the amounts cannot be offset (for example, if all purchase price tranches have already been paid or because the lines of credit have already been repaid in full).

Some of the bidder consortium's claims against Heta under the sales agreement, particularly claims relating to breaches of warranties or from exemptions, are hedged by means of a hedging instrument of the Republic of Austria. The hedging instrument is generally organised as a guarantee. Under certain conditions, the hedging instrument is transformed into the Republic of Austria being directly liable towards the buyer. Heta is required to pay an appropriate fee to the Republic of Austria for this hedging instrument on the basis of the stipulation included in the SEE network carve-out agreement. The buyer's claims against Heta under the sales agreement, particularly claims relating to breaches of warranties or from exemptions, are also hedged by means of a pledge of the lines of credit granted to HGAA for the benefit of the buyer.

The sales agreement grants the bidder consortium the right to transfer certain loans and advances, other assets and risk positions up to a value of EUR 0.8 billion (net statement of financial position as at 31 December 2014) to Heta or one of its nominated subsidiaries ("buyer brush option"). Retransfers must be asserted by the end of October 2015 and implemented by no later than March 2016. The lines of credit granted to HGAA will be reduced as consideration for the retransfer of assets and the risk positions.

Pursuant to contractual provisions, Heta is obligated to continue to maintain the lines of credit in place as at 31 December 2014 (EUR 2.0 billion; expandable up to EUR 2.4 billion). The conditions will be raised gradually up to a normal banking financing level. The lines of credit, which are not offset against exemption or guarantees, must be repaid by no later than 2022, taking into account the returned assets and risk positions.

Corresponding provisions were made in the 2014 financial statements for the bidder consortium's expected claims relating to guarantees and exemptions as well as for the shift in credit risks resulting from the retransfer of credit portfolios.

A forecasted repurchase volume was estimated and the portfolio was assessed within the scope of the AQR when determining the extent of these credit risks. Due account is taken of the fact that loans and advances to the SEE network bear low interest rates and therefore an impairment had to be recognised in the amount of the difference between the contractual interest rate premiums and the minimum interest rate discounts defined in the internal measurement guidelines. Furthermore, provisions were made for the profit participation which must be paid to FIMBAG for enabling deregulation as well as the commission fee to be transferred to the Republic of Austria for granting the hedging instrument.

There is uncertainty for the 2015 financial year as to whether the sales agreement will in fact be executed. The SEE network must be wound down in the event that the sale falls through before the end of the deadline set by the European Commission (closing deadline: 31 December 2015); this would place additional high financial burdens on Heta. In this case, the purchase price mechanism of the carve-out agreement would be based on a negative wind-down scenario for Heta, rather than a sales scenario. In such a scenario, it is highly likely that the nominal value of the loans and advances to HGAA of EUR 2.0 billion as at 31 December 2014 will be completely irrecoverable, which means that additional losses of up to EUR -1.0 billion are to be expected depending on the loans and advances still to be paid at the time of this decision.

### 9.3. Winding down investment companies and portfolio sales

The systematic wind-down of the investment portfolio continued and therefore the complexity of Heta was further reduced in the 2014 financial year. The sale of the Ukrainian leasing company was concluded in the second quarter of 2014; this resulted in the end of Heta's business activities in Ukraine.

A spa hotel in Slovenia – Terme Spa Rogaska d.d. – was sold to the highest bidder in December 2014 (signing); the closing of this transaction was concluded following the transfer of all supplier agreements and employees as well as the registration of the transaction in the land registry in March 2015.

As expected, the sales process for the real estate project "Skipper" has not yet been concluded, although the exclusively phase proved positive.

The assets of Serbian IT company, Zajednicki Informacioni Sistem d.o.o. Beograd, which had attended to the core bank applications of the former subsidiary banks in Serbia, Bosnia and Herzegovina, and Montenegro, was largely sold in 2014.

A project team was established in early 2014 to deal with the structured processing of future portfolio sales, with the aim of compiling and marketing additional NPL portfolios. The first interregional prototype sales process to wind-down credit portfolios was conducted in autumn 2014. A non-performing retail portfolio with more than 20,000 individual agreements in the SEE region was sold within the scope of the "DINARA" project. This portfolio sale is crucial for the implementation of Heta Asset Resolution AG's wind-down activities.

## IV. NOTES TO THE BALANCE SHEET

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

The following balance sheet item includes loans and advances and liabilities in respect of affiliated or associated companies:

	EUR thousand	
	31.12.2014	31.12.2013
<b>A3: Loans and advances to credit institutions</b>	<b>2,520,412</b>	<b>4,250,669</b>
of which to affiliated companies	0	3,055,735
of which to associated companies	0	0
of which to non-group companies	2,520,412	1,194,934
<b>A4: Loans and advances to customers</b>	<b>3,246,408</b>	<b>8,971,210</b>
of which to affiliated companies	1,816,859	5,483,180
of which to associated companies	0	0
of which to non-group companies	1,429,548	3,488,030
<b>P1: Liabilities to credit institutions</b>	<b>2,929,159</b>	<b>3,788,329</b>
of which to affiliated companies	0	51,868
of which to associated companies	0	0
of which to non-group companies	2,929,159	3,736,461
<b>P2: Liabilities to customers</b>	<b>1,668,081</b>	<b>1,630,279</b>
of which to affiliated companies	217,011	150,069
of which to associated companies	0	0
of which to non-group companies	1,451,070	1,480,210
<b>P8: Subordinated liabilities</b>	<b>1,095,566</b>	<b>1,903,073</b>
of which to affiliated companies	0	0
of which to associated companies	0	0
of which to non-group companies	1,095,566	1,903,073

Loans and advances to credit institutions reduced in the 2014 financial year from EUR 4.3 billion to EUR 2.5 billion, which is primarily attributable to provisions connected with the sale of former subsidiaries in South-East Europe and Italy.

Loans and advances to customers include subordinated loans and advances in the amount of EUR 0.3 billion, which are completely provided for through value adjustments. The amount of subordinated loans and advances is mainly accounted for by affiliated companies.

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

Maturities in accordance with section 64 (1) (4) of the BWG were as follows:

	EUR thousand	
	31.12.2014	31.12.2013
<b>A3: Loans and advances to credit institutions</b>	<b>2,520,413</b>	<b>4,250,669</b>
- payable on demand	166,905	1,152,638
- up to three months	49,423	193,306
- three months to one year	413,317	685,874
- one year to five years	1,827,078	1,616,484
- over five years	63,690	602,367
<b>A4: Loans and advances to customers</b>	<b>3,246,407</b>	<b>8,971,210</b>
- payable on demand	224,746	832,328
- up to three months	478,452	1,662,693
- three months to one year	706,584	1,845,607
- one year to five years	1,189,788	3,109,535
- over five years	646,837	1,521,047
<b>P1: Liabilities to credit institutions</b>	<b>2,929,159</b>	<b>3,788,330</b>
- payable on demand	946,420	2,783,707
- up to three months	30,000	51,605
- three months to one year	86,407	331,046
- one year to five years	360,000	476,407
- over five years	1,506,332	145,565
<b>P2: Liabilities to customers</b>	<b>1,668,081</b>	<b>1,630,279</b>
- payable on demand	108,685	81,373
- up to three months	196,689	86,225
- three months to one year	135,000	75,000
- one year to five years	1,143,157	1,303,230
- over five years	84,550	84,451

The maturity of the loans and advances and liabilities is calculated according to the contractual provisions of the underlying transactions. Hence the maturity dates of loans and advances do not reflect the statutory requirements of the 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. In relation to the maturity of liabilities, reference is made to the decision of the resolution authority (FMA), which was issued on the basis of the Austrian Federal Banking Restructuring and Resolution Act (BaSAG) Pursuant to this, all of Heta's "eligible" liabilities are subject to a moratorium until 31 May 2016 (see also the explanations in note (2.5) Federal Act on the Recovery and Resolution of Banks (BaSAG)).

Of the other loans and advances reported under the item 'Other assets', EUR 3,311 thousand (2013: EUR 5,377 thousand) have a remaining maturity of more than one year. In 'Other liabilities', this relates to liabilities in the amount of EUR 90,889 thousand (2013: EUR 85,008 thousand).

An amount of EUR 1,304,205 thousand (2013: EUR 2,079,969 thousand) is reported in the liabilities to credit institutions. In order to meet the requirements of the Equity Substitution Act (EKEG), it may not be returned to the former shareholder of Heta (see note (40.2) Proceeding related to BayernLB). This financing had already become due as at the balance sheet date. The change is due to interest accruals and derecognising liabilities with a nominal value of EUR 797,741 thousand, which are deemed to have expired in the context of the federal law on the reorganisation measures for Hypo Alpe-Adria-Bank International AG (HaaSanG) that came into force in August of 2014.



**(12) Securities**

Information in accordance with section 64 (1) (10) and (11) of the BWG:

EUR thousand

	31.12.2014	31.12.2013
<b>Treasury bills and other bills eligible for refinancing with central banks</b>	<b>233,182</b>	<b>526,063</b>
of which listed	233,182	526,063
of which not listed	0	0
of which fixed assets	0	176,194
of which accrued interest	0	3,555
of which current assets	230,157	339,778
of which accrued interest	3,025	6,536
<b>3. Loans and advances to credit institutions (evidenced by certificates)</b>	<b>152,685</b>	<b>52,265</b>
of which listed	0	0
of which not listed	152,685	52,265
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	152,683	52,228
of which accrued interest	2	37
<b>4. Loans and advances to customers (evidenced by certificates)</b>	<b>183,671</b>	<b>235,427</b>
of which listed	0	0
of which not listed	183,671	235,427
of which fixed assets	0	232,387
of which accrued interest	0	743
of which current assets	183,004	2,284
of which accrued interest	667	13
<b>5. Bonds and other fixed income securities</b>	<b>391,358</b>	<b>735,741</b>
of which listed	391,358	735,741
of which not listed	0	0
of which fixed assets	0	220,078
of which accrued interest	0	2,112
of which current assets	387,697	505,039
of which accrued interest	3,661	8,512
<b>6. Shares and other non-interest-bearing securities</b>	<b>20,855</b>	<b>9,678</b>
of which listed	16,564	4,677
of which not listed	4,291	5,001
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	20,855	9,679
of which accrued interest	0	0
<b>7. Shares in associated companies</b>	<b>2</b>	<b>4,863</b>
of which listed	0	0
of which not listed	2	4,863
<b>8. Shares in affiliated companies</b>	<b>505,252</b>	<b>1,176,594</b>
of which listed	0	0
of which not listed	505,252	1,176,594

The composition of bonds and other fixed-interest securities was as follows:

	31.12.2014	31.12.2013
<b>Issued by the public sector</b>	<b>28,153</b>	<b>59,795</b>
<b>Issued by others</b>	<b>363,206</b>	<b>675,946</b>
Own issues	3,267	3,250
Domestic bonds (credit institutions)	30,673	30,772
Foreign bonds (credit institutions)	264,814	321,560
Mortgage bonds and municipal bonds	45,895	281,864
Convertible bonds	0	0
Other bonds	18,557	38,500
<b>Total</b>	<b>391,359</b>	<b>735,741</b>

The difference between the securities valued at the higher market value (section 56 (5) BWG) and the acquisition costs is EUR 22,754 thousand (2013: EUR 11,210 thousand).

Fixed-interest securities from the credit institution's portfolio in the amount of EUR 282,858 thousand (previous-year figure for 2014: EUR 351,935 thousand) out of the securities denominated in euros and EUR 11,433 thousand (previous-year figure for 2014: EUR 6,783 thousand) out of the securities denominated in foreign currencies are going to mature in 2015.

Fixed-interest securities of non-public issuers, which were eligible for refinancing with the Austrian National Bank on the reporting date, total EUR 293,718 thousand (2013: EUR 532,614 thousand).

Subordinate securities according to section 45 (2) BWG in the portfolio totalled EUR 6,602 thousand on 31 December 2014 (2013: EUR 26,650 thousand).

The option afforded by section 22n BWG was not exercised, and no financial market instruments were allocated to the securities trading book as at 31 December 2014.

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. Securities classified as financial assets are reported in the balance sheet at acquisition cost or the lower repayment amount less depreciation for permanent impairment. All securities previously earmarked as financial assets (nominal amounts: EUR 436,813 thousand, USD 10,000 thousand and DKK 37,500 thousand) were reallocated to current financial assets in the 2014 financial year.

Financial investments recognised at fair value (section 237a (1) (2) UGB) are broken down as follows:

	EUR thousand			
	Carrying amount 31.12.2014	Losses not yet recognised 31.12.2014	Carrying amount 31.12.2013	Losses not yet recognised 31.12.2013
Treasury bills	0	0	176,194	-13,097
Loans and advances to banks (fixed-interest securities)	0	0	0	0
Loans and advances to customers (fixed-interest securities)	0	0	232,387	-6,836
Bonds and other fixed income securities	0	0	220,078	-5,798
Shares in associated companies	0	0	0	0
Shares in affiliated companies	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>628,659</b>	<b>-25,731</b>

Securities included in financial assets were written down by EUR 173 thousand (2013: EUR 9 thousand) because permanent impairment was expected according to a detailed analysis.

In the 2013 financial year, securities included in financial assets were written up as follows:

		EUR thousand
	ISIN-Nummer	Zuschreibung 31.12.2013
FRN DZ BK CAP.FDG I 03/UND.	DE0009078337	1,811
FRN RBS CAP. TR. IV UND.FLR	US74927FAA93	505
FRN DEKANIA EU.II 06/37FLRA2A	XS0265847441	160

### (13) Investments in associated and affiliated companies

Details of interests in associated and affiliated companies as required under section 238 (2) of the UGB are shown in Annex 3 to these notes.

In the 2014 financial year, expenses arising from investments in affiliated companies in the total amount of EUR 1,142,087 thousand (2013: EUR 1,817,648 thousand) were incurred, which also included carrying amount write-downs on investments due to sales.

In the 2014 financial year, no revaluations of the carrying amounts for affiliated companies were performed (2013: EUR 0 thousand).

### (14) Intangible and tangible assets

An analysis of individual items and of changes during the financial year is shown in the fixed assets movement schedule (Annex 1 to these notes).

As at 31 December 2014, the value of land included in land and buildings was EUR 1,020 thousand (2013: EUR 3,087 thousand).

### (15) Other assets

The breakdown of other assets is as follows:

	EUR thousand	
	31.12.2014	31.12.2013
Interest income	157,496	211,228
- of which to be paid after the closing date	146,865	177,540
Offset claim	42,935	16,248
Receivables from dividends paid out in different year to their allocation	362	1,389
Receivables arising from the foreign exchange valuation of banking book derivatives	3,429	6,689
Loans to affiliated companies	20,284	20,177
Receivables from trading book derivatives	16,099	9,671
Trade receivables	75,329	57,654
Other loans and advances	293	1,261
<b>Total</b>	<b>316,227</b>	<b>324,317</b>

**(16) Other liabilities**

The breakdown of other liabilities is as follows:

	EUR thousand	
	31.12.2014	31.12.2013
Interest expenses	62,594	66,787
- of which to be paid after the closing date	38,799	49,900
Clearing account balances	2,835	5,060
Fees and levies	26,535	8,023
Liabilities from foreign currency measurement of banking book derivatives	4,258	9,173
Liabilities from trading book derivatives	17,124	10,343
Trade payables	1,250	944
Miscellaneous liabilities	25,982	24,723
<b>Total</b>	<b>140,578</b>	<b>125,053</b>

Other liabilities under dues and fees include an amount of EUR 21,157 thousand (2013: EUR 4,207 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 (2013: EUR 17,161 thousand).

**(17) Deferred assets**

This item includes payments which have to be spread over the term of the agreements to which they relate. The sum total of deferred assets as at 31 December 2014 was EUR 9,305 thousand (2013: EUR 15,631 thousand).

**(18) Provisions**

The breakdown of other provisions is as follows:

	EUR thousand	
	31.12.2014	31.12.2013
Holiday not taken	2,514	3,063
Long-service bonuses	835	728
Employee performance bonuses	4,895	703
Legal and consultancy fees	85,992	31,948
Risks from the lending business	57,641	28,053
Restructuring provisions	24,284	5,470
Letters of comfort/guarantees for subsidiaries	19,702	60,640
Provision related to sales transactions	311,000	0
Provision for impending claims by creditors	886,850	0
Provision related to closing costs	425,000	0
Provisions related to issued participation capital	0	4,020
Provision related to a loss sustained in pending transactions	244,831	2,871
Miscellaneous provisions	47,523	36,664
<b>Total</b>	<b>2,111,067</b>	<b>174,160</b>

In connection with the judgement of the court of first instance issued on 8 May 2015 relating to financing from BayernLB, which in the view of Heta is to be regarded as equity-substituting, in view of an imminent claim by creditors, a provision in the amount of EUR 886,850 thousand (2013: EUR 0 thousand) had to be established (see note (2.6) proceeding with BayernLB relating to the law on equity substitution (EKEG)).

In order to comply with the statutory requirements of the GSA, which provides for the conversion of Heta into a wind-down unit and the mandatory voluntary 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, for 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 associated with the complete portfolio wind-down. As at 31 December 2014, the provision is in the amount of EUR 425,000 thousand (2013: EUR 0 thousand) and was included in the extraordinary result.

For the reduction in the number of employees planned up to and including 2020, and the provisions in the total amount of EUR 24,284 thousand were made (2013: EUR 5,470 thousand).

Credit risk provisioning includes provisions at the portfolio level in the amount of EUR 52 thousand (2013: EUR 2,940 thousand) and for specific cases in the amount of EUR 57,589 thousand (2013: EUR 25,114 thousand).

The liabilities reported at EUR 311,000 thousand (2013: EUR 0 thousand) from sales transactions are related to the divestment of the SEE bank network.

The provisions for legal and consulting fees include EUR 45,750 thousand (2013: 18,262 thousand) related to cleaning up the past of the bank ("CSI") and related litigation costs.

The provision for obligations to subsidiaries includes a contingent loss provision in the amount of EUR 17,656 thousand (2013: EUR 12,872 thousand) resulting from a leasing contract for a corporate asset internal to the group.

The provision of EUR 22,883 thousand set aside in previous years for pending penalties was released in full as no more prescriptions are expected.

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 recognisable 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. There is no obligation to set aside provisions if the amounts in question are immaterial. The analysis takes into account the market values of all banking book derivatives. In calculating the contingent loss provision from banking book derivatives on 31 December 2014 at EUR 244,831 thousand (2013: EUR 2,871 thousand), the report of the Austrian Financial Reporting and Auditing Committee (AFRAC) "Recognition of Derivatives and Hedging Instruments under Company Law" of December 2012 was taken into account. If the hedging relationship did not exist, an additional provision in the amount of EUR 12,190 thousand would have to be established. According to the AFRAC opinion, derivatives constitute transit items, and are to be recognised in the balance sheet according to the imparity realisation principle only if under section 198 (8) (1) of the Austrian Commercial Code (UGB) a provision is to be established for imminent losses. Based on the excessive indebtedness of the company reported as at 31 December 2014 and the administrative ruling of the wind-down authority (FMA) dated 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 and the derivative security translation is to be assumed, and the hedging relationship should be dissolved. A provision has therefore been established in the amount of the negative market value of the derivatives. Due to the requirement stipulated by the GSA for all portfolio wind-down relevant assets to be sold as quickly as possible, it was necessary in the case of derivatives transactions in a hedging relationship to a claim or security shown in the balance sheet as an asset, 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.

An agreement was entered into with a former subsidiary in 2013, through which Heta assumed the price fluctuation risk of a share. The earnings from the option premium is distributed over the term of the agreement. The provision for imminent loss shown as at 31 December 2013 in relation to the negative market value of the put option was completely used in the amount of EUR 1,733 thousand in the 2014 financial year.

**(19) Information on risk provisions**

The following risk provisions were recognised in the balance sheet as at 31 December 2014:

	EUR thousand	
	31.12.2014	31.12.2013
<b>Loans and advances to credit institutions</b>	<b>1,242,019</b>	<b>2,332</b>
Specific risk provisions	1,235,332	2,332
Portfolio-based provisions	6,687	0
<b>Loans and advances to customers</b>	<b>5,653,185</b>	<b>2,054,837</b>
Specific risk provisions	5,631,104	2,040,304
Portfolio-based provisions	22,081	14,533
<b>Off-balance-sheet risks from the lending business</b>	<b>57,641</b>	<b>28,054</b>
Individual provisions	57,589	25,114
Portfolio-based provisions	52	2,940
<b>Total</b>	<b>6,952,845</b>	<b>2,085,223</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 28,820 thousand (2013: EUR 17,473 thousand).

The level of the specific risk provisions on claims against clients and other financial institutions rose significantly from EUR 2,042,637 thousand (2013) to EUR 6,886,436 thousand, of which a sum in the amount of EUR 3,663,313 thousand (2013: EUR 738,239 thousand) is accounted for by loans issued to affiliated companies. The valuations for real estate collateral underlying the loans reflect individual sales figures achievable in the short term in markets of limited capacity. For those receivables from customers that show no indications of payment default, a provision of EUR 111,093 thousand was recognised according to section 57 (1) BWG for the loss on disposal expected due to premature sale (difference between the market value and carrying amount of the receivables).

**(20) Deferred income**

This item contains income which must be spread over the term of the agreement to which it relates. The sum total of deferred income as at 31 December 2014 came to EUR 24,702 thousand (2013: EUR 34,978 thousand) and includes up-front payments received on derivative transactions.

Deferred income primarily includes an amount of EUR 23,552 thousand (2013: EUR 33,364 thousand) reflecting the recognition in the income statement of the unwinding of swaps forming part of other transactions.

**(21) 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 interest accruals) is EUR 0 thousand on 31 December 2014 (2013: EUR 0 thousand). The carrying amount of the subordinate capital (excluding interest accruals) is EUR 1,092,994 thousand (2013: EUR 1,892,095 thousand). Nominal values of EUR 0 thousand (2013: EUR 0 thousand) are held by the company. The carrying amount of the subordinate capital according to section 23 (8) BWG is EUR 1,092,994 thousand (2013: EUR 1,572,095 thousand). The supplementary and subordinate capital has a remaining term of 2 years.

In the past, Heta issued supplementary capital within the meaning of section 23 (7) BWG (in the respective current version), which had been treated as part of equity capital from a regulatory perspective. In line with the restrictions of section 23 (7) (2) BWG (in the respective current version), interest payments may only be made "in so far as they are covered by net income (before changes in reserves)". Since the annual financial statements as at 31 December 2007 to 2013 of Hypo Alpe-Adria-Bank International AG did not fulfil this criteria, after the formal declaration of the annual financial statements the interest payments for the supplementary capital issues could not be made. The supplementary capital still outstanding as at 7 August 2014 was extinguished upon the issuance of the FMA decision on the basis of the HaaSanG. If the HaaSanG should be annulled by the constitutional court as unconstitutional, payments on the supplementary capital bonds would also be included in the moratorium declared by the resolution authority under the BaSAG. Furthermore, it should be noted that, taking into

account the statutory loss allocation with respect to the supplementary capital issues of the former Hypo Alpe-Adria-Bank International AG, from today's perspective a total default must be recognised.

The former Hypo Alpe-Adria-Bank International AG placed a subordinated 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. In exchange for the guarantee, Heta has undertaken to pay the Republic of Austria a guarantee fee as calculated by the European Commission. The guarantee fee is subject to the moratorium under the administrative ruling by the write-down authority and is currently not being paid by Heta to the Republic of Austria.

With the issuance of the ordinance in accordance with HaaSanG, EUR 1,675,314 thousand in subordinated liabilities (including interest) are extinguished, and no more payments are to be made on them. In addition, the EUR 1,095,566 thousand (including interest) in subordinated liabilities still outstanding are currently included in the moratorium decreed by the wind-down authority in line with the administrative ruling.

No subordinated loans were taken out in 2014. The existing subordinate loans, which exceed 10% of the total subordinate liabilities in the amount of EUR 1,095,566 thousand (2013: EUR 1,903,073 thousand) and therefore the amount of EUR 109,557 thousand, break down as follows:

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

The terms and conditions for the subordinated liabilities shown above, as well as for all subordinated liabilities, comply with the provisions of section 23 (8) BWG (in the respective applicable version).

The total amount of interest expenses on subordinate liabilities in the reporting period is EUR 42,341 thousand (2013: EUR 51,383 thousand) and the related commission expenses are EUR 53,250 thousand (2012: EUR 57,543 thousand).

## (22) Issued capital

The capital stock of Heta on the reporting date is EUR 2,419,097 thousand (2013: EUR 1,669,097 thousand) divided into 989,231,060 (2013: 682,536,782) no-par bearer shares.

The extraordinary shareholders' meeting on 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 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 33 (3) (Z8) BWG there is no obligation to make back-payments of dividends on participation capital.

On the basis of the issue agreement and by applying 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 issued as part of the change of ownership of former Hypo Alpe-Adria-Bank International AG on 29 December 2009 by the former owners 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) 14 in combination with section 26b (2) (2) 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, with the exception of capital corrections, no ongoing allocation of earnings is made. Payments of dividends relating to participation capital will be shown as appropriation of profits and not as interest expense. The basis of assessment for the payment of dividends is sufficient annual profit after movement in reserves. No participation capital can be distributed as no such annual profit exists.

**(23) Reserves**

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

	At start of year			EUR thousand	
	1.1.2014	Additions	Reversals	Stock at end 31.12.2014	
Capital reserves	250,000	0	-250,000	0	
Revenue reserves	0	0	0	0	
Liability reserves	247,165	0	-247,165	0	

There are no untaxed reserves as at 31 December 2014.

**(24) Notes to negative equity as at 31 December 2014 (over-indebtedness)**

As at 31 December 2014, Heta's separate financial statements according to UGB/BWG reported total assets of EUR 9.6 billion and liabilities of EUR 17.4 billion. At EUR -7.0 billion the company is extremely over-indebted (negative equity). This negative equity is due to loss of EUR 7.9 billion incurred in financial year 2014 which is largely the result of the following:

- Recognition of losses from the group-wide valuation of portfolio-wind-down relevant asset quality review (AQR) following transformation into a wind-down unit according to GSA, which directly affects Heta through its own loan portfolio or indirectly via measurement of refinancing lines to the subsidiaries.
- As part of the carve-out or disposal of the SEE network in the fourth quarter of 2014, extensive liabilities and exemptions were entered vis-à-vis the buyer with a term until 2022 which were to be covered in full by 2014.
- For the remaining risks related to the ongoing financing of the former Italian subsidiary, which are expected as part of the unit's winding down, Heta also had to set aside large provisions.
- All other assets of Heta were evaluated in terms of saleability or the realisable disposal proceeds and impairments or provisions were recognised (especially for negative market values from derivative transactions).
- Future losses expected from the sale of performing loans and from exchange rate increases after the balance sheet date, risk provisions according to section 57 (1) BWG were set aside to a permissible extent.
- All personnel and material costs which are still expected in connection with the wind-down expected in the future were fully covered in according to the gone concern valuation method.

It should be noted that section 67 Insolvency Act (IO, overindebtedness under insolvency law as a reason for initiating insolvency proceedings) does not apply to Heta in accordance with section 7 (1) Federal Law on the Creation of a Wind-Down Unit (GSA).

In the wind-down plan that it is required to prepare pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) (see note (5) Wind-down plan according to the GSA), the Executive Board does not provide for interest rate or capital repayments for the company's liabilities. The timing and contents of the resolution plan required by the resolution authority pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) can differ from that for Heta, which is why the Executive Board is of the view that uncertainties exist (in particular for the period outside the applicable moratorium) as to whether it is possible to wind-down Heta in an orderly manner outside of an insolvency.



## V. OFF-BALANCE-SHEET ITEMS

### (25) Derivative financial instruments

On the reporting date of 31 December 2014, the following transactions were not yet settled:

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>

The majority of derivative transactions are used to hedge against fluctuations in interest rates, exchange rates or market prices. In most cases, micro-hedges are used to directly hedge individual transactions under assets and liabilities.

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, the hedging relationship also had to be dissolved on the basis of the existing wind-down plan. Appropriate provision was made for the negative market value of the derivatives that existed as at 31 December 2014 through the formation of a provision for imminent losses in the amount of EUR 244,831 thousand (2013: EUR 2,871 thousand).

The comparative values as at 31 December 2013 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>14,276,550</b>	<b>14,276,550</b>	<b>1,061,166</b>	<b>487,161</b>
Interest rate swaps	14,230,480	14,230,480	1,060,804	486,802
Interest swaptions	0	0	0	0
Forward rate agreements	0	0	0	0
Cap, Floor	46,070	46,070	361	359
<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>3,972,759</b>	<b>3,975,264</b>	<b>12,333</b>	<b>297,129</b>
Currency swaps	1,178,643	1,178,643	7,930	291,225
Cross currency swaps	2,750,439	2,752,945	4,131	5,632
Forward exchange contracts	43,678	43,676	272	271
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>6,180</b>	<b>6,180</b>	<b>0</b>	<b>1,988</b>
put option	6,180	6,180	0	1,988
<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>

## (26) Liability for commitments issued through the "Pfandbriefstelle"

As a member of the Mortgage Bond Division of the Austrian State Mortgage Banks (Pfandbriefstelle), Heta in accordance with section 2 (1) of the Austrian Pfandbriefstelle Act (PfBrStG) is jointly liable with the other members for all the Pfandbriefstelle's liabilities. This liability applies equally for all other member institutions and their legal successors as listed in section 1 (2) of the articles of association of the Pfandbriefstelle. For liabilities of the Pfandbriefstelle which arose before 2 April 2003, or after 2 April 2003 with a term not beyond 30 September 2017, the guarantors (the State of Carinthia) of the member institutions are according to section 2 (2) PfBrStG equally jointly liable. In the audit report for the Pfandbriefstelle setting out the legal obligations on liabilities, the value of the liabilities to be covered by the guarantors was put at approximately EUR 5.5 billion as at the reporting date 31 December 2014 (2013: EUR 6.2 billion). This is nearly equal to the total liabilities of the Pfandbriefstelle on 31 December 2014. After taking account of the funds taken up by the Pfandbriefstelle and forwarded to Heta in the amount of EUR 1.2 billion (2013: EUR 1.2 billion), the resulting amount which must be reported in accordance with section 237 Z (8a) UGB comes to EUR 4.3 billion (2013: EUR 4.9 billion).

Under the administrative ruling of the FMA dated 1 March 2015, the liabilities of Heta towards Pfandbriefbank (Austria) AG and the Pfandbriefstelle were deferred. The member banks and guarantors had previously paid for liabilities already due because of their joint liability, and in return acquired a right of recourse, which is also included in the moratorium under the FMA-decision.

**(27) Other off-balance-sheet financial obligations**

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

	EUR thousand	
	31.12.2014	31.12.2013
<b>Contingent liabilities</b>	<b>215,432</b>	<b>238,617</b>
Guarantees and other collateral securities	196,931	217,346
Letters of credit	18,501	21,271
Contingent guarantees from credit derivatives	0	0
<b>Loan exposures</b>	<b>436,436</b>	<b>734,293</b>

Existing credit risks in the form of unused credit lines total EUR 436,436 thousand (2013: EUR 734,293 thousand).

In addition to the contingent liabilities disclosed below the line, there is also an obligation with respect to the obligatory membership of "Hypo-Haftungs-Gesellschaft m.b.H" in relation to the safety of deposits under section 93 of the BWG.

Possible contingent liabilities exist in relation to the liabilities of EUR 0.8 billion (nominal value) covered by the HaaSanG (or HaaSanV), which were derecognised in 2014, as the underlying debt was declared extinguished by force of law. In the event that these liabilities should be revived on the basis of a possible judgement of the highest court, corresponding charges on the income statement and hence also on equity in the amount of around EUR 0.9 billion (nominal value including interest) are to be expected.

Furthermore, guarantees exist in connection with contracts of sale, which may still be enforced and may lead to financial charges on 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 for the use of property, plant, and equipment not reported on the balance sheet of Heta (rent and lease obligations) are EUR 1,747 thousand in financial year 2015 (previous-year figure for 2014: EUR 1,828 thousand) and for financial years 2015 through 2018, a total of EUR 8,141 thousand (previous-year figure for 2014 through 2017: EUR 8,531 thousand). In connection with the wind-down of Heta, provision was made in the annual financial statements as at 31 December 2014 for personnel and operating expenditure yet to be incurred in the amount of around EUR 425,000 thousand (2013: EUR 0 thousand), so that future expenses from the use of property, plant and equipment not shown in the balance sheet would already be provided for.

In addition to the contingent liabilities and loan exposures shown below the line, there are liquidity guarantees and 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 that material risk of loss is transferred to the lending institution. Insofar as these companies have negative equity which is not compensated by positive earnings in the planning period, so that the ability to service the group's internal refinancing lines is at risk, Heta generally records a provision for the refinancing line of the company in question (through profit or loss).

As at balance sheet date a put option exists, under 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.

**(28) Fiduciary transactions**

The sum of fiduciary transactions at the end of the reporting period which are not shown in the statement of financial position was as follows:

	EUR thousand	
	31.12.2014	31.12.2013
Loans and advances to credit institutions	0	0
Loans and advances to customers	69,632	54,059
Securities and shares in associated companies	0	0
other trust assets	0	0
<b>trust assets</b>	<b>69,632</b>	<b>54,059</b>
Liabilities to credit institutions	33,116	35,920
Liabilities to customers	36,516	18,139
other fiduciary liabilities	0	0
<b>fiduciary liabilities</b>	<b>69,632</b>	<b>54,059</b>

Trust income and expenses were as follows:

	EUR thousand	
	1.1.-31.12.2014	1.1.-31.12.2013
trust income	234	221
trust expenses	0	0

## VI. NOTES TO THE INCOME STATEMENT

### (29) Regional breakdown of income and expense

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.-31.12.2014</b>	<b>1.1.-31.12.2013</b>
<b>Loans and advances to credit institutions and customers</b>	<b>204,427</b>	<b>271,702</b>
of which Austria	38,181	33,461
of which International	166,246	238,241
<b>Fixed-income securities</b>	<b>27,815</b>	<b>38,985</b>
of which Austria	10,953	14,627
of which International	16,862	24,358
<b>Other assets</b>	<b>390,425</b>	<b>439,639</b>
of which Austria	390,424	439,238
of which International	1	401

	EUR thousand	
<b>Interest and similar expenses</b>	<b>1.1.-31.12.2014</b>	<b>1.1.-31.12.2013</b>
<b>Liabilities to credit institutions and customers</b>	<b>202,182</b>	<b>158,851</b>
of which Austria	5,258	3,358
of which International	196,924	155,493
<b>Debt evidenced by certificates</b>	<b>277,073</b>	<b>353,506</b>
of which Austria	277,073	353,506
of which International	0	0
<b>Other liabilities</b>	<b>196,798</b>	<b>214,974</b>
of which Austria	192,575	210,687
of which International	4,223	4,287

### (30) Income from equity interests and investments

Income from participations for the purposes of section 238 (4) of the UGB was as follows:

	EUR thousand	
	<b>1.1.-31.12.2014</b>	<b>1.1.-31.12.2013</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>362</b>	<b>1,390</b>
Norica Investment Ltd., Jersey	0	1,009
HBInt Credit Management Limited, Jersey	362	381
<b>Dividends received</b>	<b>2,991</b>	<b>6,037</b>
Hypo Alpe-Adria-Bank d.d., Zagreb	0	165
Norica Investment Ltd., Jersey	2,396	3,330
Hypo Consultants Holding GmbH	42	146
HBInt Credit Management Limited, Jersey	0	2,337
Other	553	59
<b>Total</b>	<b>3,353</b>	<b>7,427</b>

The impairment of investments and the other expenses and income related to investments in the 2014 financial year are reported under the items "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".

### (31) Net fee and commission income

The breakdown of fee and commission income:

	EUR thousand	
	1.1.-31.12.2014	1.1.-31.12.2013
<b>From the lending business</b>	<b>-67,272</b>	<b>-70,615</b>
Fee and commission income	4,676	8,442
Fee and commission expenses	-71,948	-79,057
<b>From the securities business</b>	<b>-542</b>	<b>-764</b>
Fee and commission income	1	1
Fee and commission expenses	-543	-765
<b>From other transactions</b>	<b>-187</b>	<b>-49</b>
Fee and commission income	214	543
Fee and commission expenses	-401	-592
<b>Total</b>	<b>-68,001</b>	<b>-71,428</b>

Fee and commission expenses amounting to EUR 17.6 million in the 2014 financial year (2013: EUR 18.2 million) are as a result of the liability commission paid to the Republic of Austria in conjunction with the EUR 200 million guarantee agreement dating from 2010 (please also see note (42) Material agreements) and liability expenses of EUR 53.3 million (2013: EUR 57.5 million), resulting from the outstanding government guaranteed bonds.

### (32) Other administration expenses (operating expenses)

The breakdown of other administration expenses is as follows:

	EUR thousand	
	1.1.-31.12.2014	1.1.-31.12.2013
Legal and consultancy costs	60,057	24,013
Advertising expenses	829	1,241
Rental and leasing expenses	4,875	4,988
IT costs	4,577	3,843
Data centre costs	6,931	5,335
Training expenses	996	842
Issue costs	253	140
Travel expenses	987	1,148
Fleet costs	624	713
Insurance	2,833	2,188
Telephone/postage costs	621	584
Costs in connection with company legal structure	401	282
Office/stationery costs	87	99
Miscellaneous operating expenses	3,986	4,334
<b>Total</b>	<b>88,057</b>	<b>49,750</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 and the income from this is shown as other operating income.

**(33) Other operating income**

The breakdown of other operating income is as follows:

	EUR thousand	
	1.1.-31.12.2014	1.1.-31.12.2013
Income from rental and leasing contracts	295	377
Income from release of provisions	40,254	6,894
IC group internal charging	16,279	10,576
Income from selling real estates	446	36
Other operating income	1,770	629
<b>Total</b>	<b>59,044</b>	<b>18,512</b>

**(34) Other operating expenses**

This item in the amount of EUR -30,366 thousand (2013: EUR -31,080 thousand) contains expenses in the amount of EUR -6,313 thousand for payments in connection with tax audits and anticipated fines, and also in the amount of EUR -4,783 thousand for the increase in provisions for an internal group leasing contract for a corporate asset.

Furthermore this item contains expenses in the amount of EUR -18,769 thousand due to impairment write-downs in connection with purchase price claims, EUR -9 thousand due to sales of facilities and EUR -491 thousand for other expenses.

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

In the 2014 financial year, this item in the amount of EUR -5,574,763 thousand (2013: EUR -850,802 thousand) includes impairments of EUR -2,736,994 thousand (2013: EUR -519,963 thousand) from recognising provisions on refinancing lines of subsidiaries. Credit risk provisions for third-party customers were allocated in the amount of EUR -297,771 thousand (2013: net allocation of EUR -345,984 million). This item also includes expenses of EUR -229,142 thousand (2013: EUR -1,932 thousand) from the release of derivatives.

Likewise, provisions in the amount of EUR -226,093 thousand (2013: EUR 0 thousand) are reported under section 57 (1) of the BWG, which relate to a planned sale of performing loans, as well as anticipated negative effects from the upturn the interim in the price of the Swiss franc (CHF) in January 2015.

The result from securities in banking book current-assets was EUR -38,876 thousand (2013: EUR -2,344 thousand).

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

This item in the amount of EUR -2,355,170 thousand (2013: EUR -1,835,436 thousand) includes, in the 2014 financial year, negative valuation impacts in the area of participating interests in banks in the amount of EUR -605,293 thousand (2013: EUR -1,458,473 thousand) and EUR -514,084 thousand (2013: EUR -359,174 thousand) relating to other subsidiaries. The major part of these write-downs in banking participations results from the SEE bank network. This item also includes provisions for liabilities from sales transactions in the amount of EUR -1,252,100 thousand.

Income from securities in banking book long-term assets was EUR 15,503 thousand (2013: EUR 3,213 thousand).

### (37) Extraordinary income

The Extraordinary result item comes to EUR 280,214 thousand (2013: EUR 129,735 thousand) and is due to extraordinary income in the amount of EUR 1,693,379 thousand (2013: EUR 153,020 thousand) and extraordinary expenses in the amount of EUR -1,413,165 thousand (2013: EUR -23,285 thousand).

The extraordinary expenses at EUR 1,675,314 thousand relate to income from the derecognition of liabilities that are to be viewed as extinguished in connection with the Federal act on financial restructuring measures for the Hypo Alpe-Adria-Bank International AG (HaaSanG) which came into force in August 2014, and at EUR 18,065 thousand to payments made in the context of forensic investigations into the past, as settlement payments to Heta.

The extraordinary expenses at EUR -45,259 thousand (2013: EUR -23,285 thousand) arose from the costs of investigating the past of the Hypo Alpe-Adria Group (CSI and/or forensics). The expenses incurred by Heta mainly relate to consultancy expenses in the forensic and legal area, and also the costs of legal proceedings. The cost item contains the costs already incurred in the 2014 financial year as well as a differentiation of estimated future costs that are yet to arise from the investigation of individual suspected cases. Furthermore, the internal and external costs of winding down Heta are provided for at EUR -457,400 thousand (2013: EUR 0 thousand), while the costs of the complete reduction of employee numbers has an additional impact at EUR -23,656 thousand (2013: EUR 0 thousand). In addition to this, given the judgement of the court of first instance handed down on 8 May 2015 in connection with financing from BayernLB, which in Heta's view is to be regarded as equity-substituting, provisions had to be made in the amount of EUR -886,850 thousand (2013: EUR 0 thousand) in the form of a provision (see note 2.6 Legal proceeding with BayernLB relating to the law on equity substitution (EKEG)).



## VII. SUPPLEMENTARY INFORMATION

### (38) Assets pledged as collateral pursuant to section 64 (1) (S) BWG

According to section 64 (1 Z 8) BWG, assets from other current assets in the amount of EUR 637,266 thousand (2013: EUR 1,645,858 thousand) were transferred as collateral for liabilities to credit institutions.

The relevant assets, which are mainly cash collaterals and securities lodged at the Österreichische Nationalbank (OeNB) or the European Investment Bank (EIB), continue to be shown in Heta's balance sheet.

	EUR thousand	
	31.12.2014	31.12.2013
Loans and advances to credit institutions	520,588	470,612
Securities	116,678	1,175,246
<b>Total</b>	<b>637,266</b>	<b>1,645,858</b>

The loans and advances to credit institutions result from cash collaterals which are typical for the sector, pledged in connection with negative fair value from derivatives. Cash collaterals received for positive fair value are shown as liabilities to credit institutions.

In the course of securities lending transactions, securities in the amount of EUR 84,660 thousand (2013: EUR 126,225 thousand) were lent.

### (39) Liabilities evidenced by certificates falling due in the following year

Bonds issued by Heta according to section 64 (1 Z 7) BWG with a volume of EUR 2,430,691 thousand (previous-year figure for 2014: EUR 1,133,479 thousand) are maturing in 2015.

Due to the moratorium imposed by the resolution authority on 1 March 2015, however, (see note (2.5) Federal Act on the Recovery and Resolution of Banks (BaSAG)) a payment of the liability is not permitted.

### (40) Important proceedings

#### 40.1. EU state aid investigation

The EU state aid investigation involving the former Hypo Alpe-Adria-Bank International AG was completed in September 2013 by the decision of the Commission of the European Union (European Commission). The basis for the European Commission's decision of 3 September 2013 was the restructuring plan submitted at the end of June 2013.

With the decision of 3 September 2013, the capital measures previously granted by the Republic of Austria as well as other capital and liquidity measures were approved. Of the future capital measures of up to EUR 5.4 billion approved by the EU decision, EUR 2.5 billion had been paid to the company by 31 December 2014. The additional liquidity of EUR 3.3 billion approved by the EU to cover the liquidity shortfall in 2016/2017 described by management in the restructuring plan was not granted.

The execution of the sale of the Austrian subsidiary Hypo Alpe-Adria-Bank AG, Klagenfurt, which had been scheduled to take place by mid-2014 according to the EU restructuring plan, was already completed at the end of 2013. The signing of the deal between Heta and Advent/EBRD on the basis of FIMBAG's power of attorney for the sale of the SEE network took place on 22 December 2014 and therefore prior to deadline of 30 June 2015 set by the European Commission. The European Commission has defined a deadline of 31 December 2015 for the execution of the contract (with the option of extending it by a maximum of three months due to possible delays in approval by the authorities). Compliance with the new-business restrictions for the marketable units (SEE network) imposed by the European Commission were necessary until the signing as part of the reprivatization. New-business restrictions apply for the wind-down unit Heta and for the former subsidiary HBI. An independent monitoring trustee regularly monitors compliance with the conditions of the European Commission's decision and reports to the European Commission on a quarterly basis.

#### 40.2. Proceedings related to BayernLB

At the end of 2012, the former majority shareholder of Hypo Alpe-Adria-Bank International AG, BayernLB, sought a declaratory judgement from the Munich I regional court 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 redeemed until further notice. The former Hypo Alpe-Adria-Bank International AG submitted a comprehensive statement of defence against the application and contested the order sought in its entirety.

After receiving the original, contractual maturity for the majority of the financing on 31 December 2013, BayernLB almost completely converted the order sought into an action for performance. In the 2014 financial year (as in November 2013), there were several hearings with testimony given by witnesses and experts. Both sides submitted extensive expert reports on legal issues and relevant commercial matters.

The former Hypo Alpe-Adria-Bank International AG had also made repayments from August 2008 until knowledge of the existence of the conditions for an interest and repayment ban under the Equity Substituting Capital Act on refinancing lines of BayernLB, which were subsequently recognised as substituting for equity following a thorough analysis into the circumstances (particularly due to historical capital shortfalls which led to a "crisis" in terms of equity substitution regulations). Based on the Austrian Equity Substituting Capital Act (EKEG), Heta is therefore entitled to claim these interest payments and repayments back from BayernLB. In order to avert the threat of time-barring, the former Hypo Alpe-Adria-Bank International AG was compelled to judicially enforce the respective repayments it had made by means of counterclaim in the proceedings named above against BayernLB in Munich. A total of five counterclaims have been made against BayernLB for repayment of an amount totalling around EUR 4.8 billion

In a hearing on 8 May 2015, the Regional Court Munich I orally announced a first-instance decision in the case between Heta Asset Resolution AG and Bayerische Landesbank (Bayern LB) relating to the Austrian Equity Substituting Capital Act (EKEG). The written verdict was submitted to Heta's lawyers in this case on 2 June 2015. With its decision, which is not yet legally effective, the court largely allowed the claims of BayernLB and rejected the counter claims (repayment claims) of Heta. The reason is primarily based on four arguments: firstly, the court regards the shortfall in regulatory capital as claimed by Heta (crisis according to section 2 (3) of the Austrian Equity Substituting Capital Act (EKEG)) as non-existent. With regard to the knowledge of the capital shortfall or other breaches of due diligence by BayernLB, (alternatively demanded) by the court, the court regards that there is no evidence – neither in principle nor in terms of case law according to the interpretation of the Austrian Equity Substituting Capital Act (EKEG) in this case. Secondly, according to the court, Heta was not significantly over-indebted during the period in question (crisis in the meaning of section 2 (1) (2) of the Austrian Equity Substituting Capital Act (EKEG)) as the court stated a positive going concern assumption for Heta based on the continuation of Heta after 2009. Based on the assessment of these two points, the court did not carry out any evidence taking in terms of key aspects (historical capital shortfall or over-indebtedness). Thirdly, the court rejected the application of the Hypo Alpe Adria Restructuring Act (HaaSanG) and subsequent measures by the authorities to recover receivables under German law as asserted by a German court. The reason given was that the Austrian Financial Market Authority (FMA) Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV) issued by the Austrian Financial Market Authority (FMA) based on the Hypo Alpe Adria Restructuring Act (HaaSanG) does not represent a restructuring measure in the meaning of the restructuring regulation (guideline 2001/24/EU). The court also rejected that a court measure or measure by the authorities is at hand (a condition for recognition) because according to the court, the Austrian Financial Market Authority (FMA) Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV) was already determined by the Hypo Alpe Adria Restructuring Act (HaaSanG) and Austrian Financial Market Authority (FMA) could not make a decision at its discretion. Fourth, the court rejected the application of the decision of the Austrian Financial Market Authority (FMA) of 1 March 2015 on the basis of the Federal Act on the Recovery and Resolution of Banks (BaSAG), which deferred the disputed receivables of BayernLB until 31 May 2016. The reason given was that the Federal Act on the Recovery and Resolution of Banks (BaSAG), which is legally applicable to Heta, does not comply with the provisions of the wind-down guideline / BRRD (guideline 2014/59/EU) and is therefore not recognised in Germany.

Heta is of the opinion that key arguments in the dispute relating to legal issues of the proceeding are not sufficiently taken into account by the senate (as well as by experts appointed by the court). The rejection of a crisis based on a shortfall in capital (section 2 (3) of the Austrian Equity Substituting Capital Act (EKEG)) was based on a legal opinion which has no precedent in legal writings or supreme court rulings and is in contradiction with the clear wording of the law. If the law had been interpreted correctly, the court would have taken evidence where Heta could have proven a historical shortfall in capital. Rejection of a crisis on the grounds of significant over-indebtedness (section 2 (1) (2) of the Austrian Equity Substituting Capital Act (EKEG)) is also based on a simplified opinion based on the continued existence of Heta after the period in question (after 2009); the fact that the Republic of Austria had to pay in billions into the capital as sole shareholder to avoid insolvency was totally ignored. The applicability of the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Austrian Financial Market Au-

thority (FMA) Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV) was rejected on the grounds of mere formalities. The fact that the restructuring guideline (unlike the wind-down guideline / BRRD) does not determine how to set up restructuring measures, which provided the Austrian legislators with a certain leeway which they used, was not taken into consideration. The non-recognition of the Austrian Financial Market Authority (FMA) Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV) as an official measure also rejects its legal quality (adopted by an Austrian agency authorised to issue statutory ordinances). The court's rejection of the legal effectiveness of the decision of 1 March 2015 is incomprehensible because – as legal writings shows – the applicability of the Federal Act on the Recovery and Resolution of Banks (BaSAG) for Heta is not only valid under EU-laws, it is also based on the legislator's obligation to uphold it.

A provision of EUR 0.9 billion has been set aside in the financial statements as at 31 December 2014 for the impending availment by creditors.

#### **40.3. Proceedings related to the Hypo Alpe Adria Restructuring Act (HaaSanG)**

The Hypo Alpe Adria Restructuring Act (HaaSanG) came into force on 1 August 2014 and foresees the expiration of all supplementary capital issues and also approximately EUR 0.8 billion in subordinated liabilities held by third parties with guarantees from the State of Carinthia. Furthermore, this law also covers around EUR 0.8 billion in liabilities vis-à-vis former majority shareholder Bayerische Landesbank (BayernLB) that had been granted after the first Financial Markets Stabilisation Act (FinStaG) capital measure in December 2008. 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, expire.

As at 16 Juni 2015 Heta had been served with 33 claims in which creditors challenge the constitutional legitimacy of the Hypo Alpe Adria Restructuring Act (HaaSanG) and sued for a declaration of the existence 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 to examine the constitutionality of the law. In all civil cases pending as at the reporting date, the matter in dispute is the question of the constitutionality of the contested legal provisions. The outcome of the proceedings and the prospects for success in the pending civil proceedings thus depend on the resolution of a purely legal question, that is, on the decision of the Constitutional Court of Austria. It is only in the case of those proceedings in which the creditors involved have not merely demanded interest coupons which are due, but also immediate repayment of liabilities by means of an action for performance – should the Constitutional Court of Austria repeal the Hypo Alpe Adria Restructuring Act (HaaSanG) in conjunction with the Austrian Financial Market Authority (FMA) Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV) – that in the respective further proceedings the allowability of the demand for immediate payment contested by Heta or of the extraordinary termination due to the commencement of the Hypo Alpe Adria Restructuring Act (HaaSanG) in conjunction with the Austrian Financial Market Authority (FMA) Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV) will need to be resolved. While some creditors have asserted claims for (allegedly) due coupons and rated a declaratory relief as relatively low, other creditors have pronounced the entire liability as due for payment or valued their legitimate interest at the full nominal value. With regard to the cost risks relating to the overturning of the ruling by the Austrian Constitutional Court, an objection was made by Heta against the excessive and unnecessary filing of a lawsuit in the pursuit of justice.

In one proceeding, Austrian Anadi Bank AG is a co-respondent from an enforceable judgement of demerger liability under section 15 of the Austrian Demerger Act (SpaltG), since the bond involved was transferred to Heta by means of a demerger in 2012. If – in the event that the Constitutional Court of Austria confirms expiry vis-à-vis Heta – Austrian Anadi Bank AG is under an obligation to pay the plaintiff, the current sole shareholder of Austrian Anadi Bank AG, Anadi Financial Holdings Pte. Ltd., would be entitled to make a corresponding contractual claim vis-à-vis Heta in accordance with the share purchase agreement dated 31 May 2013.

One of the main concerns of the referring courts relates to the expiration of the liabilities and collaterals under section 3 (2) of the Hypo Alpe Adria Restructuring Act (HaaSanG). The expiration of the deficiency guarantee of the State of Carinthia and also KLH in this manner is an *ex lege* direct result of the Carinthian State Holding Law (K-LHG) in the respective current version. As second or third defendants, the State of Carinthia and the KLH are neither contracting parties to the liabilities nor adversaries in relation to the action for relief that is directed against Heta. It is to be expected that in all civil proceedings, probably even before the beginning of the summer session of the court, applications will be directed to the Constitutional Court of Austria and the civil proceedings will be suspended pending the decision by the Constitutional Court of Austria.

Individual appeals were submitted by 36 creditors affected by the Hypo Alpe Adria Restructuring Act (HaaSanG). Heta has commented on these appeals. The Austrian Constitutional Court has since rejected these appeals and has said that legal action via civil courts is acceptable. More lawsuits against Heta are therefore expected. Furthermore, 73 members of the National

Council have applied to the Constitutional Court for a control of norms. Heta Asset Resolution also commented on this application. According to a press release by the Austrian Constitutional Court dated 2 April 2015, a decision can be expected on the compliance of HaaSanG with constitutional law in autumn 2015.

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

As at 16 June 2015, Heta had been notified two lawsuits so far by German investors for payments of bonds which were not paid on the original date of maturity due to the moratorium imposed on 1 March 2015. In addition, legal proceedings were initiated against Heta by the State of Carinthia and the Kärntner Landesholding (KLH) in relation to legal proceedings initiated by an investor against the State of Carinthia and the Kärntner Landesholding (KLH) on the basis of the state guarantee relating to bonds affected by the moratorium. According to media reports, further lawsuits have already been filed or will shortly be filed with German courts.

It should also be noted that the written decision of Regional Court Munich I in the first instance in the case between Heta and the Bayerische Landesbank (BayernLB) with regard to the Austrian Equity Substituting Capital Act (EKEG) was provided to Heta's legal team on 2 June 2015. In this proceeding, the court rejected the recognition in Germany of recent measures by Austrian legislators and the regulatory authorities in connection with the wind-down of Heta and did not take into consideration the deferral ordered by the resolution authority according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) on account of mainly formal arguments. For more details see note (40.2) Proceedings related to BayernLB.

#### **40.5. Other proceedings**

##### **a) Proceedings related to the State of Carinthia and other participation capital subscribers**

In December 2011, the then Hypo Alpe-Adria-Bank International AG was served with an action for declaratory relief by the State of Carinthia as a participant in connection with the capital reduction carried out in the general shareholders' meeting on 30 May 2011. The plaintiffs' claim was basically directed at having a determination made that the loss allocation to participation capital was ineffective and that future interest entitlements of the participant concerned would have to be satisfied on the basis of the unreduced nominal capital. The proceedings brought had no effect under company law on the reduction of capital already legally registered and the capital increase carried out on 30 June 2011. The judgement of the Commercial Court of Vienna as the court of first instance on 16 July 2012 granted the action for declaratory relief. The company thereupon appealed this judgement of the court of first instance within the time allowed. The Higher Regional Court of Vienna (OLG), in a judgement dated 29 January 2013, allowed the appeal of the company in full and overruled the judgement of the Commercial Court of Vienna. The State of Carinthia lodged a regular appeal on points of law at the Austrian Supreme Court (OGH) on 11 March 2013.

In a judgement dated 29 April 2014, the OGH then decided that the loss allocation carried out to the participation capital was performed effectively, but that it is unlawful, however, to the extent that the liability reserves ought to have been released before the nominal capital reduction up to the statutory limit of section 183 of the Austrian Stock Corporation Act (AktG). The breach of law thus established, has no implications, however, for the validity of the resolution by the general shareholders' meeting. The legal consequences thereof continue on the contrary to be valid, in respect of the participants also. The only reason the OGH saw to allow the claim for declaratory relief in relation to the breach of law was that the State of Carinthia had relied in the action on possible financial disadvantage in the event that a profit was made by the then Hypo Alpe-Adria-Bank International AG from the 2013 financial year onwards.

In June 2014, the company was served with a further claim for declaratory relief by KLH as a participant in connection with the capital reduction carried out at the general shareholders' meeting on 30 May 2011. The claim for relief was identical to that of the State of Carinthia in 2011. The action for declaratory relief was rejected by the Commercial Court of Vienna, since the participation capital was collected at the end of September 2014 and thus a legal interest in the declaratory judgement no longer existed. The time allowed for appeals since passed.

##### **b) Proceedings related to the Republic of Austria and BayernLB**

In a claim filed shortly before the end of 2014 at the Commercial Court of Vienna, the Republic of Austria, represented by the Austrian Attorney General's office, applied for the adjustment of the share purchase agreement entered into between the Republic of Austria and Bayerische Landesbank (BayernLB) (so called emergency nationalisation agreement) and the term sheets on which it is based. The claim for relief (main action) is for the payment of an amount 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, is sought. In case the court does not assent to the main action, a series of alternative claims have been made, including the annulment of the emergency nationalisation agreement.

BayernLB is the first defendant. Heta is the second defendant. The primary grounds for the claim are that BayernLB is said to have deceived the Republic of Austria about the true capital requirements of the former Hypo Alpe-Adria-Bank International AG during the emergency nationalisation. Fundamentally, none of the claims are directed specifically at Heta. The alternative claim for annulment of the share purchase agreement would have negative implications for Heta, since the capital and liquidity measures taken at the time by BayernLB in favour of the then Hypo Alpe-Adria-Bank International AG, inter alia, would thereby also be annulled with retrospective effect. Furthermore, in the event of a reversal of the transactions, Heta would once more be under the ownership of BayernLB.

The claim was served on Heta on 5 January 2015. The defence was lodged within the time allowed on 2 February 2015.

### **c) Proceedings related to loans and participations**

At the end of 2010, a borrower filed a lawsuit against the former subsidiary bank Hypo Alpe-Adria-Bank d.d., Zagreb, and against Heta. The action was only formally brought against Heta in November 2012. The plaintiff argues that the project related to the loan, the financing of a hotel in Croatia, should have received further financing/financing sufficient for its completion, above and beyond the credit lines previously granted. The plaintiff's claim is targeted at compensation for damages as well as loss of earnings; the amount in dispute is around EUR 130.0 million. Heta assumes that there is no basis whatsoever for this lawsuit in view of the borrower's previous violations of the contract and the improper use of funds which led to the termination of the credit lines. The complaint was answered in due time. A committee of creditors for one of the joint plaintiffs, which has since become insolvent, has withdrawn this complaint as unfounded. The cases against the other plaintiffs continue. The attempt to acquire the shares in two companies that hold the majority of the shares in the plaintiff company pledged to Heta by means of an execution failed on account of various appeals and other measures filed against Heta.

In a legal dispute between former small shareholders of Slavenska Banka d.d., Osijek, which had been acquired by Hypo Alpe-Adria-Bank International AG in the late 1990s and then merged with Hypo Alpe-Adria-Bank d.d., Zagreb, the Supreme Court of Croatia upheld the appeal of six small shareholders in March 2014. The proceedings relate to the question of the legal admissibility of the difference in the price paid by the former company to these small shareholders and the price paid to the Republic of Croatia for the shares. The previous-instance decision was reversed and returned to the first-instance court for a new hearing. Some of the proceedings in question have been pending for more than ten years. The difference in the price paid to the small shareholders and the price paid to the Republic of Croatia was legally permitted at the time of the acquisition. However, the law has since been declared unconstitutional. Following a preliminary hearing in June 2014, proceedings were held in October 2014, during which the plaintiffs were ordered to present additional documentation. Heta assumes that the claims of the small shareholders in question, with the exception of the claims of those shareholders who had their appeals upheld, have all become statute-barred. Heta would have to pay the price difference plus interest of approximately EUR 1.5 million were the court to uphold the six claims.

A Croatian non-governmental organisation (NGO) is of the view that a credit agreement concluded between Hypo Alpe-Adria-Bank International AG and a Croatian company is invalid and that the liens on those properties agreed as collateral for the monies, need to be cancelled. Claims of some EUR 6 million are related to Hypo Alpe-Adria-Bank International AG's lack of authorisation to conduct banking activities in Croatia. The claim filed in Croatia was in the meantime served formally. Heta sought external legal advice that rebuts this. This complaint was answered in due time. As insolvency proceedings have since been opened against this Croatian company, the proceeding is suspended until such time as an insolvency administrator has been appointed. Heta has been informed of at least one other such claim from this NGO.

Three Croatian companies filed a claim against Heta and Hypo Alpe-Adria-Bank d.d. Zagreb, that was served to Heta at the end of March 2015, relating to the invalidity of credit agreements concluded in 2005 and the cancellation of mortgages recorded on properties agreed on as collaterals. The plaintiffs claim that Heta (then: Hypo Alpe-Adria-Bank International AG) conducted inadmissible banking activities in the Republic of Croatia without the appropriate authorisations as the lending business had seemingly been carried out by Hypo Alpe-Adria-Bank d.d. Zagreb while all transactions had, in fact, been conducted by Heta, which had obtained the benefits from the lending business. The first court hearing is scheduled for September 2015; an appeal was prepared in due time.

Several buyers of residential units of a project are claiming compensation as they were not aware of the fact that mortgages were taken out on the property in favour of Heta. In this respect, 13 cases are pending and an injunction prohibiting further property disposals has been requested.

Heta was granted a mortgage by one borrower who held usage rights to a property owned by the Republic of Serbia. After initiating enforcement proceedings, the Republic of Serbia is claiming that enforcing a mortgage is not permissible as the real estate is public property.

A pledgee is asserting his right in several proceedings that the joint liability agreed as part of a pledge agreement is void and that the entire pledge agreement is void as it did not define the extent of the liability. The party is also contesting the enforcement.

A Croatian credit customer is filing a lawsuit based on the invalidity of credit and pledge agreements and argues that the interest adjustment clause was unlawful, that interest was incorrectly calculated, unlawful currency conversions were carried out and that a clause stating that payment transactions were to be conducted via Hypo banks violated competition law.

A shopping centre which was financed still revealed numerous construction defects after completion. It was agreed by the contractor and the customer that the remaining purchase price of EUR 2.5 million would only be paid once the defects had been rectified. Heta was partly liable as the financier. The litigation case is based on the question as to whether the defects have been rectified and if the remaining purchase price is to be paid.

Two borrowers have made claims for revocation and compensation on the basis that the loan agreement is void as Heta did not, as assumed, take on the construction financing after financing a real estate acquisition by a subsidiary. Heta denies that it misled borrowers.

Since the end of 2012 intense forensic investigations have been underway at the group company Alpe Adria Privatbank Liechtenstein in liquidation (AAP). Investigations are being conducted, involving the authorities in Liechtenstein and Austria, into various facts and suspicions which show a connection to Liechtenstein, in order to make it possible for Heta to examine and pursue any further claims for damages. After consulting with the Liechtenstein Financial Markets Authority and the liquidator, an interface between Heta and AAP in liquidation was installed in mid-2013. These investigations have since resulted in more than 61 reports to the FIU/Liechtenstein public prosecutors to date, which will forward all facts relevant in Austria to the Austrian authorities. Investigations relating to the processing of past cases in Liechtenstein were continued in 2014. The company is to be fully liquidated by the end of 2015 at the latest.

#### **d) Proceedings related to investors**

In April 2012, an action was filed by an investor in the Klagenfurt Regional Court against the former Hypo Alpe-Adria-Bank International AG and claims for damages, warranty claims and claims for declaratory relief were asserted. Specifically, the plaintiff petitions for the repayment of the nominal value (including statutory default interest) of a supplementary capital bond of the former Hypo Alpe-Adria-Bank International AG amortised to zero (at final maturity date) based on the statutory loss allocation of section 23 (7) (3) of the Austrian Banking Act (BWG). In addition, the plaintiff petitions for the payment of the missed interest on the bond from April 2009 to April 2011, including statutory default interest.

In Heta's view, the full amortisation of the bond to zero at the final maturity date was performed properly. Due to numerous changes of judge, the first hearing at the Klagenfurt Regional Court only took place in December 2013. At this hearing, it was resolved to delegate the case to the Commercial Court of Vienna. The hearing took place in the Commercial Court of Vienna on 29 July 2014; the main matter discussed was the further programme of proceedings. The further hearing originally scheduled for the start of January 2015, in which the questioning of witnesses ought to have taken place, was originally postponed to April 2015. A change of presiding judge resulted in the postponement of the hearing to 23 February 2016.

#### **e) Proceedings regarding the involvement of former shareholders**

On 21 March 2012, the former Hypo Alpe-Adria-Bank International AG filed a suit against original shareholders HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS), HYPO-BANK BURGENLAND Aktiengesellschaft, and Berlin & Co Capital S.à.r.l. as well as a total of nine former Executive and Supervisory Board members (so-called "consultants" civil suit). The amount in dispute totals EUR 50.1 million, with the performance order being sought for EUR 50.0 million and the action for a declaratory judgement for EUR 0.1 million. The claims made relate to what former Hypo Alpe-Adria-Bank International AG considered the undue distribution of a disproportionate special dividend to the above-mentioned shareholders in 2008 for the 2007 financial year. In a submission dated November 2012, one of the joint defendants, Berlin & Co Capital S.à.r.l., filed a counterclaim during the proceedings for EUR 250.0 million due to assumed deception when acquiring shares relating to a Hypo Alpe-Adria-Bank International AG capital increase in 2006 to be offset against the claim (and up to that amount); the company also addressed this purported claim out of court. Heta does not believe this counterclaim to be valid. 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 amount in dispute) was agreed in July

2014 between Heta and the defendant and co-defendant former shareholders as well as two former board members. Proceedings against the remaining defendants continued with a pro-rata restricted total amount of some EUR 27 million.

The Klagenfurt public prosecutors initiated criminal investigations on 11 November 2014 relating to the distribution of the special dividend.

The list of defendants in the civil suit was increased by two representatives of BayernLB as well as, pursuant to the Act on the Responsibility of Legal Entities for Criminal Offences (Verbandsverantwortlichkeitsgesetz – VbVG), by KLH, MAPS, Hypo Bank Burgenland, Berlin & Co Capital S.à.r.l. and BayernLB.

A decision was made on 1 December 2014 to interrupt the civil suit until the conclusion of criminal proceedings. Heta recently filed an appeal with the Higher Regional Court (OLG) of Graz to prevent the proceedings from becoming fragmented and to ensure the prompt continuation of the proceedings.

#### **f) Malversation in Italy**

In 2013, the former subsidiary bank in Italy, Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) was confronted with the fact that for many years interest rate adjustment clauses in leasing agreements were applied incorrectly for the benefit of the bank, resulting in higher obligations for customers. These cases only applied to corporate/SME leasing clients; retail customers were not affected. After becoming aware of the problem, Heta immediately ordered the necessary internal investigations to clear up the matter, which resulted in criminal charges being brought forward against the former CEO of the subsidiary bank, among others; investigations by local financial police, the public prosecutors in Udine and the Italian banking regulatory authorities; as well as consequences in terms of personnel and internal organisation. By the end of 2013, external experts had revealed other minor cases of malversation during recent investigations; appropriate compensation of affected customers was immediately initiated. The repayment of all incorrectly retained amounts totalling EUR 119 million was fully completed in 2014.

The cases of malversation led to an on-site audit by the Italian regulator, Banca d'Italia, which extended to the former Italian subsidiary HBI and the Italian leasing unit which remains part of the Heta group. The reason for including the leasing company was that a portfolio of HBI was transferred to the leasing unit in 2012 along with manipulated IT systems which led to the calculation errors. The audit began in March 2013 and was completed in August 2013. Banca d'Italia announced the results of its audit in November 2013. The former bank subsidiary and the leasing company commented on the audit results at the beginning of 2014. The active members of the Administrative Board at the time gave statements on the charges. On 31 October 2014 Banca d'Italia notified both companies of the penalties. The Italian regulator imposed fines of various amounts on all members of the respective Administrative Boards and Control Boards, but only those who were in office during the audit period. Those concerned included six Heta representatives including (former) employees of Heta Asset Resolution AG or current and former members of the Executive Board of Heta Asset Resolution AG, who assumed non-operative Administrative Board functions. Administrative Board and Control Board members who were in office before 2010 or after 2013 were not affected although the investigations revealed that the malversations went back around ten years with regard to the bodies that had been active in the distant past.

Heta provided evidence through several external expertises that the fraudulent actions by a group of insiders consisting of employees close to the former CEO of HBI were not visible to the Heta representatives in the Administrative Board. An appeal was lodged against the penalties in due time at the end of 2014. The appeal did not have a suspensive effect, which meant that the fines were already due for payment by the respective representatives. At the end of 2014, the bodies of Heta decided to reimburse the fines to the representatives concerned on the basis of two external legal opinions which concluded that under the circumstances, the company had an obligation to compensate them.

The audit by the financial police and public prosecutors of Udine which began in 2013 was concluded in the first half of 2015. The investigations led to the initiation of criminal proceedings against six individuals (former CEO and other company employees) and Hypo Alpe-Adria-Bank S.p.A. (responsibility of legal entities). On the basis of the applicable legal provisions, HBI could face fines. In the event of a negative outcome in the proceedings, Heta has assumed liability vis-à-vis HBI-BH. Provisions for potential fines have been set aside for any assumption of liability by Heta.

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

The legal guarantee of the State of Carinthia for all commitments of Heta is a statutory guarantee pursuant to section 1356 of the Austrian Civil Code (ABGB) and covers all commitments entered into before 3 April 2003 as well as all commitments entered into between 3 April 2003 and 1 April 2007 whose terms does not extend beyond 30 September 2017. The State will no longer guarantee any commitments entered into after 1 April 2007. The terms of the guarantee are regulated in the Carinthian State Holding Law (K-LHG).

A guarantee commission agreement concluded between the State of Carinthia and Heta provides for a guarantee commission of 1 per mille p.a. of the amount drawn to be paid. Availing itself of the contractually agreed right to termination, notice was given by Heta to terminate the guarantee agreement as at 31 December 2011, whereby the contractual obligation to pay the guarantee commission would cease as from 2012. Irrespective of the termination of this contractual guarantee commission agreement, the state guarantee provided for in law in section 5 of the Carinthian State Holding Law (K-LHG) applies. The supervisory commissioner of the KLH will continue to be given access to all relevant information at the company.

Divergent legal positions exist between the company and the State of Carinthia on the guarantee commission for 2011, which has not been paid by the company to date. For now the company has issued a waiver of the defence of limitation (until 31 December 2015) to the state. In exchange the State of Carinthia has obligated itself not to sue the company for the time being.

As stated under note 2 Important events, some of Heta's liabilities that were covered by the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Austrian Financial Market Authority (FMA) regulation (HaaSanV) that came into force on 7 August 2014, have been recognised due to the expiry of the debt. This concerned EUR 0.8 billion of subordinate liabilities, which the State of Carinthia held a guarantee over. Considering the effectiveness of the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Austrian Financial Market Authority (FMA) regulation (HaaSanV), the State of Carinthia still has guarantees for fixed-term and non-fixed-term commitments from Heta of EUR 10.2 billion (2013: EUR 12.2 billion) as at 31 December 2014.

	31.12.2014	31.12.2013
Heta Asset Resolution AG	10.168.728,1	12.195.493,7

In the case that the Constitutional Court of Austria declares the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Austrian Financial Market Authority (FMA) directive (HaaSanV) to be unconstitutional, the derecognised liabilities would have to be re-recognised as liabilities in the statement of financial position. This would directly result in an increase in state-guarantee liabilities from EUR 10.2 billion to EUR 11.0 billion.

## (42) Important agreements

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

On 28 December 2010, a guarantee agreement was concluded between the Republic of Austria and the former Hypo Alpe-Adria-Bank International AG, in which the liability of the Republic of Austria as deficiency guarantor in accordance with section 1,356 of the Austrian Civil Code (ABGB) was agreed. This guarantee relates to a precisely specified portion of receivables which are part of the portfolio of the former Hypo Alpe-Adria-Bank International AG, and is limited to EUR 200.0 million ("maximum liability amount"). In return for the assumption of this guarantee by the Republic of Austria, guarantee commission of 10% p.a. to be paid by Hypo Alpe-Adria-Bank International AG was agreed, calculated on the nominal amount of the part of the receivables for which liability was accepted. With effect as at 30 June 2013, the liability of the Austrian Federal Government as guarantor under section 1,346 of the Austrian Civil Code (ABGB) was extended to 30 June 2017 by the signing of an addendum.

As part of the extension, amongst other things certain collateralised receivables were replaced by other pre-existing receivables. The maximum liability amount of EUR 200.0 million and the provisions relating to the commission to be paid remained identical. Furthermore, the drawdown process was adapted, and in particular the process for auditing the drawdown preconditions was redrafted.

As part of the extension of the guarantee, the ability to assert claims was altered to the effect that the latter only became possible from May 2014. In total, claims concerning a nominal amount of loans and advances of roughly EUR 48.8 million have so far been exercised. To date, the Republic of Austria has not yet made any payments in these cases, since the responsible departments in the Austrian Federal Ministry of Finance (BMF) requested further information, and in one case the BMF does not view the conditions for the drawdown as being met at this point. The company takes the view that the preconditions for a claim existed at the time of the drawdown, and is conducting talks with the BMF.

By notice of the resolution authority dated 1 March 2015, the obligation of Heta to pay the commission was deferred until 31 May 2016. The BMF is now of the opinion that the continuation of the guarantee is dependent on the full payment of the commission and the non-payment of this amount would result in no claims existing under the guarantee. Irrespective of this, the follow-up on claims submitted in autumn 2014 has shown that the complex requirements and regulatory provisions, in the submission of guaranteed loans and advances, their restructuring and the claiming of the guarantee, could lead to objections on the part of the BMF and would eventually lead into questions as to whether the prerequisites for payment have been fulfilled. According to principles applied to the measurement of loans in the annual financial statements 2014, an asset guarantee may only be taken into consideration if it can be assumed with a high level of probability that the claims are satisfied by



the guarantor. The Executive Board does not believe that this level of probability – particularly due to the legal rights of lien on the part of the BMF – does not exist in respect of the entire amount of guaranteed loans and advances, rather only in respect of an amount of EUR 36.5 million, which is attributable to claims made prior to the issuance of the FMA decision. In respect of other guaranteed loans and advances, the necessary level of probability does not apply. Irrespective of the accounting principles applied, Heta will review further legal options for its course of action.

#### 42.2. 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 consolidated 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, which commences on 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.

#### 42.3. 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 contributions) in accordance with 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 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.

### (43) Group structure/owners

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

Heta Asset Resolution AG is the parent company of the entire Heta Asset Resolution Group. The financial statements are published in the Wiener Zeitung newspaper and under [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (-> Investor Relations -> Financial Reports).

### (44) Audit expenses

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (Vienna/Austria) (EY) and KPMG Austria GmbH (Vienna/Austria) were selected for auditing the 2014 annual financial statements.

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

	EUR thousand	
	1.1.-31.12.2014	1.1.-31.12.2013
<b>Audit fees for the annual financial statements</b>	<b>689</b>	<b>505</b>
Expenses for current year	540	505
Expenses relating to prior year	149	0
<b>Fees for other services</b>	<b>146</b>	<b>107</b>
Other assurance services	20	30
Tax consultancy	0	0
Other services	126	77
<b>Total</b>	<b>836</b>	<b>612</b>

Audit expenses of EUR 836 thousand were recorded in financial year 2014 (2013: EUR 612 thousand), of which EUR 776 thousand (2013: EUR 597 thousand) is for fees (excluding VAT) and EUR 59 thousand (2013: EUR 16 thousand) for cash outlays. In addition to the services invoiced by the appointed auditors, Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (Vienna), invoices for services rendered directly by other companies within the Ernst & Young network have 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.-31.12.2014	1.1.-31.12.2013
<b>Audit fees for the annual financial statements</b>	<b>540</b>	<b>0</b>
Expenses for current year	540	0
Expenses relating to prior year	0	0
<b>Fees for other services</b>	<b>2,088</b>	<b>1,510</b>
Other assurance services	0	0
Tax consultancy	108	35
Other services	1,980	1,476
<b>Total</b>	<b>2,628</b>	<b>1,510</b>

Audit expenses of EUR 2,628 thousand were recorded in financial year 2014 (2013: EUR 1,510 thousand), of which EUR 2,569 thousand (2013: EUR 1,509 thousand) is for fees (excluding VAT) and EUR 59 thousand (2013: EUR 2 thousand) for cash outlays. In addition to services billed by the selected auditor KPMG Austria GmbH (Vienna/Austria), the total amount also includes services provided by other companies in the KPMG network.

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 consolidated financial statements. Where there is a flat-rate fee, the costs are all allocated to the expenses for the audit of the financial statements.

#### (45) Performance of an audit by the Österreichische Prüfstelle für Rechnungslegung (OePR)

On 13 May 2014, the Österreichische Prüfstelle für Rechnungslegung (OePR) initiated a special audit of the consolidated financial statements as at 31 December 2013 regarding the recognition of the assets belonging to the SEE network. Subsequently the audit was expanded to include the interim report as at 30 June 2014. The performed audit was related both to a sample of individual credit cases in the SEE countries and the valuation of the entire SEE network in the (interim) consolidated financial statements of Heta. The financial statements of Heta as at 31 December 2013 (separate financial statement) were not an object of the audit.

The OePR announced the results of the audit on 10 April 2015 and, regarding the statement of financial position item "Credit risk provisions for customers", noted that these were too low in the consolidated financial statements as at 31 December 2013 by at least EUR -8.1 million and in the interim report as at 30 June 2014 by at least EUR -3.8 million. It was also noted that the "Provisions" statement of financial position item in the interim report as at 30 June 2014 with a corresponding effect on results was too high by EUR -1.16 billion, since in the opinion of the OePR the conditions for recognising a provision for the loss on disposal were not given as at 30 June 2014. Insofar as permitted by the relevant IFRS standards, the assets side of the group would instead have to be remeasured regarding the assets of the SEE network.

According to the opinion of the OePR, the losses reported as at 30 June 2014 would have been significantly lower than those actually reported by recognising a provision in the amount of the expected loss on disposal.

Since it is the opinion of the Executive Board that there was an obligation to recognise a provision for the disposal of the SEE network as at 30 June 2014, Heta notified the OePR on 27 April 2015 that it objects to the results of the audit. The Austrian Financial Market Authority (FMA) is pursuing the case.

#### (46) Other supplementary information

Existing investments in the leasing business according to section 64 (1 Z 1) BWG are for shares in Hypo Leasing d.o.o. (Ljubljana/Slovenia) and shares in Hypo Alpe-Adria-Leasing OOD (Sofia/Bulgaria) and Hypo Alpe-Adria-Autoleasing OOD (Sofia/Bulgaria) in the amount of EUR 0 thousand (2013: EUR 0 thousand).

In addition there are loans and advances in the nominal value of EUR 1,646,547 thousand to Hypo Alpe-Adria-Bank S.p.A., Udine (HBI), and loans and advances in the amount of EUR 1,987,562 thousand, as well as liabilities in the amount of EUR 94,329 thousand to the Hypo Group Alpe Adria AG (HGAA).

The amount for deferred tax assets not reported separately on the balance sheet that can be capitalised pursuant to the UGB (25 %) according to section 198 (10) UGB is EUR 0 thousand (2013: EUR 0 thousand).

No income taxes impacted the extraordinary result of Heta. Reported tax expenses also include the tax allocations of EUR -18,997 thousand (2013: EUR -1,447 thousand) to group members according 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 PfandG were as follows:

	EUR thousand					
	Debt evidenced by certificates		Covering loans		Surplus/shortfall in cover	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Public sector mortgage bonds	238,417	274,879	889,151	1,202,722	660,324	935,866

The balance sheet contains the following foreign currency amounts (equivalent value in EUR thousand):

	EUR thousand	
	31.12.2014	31.12.2013
Assets	1,631,280	2,750,229
Equity and Liabilities	2,923,465	3,160,315

Most of the difference in the amount of EUR 1,292,185 thousand (2013: EUR 410,086 thousand) is hedged with currency swaps (FX swaps and cross currency swaps) and forward currency transactions. Of the write-downs performed as part of the Asset Quality Review (AQR) in 2015, which were accounted for in the 2014 annual financial statements, loans and advances that are denominated in a foreign currency (in particular CHF) were also affected. Due to the write-downs recorded for the first time in the balance sheet retrospectively only in 2015, and to the rise of the CHF/EUR exchange rate in January 2015, an open currency item resulted which is leading to foreign currency losses in 2015. The negative effect expected from this was accordingly provided for by creating a value adjustment under section 57 (1) BWG in the 2014 annual financial statements.

As a result of both the above mentioned agreements to create fellow subsidiaries in relation to the SEE network and the former banking subsidiary Hypo Alpe-Adria-Bank S.p.A., Udine (HBI), there are still refinancing loans and advances to HGAA and HBI. The conditions for refinancing lines to these businesses are between 33 and 125 basis points mark-up on the reference interest rate.

The payment of fees and other payments in connection with both the transactions creating fellow subsidiaries will occur only at standard market terms and conditions.

In addition to his role at Heta, Mr Proksch also performs the function of deputy chairman of the Executive Board at HGAA. His assumption of this function occurred at the request of the owner and has been disclosed to the Supervisory Board of Heta as well as the Austrian regulatory authorities. In an ad-hoc announcement on 26 February 2015, Heta made it known that Mr Proksch is to end his term as Chief Financial Officer (CFO) in Heta of his own volition as at 30 June 2015.

Mr Handrich exercises not only his executive board duties in Heta but also, inter alia, the function of a member of the Supervisory Board of HGAA. The function which he assumed in the HGAA on 29 January 2015 has been disclosed to the Supervisory Board and the owner of Heta as well as the Austrian regulatory authorities.

The company did not conclude any significant transactions above and beyond these with related businesses and persons.

#### (47) Employees

The average number of employees (full-time equivalent) during the year for the purposes of section 239 (1) (1) of the UGB was as follows:

	2014	2013
Salaried employees	535	552
Hourly-paid employees	0	0
<b>Total</b>	<b>535</b>	<b>552</b>

**(48) Expenses for severance payments and pensions**

These expenses as defined in section 239 (1) (3) UGB break down as follows:

	1.1.-31.12.2014		1.1.-31.12.2013	
	Severance pay	Pensions	Severance pay	Pensions
Members of Executive Board	0	106	32	86
Key management personnel	268	56	108	11
Other employees	2,901	769	1,008	247
<b>Total</b>	<b>3,170</b>	<b>931</b>	<b>1,148</b>	<b>345</b>

EUR thousand

The expenditures for severance and payments to employee severance and retirement funds break down into severance at EUR 2,609 thousand (2013: EUR 595 thousand) and payments to employee severance and retirement funds at EUR 561 thousand (2013: EUR 553 thousand).

**(49) Information about members of the management bodies**

The management bodies in the year under review are shown in Schedule 2 to the notes.

**49.1. Advances, loans and guarantees in respect of members of the management bodies**

Until it was sold, all transactions relating to members of the Executive and Supervisory Boards 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.

**49.2. Remuneration of members of the Executive and Supervisory Boards**

Remuneration paid to the executive bodies during the financial year is as follows:

	EUR thousand	
	1.1.-31.12.2014	1.1.-31.12.2013
<b>Executive Board</b>	<b>1,631</b>	<b>2,219</b>
of which on-going payments	1,631	2,219
<b>Supervisory Board</b>	<b>319</b>	<b>227</b>
<b>Remuneration paid to former members of the Executive and Supervisory Board and their surviving dependants</b>	<b>0</b>	<b>513</b>
thereof payments after termination	0	513
thereof related to termination	0	0
<b>Total</b>	<b>1,950</b>	<b>2,959</b>

Remuneration of members of the Supervisory Board for 2014 (and 2013) did not include any variable elements.

Klagenfurt am Wörthersee, 16. June 2015  
Heta Asset Resolution AG

Executive Board

Sebastian  
Prinz von Schoenaich-Carolath  
(Chairman)

Johannes Proksch  
(Deputy Chairman)

Rainer Jakobowski  
(Member)

Martin Handrich  
(Member)

## Fixes assets movement schedule Annex 1 to the notes to the financial statements

Asset	Acquisition costs 01.01.2014	Addition 2014	Disposals 2014	Reclassifications 2014
2. <b>Treasury bills</b>				
Financial investments	200,118,371.69	4,876.71	-179,753,658.24	0.00
3. <b>Loans and advances to credit institutions</b>				
Financial investments	0.05	0.00	-0.05	0.00
4. <b>Loans and advances to customers</b>				
Financial investments	263,694,184.59	0.00	-233,130,611.18	0.00
5. <b>Bonds and other fixed income securities</b>				
Financial investments	310,162,148.83	14,817,272.28	-236,835,256.54	0.00
7. <b>Shares in associated companies</b>	19,093,798.94	0.00	-41,747.61	-17,374,701.48
8. <b>Shares in affiliated companies</b>	4,592,577,865.59	475,494,015.24	-2,240,809,694.84	17,374,701.48
9. <b>Intangible fixed assets</b>	14,027,314.01	5,787,745.98	-694,895.21	0.00
10. <b>Tangible fixed assets</b>	9,617,158.81	1,027,456.79	-1,341,639.99	0.00
<b>Total</b>	<b>5,409,290,842.51</b>	<b>497,131,367.00</b>	<b>-2,892,607,503.66</b>	<b>0.00</b>

Acquisition costs 31.12.2014	Accumulated depreciation	Accumulated write-ups	Carrying amount 31.12.2014	Carrying amount 31.12.2013	Write-ups 2014	Depreciation 2014
20,369,590.16	-20,369,590.16	0.00	0.00	179,748,781.53	0.00	0.00
0.00	0.00	0.00	0.00	0.05	0.00	0.00
30,563,573.41	-30,563,573.41	0.00	0.00	236,114,692.11	0.00	0.00
88,144,164.57	-88,144,164.57	0.00	0.00	223,166,319.39	0.00	-172,500.00
1,677,349.85	-1,675,163.56		2,186.29	4,863,189.28	0.00	-9,332.86
2,844,636,887.47	-2,339,501,239.15	116,694.67	505,252,342.99	1,176,593,817.84	0.00	-1,142,077,471.29
19,120,164.78	-15,456,578.46	0.00	3,663,586.32	3,393,748.30	0.00	-5,008,477.10
9,302,975.61	-5,196,928.07	0.00	4,106,047.54	6,064,694.46	0.00	-2,839,728.71
<b>3,013,814,705.85</b>	<b>-2,500,907,237.38</b>	<b>116,694.67</b>	<b>513,024,163.14</b>	<b>1,829,945,242.96</b>	<b>0.00</b>	<b>-1,150,107,509.96</b>

## Management bodies Annex 2 to the notes to the financial statements

1 January bis 31 December 2014

### Supervisory Board

#### Chairman of the Supervisory Board

Klaus LIEBSCHER, member from 30 April 2013, Chairman from 21 June 2013 to 21 February 2014

Herbert WALTER, member from 23 May 2014, Chairman from 3 June 2014 to 7 November 2014

Michael MENDEL, member from 7 November 2014, Chairman from 7 November 2014

#### Deputy Chairman of the Supervisory Board

Rudolf SCHOLTEN, until 23 May 2014

Wolfgang HARTMANN, member from 23 May 2014, Deputy Chairman from 3 June 2014 to 7 November 2014

Alois HOCHEGGER, member from 23 May 2014, Deputy Chairman from 7 November 2014

#### Members of the Supervisory Board

Helmut DRAXLER, until 23 May 2014

Alois STEINBICHLER, until 23 May 2014

Ludwig SCHARINGER, until 4 February 2014

Adolf WALA, until 23 May 2014

Christine SUMPER-BILLINGER, from 23 May 2014

Regina FRIEDRICH, from 23 May 2014

Bernhard PERNER, from 7 November 2014

#### Delegated by the Works Council

Gerhard PLIESCHNIG, until 3 October 2014

Helmut GRUBER, from 20 September 2014 to 3 October 2014

Richard JOHAM

### Federal Supervisory Authorities

#### State Commissioner:

Alexander PESCHETZ

#### Deputy State Commissioner

Monika HUTTER, until 30 April 2014

Stefan WIESER, until 1 August 2014

### Trustees

#### Trustee

Alexander PESCHETZ, Federal Ministry of Finance

#### Deputy

Jakob KÖHLER, Federal Ministry of Finance, until 30 August 2014

Maria HACKER-OSTERMANN, from 1 September 2014

### Executive Board

Wolfgang EDELMÜLLER, Deputy Chairman, until 28 February 2014

Rainer SICHERT, MA, Deputy Chairman, from 1 March 2014 to 29 October 2014

Alexander PICKER, Chairman, from 1 January 2014 to 29 October 2014

Johannes PROKSCH, member from 19 April 2010, Deputy Chairman, from 31 October 2014

Rainer JAKUBOWSKI, member, from 15 September 2014, Chairman, from 31 October 2014

## 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) of the UGB:

2	Registered office	Capital share <sup>1)</sup>	Equity in EUR thousand <sup>2)</sup>	Profit/Losses in EUR thousand <sup>3)</sup>	Date of closing
HBInt Credit Management Limited	St. Helier - Jersey	51.000	520,364	11,033	31.12.2014
Norica Investments Limited	St. Helier - Jersey	51.000	511,293	12,617	31.12.2014
IMPREGNACIJA - HOLZ d.o.o. Vitez <sup>4)</sup>	Vitez	93.380	-	-	-
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	100.000	1,129	-1,288	31.12.2014
HYPO Consultants Holding GmbH	Klagenfurt am Wörthersee	100.000	0	0	31.12.2014
Hypo Alpe-Adria Jersey Limited	St. Helier - Jersey	100.000	0	0	31.12.2013
Alpe Adria Privatbank AG in liquidation	Vaduz	100.000	3,786	-1,115	31.12.2014
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	100.000	-7,384	-880	31.12.2014
ALPE-ADRIA GASTRONOMIE GMBH	Klagenfurt am Wörthersee	100.000	-43	-85	31.12.2013
Alpe Adria Venture Fund GmbH & Co KG	Klagenfurt am Wörthersee	100.000	1,127	-1,642	31.12.2013
TCK d.o.o.	Ljubljana	100.000	-368,266	-263,648	31.12.2014
GRAND HOTEL LAV d.o.o.	Podstrana	100.000	-8,932	1,562	31.12.2014
GRAND MARINA LAV d.o.o.	Podstrana	100.000	139	-320	31.12.2013
KONJUSKA d.o.o.	Primosten	100.000	-1,050	42	31.12.2013
TCV d.o.o.	Ljubljana	100.000	-52,596	-35,542	31.12.2014
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD	Novi Beograd	100.000	2,824	-2,334	31.12.2014
HYPO ALPE-ADRIA-LEASING OOD	Sofia	100.000	-18,962	-31,621	31.12.2014
HYPO ALPE-ADRIA-AUTOLEASING OOD <sup>5)</sup>	Sofia	100.000	-	-	31.12.2014
HETA Asset Resolution d.o.o.	Ljubljana	100.000	-259,634	-270,629	31.12.2014
Hypo Alpe-Adria (Jersey) II Limited	St. Helier - Jersey	100.000	0	0	31.12.2013
REZIDENCIJA SKIPER d.o.o.	Savudrija	100.000	-64,423	-4,144	31.12.2014
CEDRUS Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.000	293	-339,238	31.12.2014

The equity and profit/loss values shown above were calculated uniformly in accordance with the provisions of IFRS for fully consolidated companies and could therefore differ from the values shown in published separate financial statements, which were drawn up in each case in accordance with the national laws prevailing. The information is based on data prior to consolidation.

Sub-groups: The values for equity and the result from the financial statements take into account the consolidated subsidiary companies

<sup>1)</sup> Percentage from the point of view of HETA Asset Resolution AG. Minority shareholders with an interest smaller than 0.001% are not shown

<sup>2)</sup> Equity = total equity for the company; proportional equity has not been shown

<sup>3)</sup> Result = net profit/loss prior to reserves and non-controlling interests; pro-rata results have not been shown

<sup>4)</sup> IMPREGNACIJA - HOLZ d.o.o. is inactive and does not prepare a balance sheet

<sup>5)</sup> The equity and results for HYPO ALPE-ADRIA-AUTOLEASING OOD are included in the figures for the direct holding company HYPO ALPE-ADRIA-LEASING OOD



## 2. Scope of consolidation pursuant to IFRS

Heta prepares its financial statements as at 31 December 2014 according to the International Financial Reporting Standards (IFRS). The published consolidated financial statements are based on the group of consolidated companies according to IFRS and include the following:

company	Registered office	Capital		Date of Closing
		share direct	share indirect	
Alpe Adria Privatbank AG in liquidation	Vaduz	100.000	100.000	31.12.2014
Alpe Adria Snow Fun Park Grundstücks GmbH	Wittenburg	100.000	100.000	31.12.2014
Alpe-Adria nekretnine d.o.o.	Zagreb	100.000	100.000	31.12.2014
Alpe-Adria poslovodstvo d.o.o.	Zagreb	100.000	100.000	31.12.2014
Alpe-Adria-Projekt GmbH	Munich	100.000	100.000	31.12.2014
BLOK 67 ASSOCIATES DOO BEOGRAD	Belgrad - Novi Beograd	100.000	100.000	31.12.2014
BORA d.o.o. Banja Luka	Banja Luka	100.000	100.000	31.12.2014
BRODARICA POSLOVNI CENTAR d.o.o.	Zagreb	100.000	100.000	31.12.2014
Carinthia I Limited	St. Helier - Jersey	100.000	51.000	31.12.2014
Carinthia II Limited	St. Helier - Jersey	100.000	51.000	31.12.2014
CEDRUS Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.000	100.000	31.12.2014
Centrice Real Estate GmbH	Vienna	100.000	100.000	31.12.2014
DOHEL d.o.o.	Sesvete	100.000	100.000	31.12.2014
EPSILON GRAĐENJE d.o.o.	Zagreb	100.000	100.000	31.12.2014
GRAND HOTEL LAV d.o.o.	Podstrana	100.000	100.000	31.12.2014
H-ABDUKO d.o.o.	Zagreb	100.000	100.000	31.12.2014
HAR GmbH	Klagenfurt am Wörthersee	100.000	100.000	31.12.2014
HBInt Credit Management Limited	St. Helier - Jersey	51.000	51.000	31.12.2014
HETA 2014 Tanácsadó Kft	Budapest	100.000	100.000	31.12.2014
HETA Asset Resolution d.o.o.	Ljubljana	(25.0/75.0)	100.000	31.12.2014
HETA ASSET RESOLUTION d.o.o.	Podgorica	100.000	100.000	31.12.2014
HETA ASSET RESOLUTION D.O.O. BEOGRAD	Beograd	100.000	100.000	31.12.2014
HETA Asset Resolution Germany GmbH	Munich	100.000	100.000	31.12.2014
HETA Asset Resolution Hrvatska d.o.o.	Zagreb	100.000	100.000	31.12.2014
Heta Asset Resolution Italia S.r.l.	Tavagnacco (UD)	100.000	100.000	31.12.2014
HETA Asset Resolution Leasing GmbH	Klagenfurt am Wörthersee	100.000	100.000	31.12.2014
HETA Asset Resolution Magyarország Zrt.	Budapest	100.000	100.000	31.12.2014
HETA d.o.o. Sarajevo	Sarajevo	100.000	100.000	31.12.2014
HETA Grund- und Bau-Leasing GmbH	Klagenfurt am Wörthersee	(99.9/0.01)	100.000	31.12.2014
HETA Immobilien- und Bauconsult GmbH	Klagenfurt am Wörthersee	99.000	100.000	31.12.2014
HETA LEASING D.O.O. BEOGRAD	Beograd	100.000	100.000	31.12.2014
HETA Leasing Kärnten GmbH & Co KG	Klagenfurt am Wörthersee	100.000	100.000	31.12.2014
HETA Luftfahrzeuge Leasing GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.000	31.12.2014
HETA REAL ESTATE D.O.O. BELGRAD	Beograd	100.000	100.000	31.12.2014
HETA Real Estate GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.000	31.12.2014
HTC ENA d.o.o.	Ljubljana	100.000	100.000	31.12.2014
HYPERIUM DOOEL Skopje	Skopje	100.000	100.000	31.12.2014
HYPO ALPE-ADRIA-AUTOLEASING OOD	Sofia	(99.83/0.17)	100.000	31.12.2014
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt am Wörthersee	100.000	100.000	31.12.2014
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	100.000	100.000	31.12.2014
HYPO ALPE-ADRIA-LEASING D.O.O. - PODGORICA	Podgorica	100.000	100.000	31.12.2014
HYPO ALPE-ADRIA-LEASING DOOEL Skopje	Skopje	100.000	100.000	31.12.2014
HYPO ALPE-ADRIA-LEASING OOD	Sofia	(99.9/0.01)	100.000	31.12.2014
HYPO ALPE-ADRIA-Verwaltung 2011 GmbH	Munich	100.000	100.000	31.12.2014

company	Registered office	Capital share direct	Capital share indirect	Date of Closing
HYPO ALPE-ADRIA-ZASTUPNIK - Društvo za zastupanje u osiguranju d.o.o. Sarajevo	Sarajevo	100.000	100.000	31.12.2014
HYPO CENTER –2 d.o.o.	Ljubljana	100.000	100.000	31.12.2014
HYPO GALERIJA d.o.o.	Zagreb	100.000	100.000	31.12.2014
HYPO HOUSE D.O.O. - PODGORICA	Podgorica	100.000	100.000	31.12.2014
HYPO NEPREMICNINE d.o.o.	Ljubljana	100.000	100.000	31.12.2014
HYPO PREP d.o.o.	Ljubljana	100.000	100.000	31.12.2014
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	100.000	100.000	31.12.2014
HYPO-ALPE-ADRIA-NEKRETNINE d.o.o.	Zagreb	100.000	100.000	31.12.2014
LOMA CENTER d.o.o.	Ljubljana	100.000	100.000	31.12.2014
Malpensa Gestioni Srl	Tavagnacco (Udine)	100.000	100.000	31.12.2014
MM THETA d.o.o.	Ljubljana	100.000	100.000	31.12.2014
MM ZETA d.o.o.	Ljubljana	100.000	100.000	31.12.2014
Norica Investments Limited	St. Helier - Jersey	51.000	51.000	31.12.2014
O-CENTER d.o.o.	Maribor	100.000	100.000	31.12.2014
Prep Management d.o.o.	Ljubljana	100.000	100.000	31.12.2014
REZIDENCIJA SKIPER d.o.o.	Savudrija	(75.0/25.0)	100.000	31.12.2014
SKIPER HOTELI d.o.o.	Savudrija	100.000	100.000	31.12.2014
SKIPER OPERACIJE d.o.o.	Savudrija	100.000	100.000	31.12.2014
SKORPIKOVA POSLOVNI CENTAR d.o.o.	Zagreb	100.000	100.000	31.12.2014
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Wittenburg	100.000	100.000	31.12.2014
SPC SZENTEND Ingatlanforgalmazó és Ingatlanfejlesztő Kft.	Budapest	100.000	100.000	31.12.2014
TCK d.o.o.	Ljubljana	(75.0/25.0)	100.000	31.12.2014
TCV d.o.o.	Ljubljana	(75.0/25.0)	100.000	31.12.2014
TERME SPA ROGASKA D.D.	ROGAŠKA SLATINA	100.000	100.000	31.12.2014
Tridana d.o.o.	Ljubljana	100.000	100.000	31.12.2014
Victor Retail I d.o.o.	Sarajevo	100.000	100.000	31.12.2014
X TURIST d.o.o.	Umag	100.000	100.000	31.12.2014
Y TURIST d.o.o.	Umag	100.000	100.000	31.12.2014
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD	Novi Beograd	100.000	100.000	31.12.2014

# Major holdings

Annex 4 to the notes to the financial statements

as at 31 December 2014

FINANCIALS			OTHERS		
<b>Austria:</b>			<b>Austria:</b>		
HAR GmbH, Klagenfurt/WS			CEDRUS Handels- und Beteiligungs GmbH, Klagenfurt/WS	1	
HETA Asset Resolution Leasing GmbH, Klagenfurt/WS			HYPO ALPE-ADRIA BETEILIGUNGEN GMBH, Klagenfurt/WS		
HETA Real Estate GmbH, Klagenfurt/WS			Hypo Alpe-Adria- Immobilien GmbH, Klagenfurt/WS	1	
HETA Luftfahrzeuge Leasing GmbH, Klagenfurt/WS			HYPO Vermögens- verwaltung GmbH, Klagenfurt/WS	1	
HETA Grund- und Bau- Leasing GmbH, Klagenfurt/WS					
HETA Leasing Kärnten GmbH & Co KG, Klagenfurt/WS					
HETA Immobilien- und Bauconsult GmbH, Klagenfurt/WS					
<b>Italy:</b>			<b>Performing Real Estate:</b>		
Heta Asset Resolution Italia S.r.l., Udine			Centrice Real Estate GmbH, Wien		
			HYPO PREP d.o.o., Ljubljana		
			Prep Management d.o.o., Ljubljana		
<b>Slovenia:</b>			<b>Serbia:</b>		
HETA Asset Resolution d.o.o., Ljubljana	1		ZAJEDNIČKI INFORMACIONI SISTEM DOO, BEOGRAD	1	
TCV d.o.o., Ljubljana	1				
TCK d.o.o., Ljubljana	1				
<b>Croatia:</b>			<b>Bosnia and Herzegovina:</b>		
HETA Asset Resolution Hrvatska d.o.o., Zagreb			HETA d.o.o., Sarajevo		
HETA Asset Resolution Ulaganja d.o.o., Zagreb			BORA d.o.o., Banja Luka		
H-ABDUCO d.o.o., Zagreb					
AUREA SAVJETOVANJE d.o.o., Zagreb					
<b>Jersey, Channel Islands:</b>			<b>Serbia:</b>		
HBInt Credit Management Limited, St. Helier	1	51 %	HETA LEASING D.O.O., BEOGRAD		
Norica Investments Limited, St. Helier	1	51 %	HETA ASSET RESOLUTION D.O.O., BEOGRAD		
			HETA REAL ESTATE D.O.O., BELGRAD		
<b>Bulgaria:</b>			<b>Montenegro:</b>		
HYPO ALPE-ADRIA-LEASING OOD, Sofia	1		HYPO ALPE-ADRIA-LEASING D.O.O., Podgorica		
HYPO ALPE-ADRIA AUTOLEASING OOD, Sofia	1		HETA ASSET RESOLUTION D.O.O., PODGORICA		
<b>Macedonia:</b>			<b>Hungary:</b>		
HYPO ALPE-ADRIA-LEASING DOOEL, Skopje			HETA Asset Resolution Magyarország Zrt., Budapest		
<b>Germany:</b>					
HETA Asset Resolution Germany GmbH, München					
			<b>Croatia:</b>		

Illustrated are the direct fully consolidated subsidiaries of the Heta Asset Resolution AG (excluding companies in liquidation) which are marked with '1'. The other subsidiaries represent fully consolidated second- or third level subsidiaries of the Heta Asset Resolution AG, mainly subsidiaries of the HAR GmbH or Hypo Alpe-Adria-Beteiligungen GmbH. It is pointed out that this organigram does not contain all direct and indirect subsidiaries of the Heta Asset Resolution AG, therefore the illustration is not exhaustive.

**Segment Financials:** Contains the Wind-Down leasing companies, the companies which took over the non-performing financing portfolio from the former sister banks ('brush entities'), and the two investment companies with minority interests.

**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 material risks and uncertainties the business faces”.

Klagenfurt am Wörthersee, 16. June 2015  
Heta Asset Resolution AG

Executive Board

Sebastian  
Prinz von Schoenaich-Carolath  
(Chairman)

Johannes Proksch  
(Deputy Chairman)

Rainer Jakubowski  
(Member)

Martin Handrich  
(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 1 January 2014 to 31 December 2014. These financial statements comprise the statement of financial position as at 31 December 2014, the income statement for the fiscal year that ended 31 December 2014, 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 and the provisions of Austrian Commercial Law. This responsibility includes: designing, implementing and maintaining internal controls relevant for the preparation and fair presentation of financial statements so that they are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting and measurement policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' 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, taking into account the limitations described in our audit opinion. 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 regarding the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 controls 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 controls. 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 reasonable basis for our audit opinion, taking into account the limitations described therein.

### Opinion

During the course of our audit following issue was detected:

As disclosed by the company's management board in the notes to the financial statements in note (42.1) "Guarantee Agreement with the Republic of Austria", there are significant differences in the understanding between the company and the guarantor regarding compliance with the requirements of the default guarantee and the ongoing existence of the guarantee. The responses and documentation provided during the course of the audit did not allow us to finally evaluate, with the required level of certainty, the enforceability of the claims and the amounts considered within the financial statements. Therefore, we were not able to conclude whether adjustments to the recorded amounts were required.

In our opinion, which is based on the results of our audit taking into account the possible effects of the limitation described in the previous paragraph, the financial statements comply with legal requirements and give a true and fair view of the financial position of the company as at 31 December 2014 and of its financial performance for the fiscal year from 1 January to 31 December 2014 in accordance with Austrian Generally Accepted Accounting Principles.

Without further qualifying our opinion we draw attention to the following:

- Disclosure made by the company's management board in the notes to the financial statements in note (4) "Valuation principles of the gone concern assumption" with regard to the assessment of the company's continuance as a going concern in the financial statements as at 31 December 2013. In 2013 the company's management board referred to the same assumptions underlying the group's restructuring plan approved by the European Commission, which foresaw capital measures for subsequent years to maintain the going concern assumption to cover accrued losses over the course of the portfolio wind-down. The valuation of the group's portfolio-wind-down relevant assets was initiated once the Federal Law on the Creation of a Wind-Down Unit (GSA) fully came into force at the end of October 2014 following the transfer of Heta into a partially regulated but not insolvency-proof wind-down unit. This valuation reflects the short- to medium-term intention to sell in saturated markets within a timeframe of five years for the portfolio wind-down under the assumption that 80% of the assets are to be wound down by 2018. Following the announcement of the interim results of the Asset Quality Review (AQR), which indicated a potential capital shortfall of between EUR -4.0 billion and EUR -7.6 billion, in excess of the capital measures still available under the state aid framework approved by the European Commission of EUR 2.9 billion as well as the expected implications of these for the company's capital and liquidity situation, the company's shareholder, the Republic of Austria, announced on 1 March 2015 that no further measures in accordance with the Federal Act on Financial Market Stability (FinStaG) will be taken for Heta. Based on the amended business purpose, the implications of the Federal Law on the Creation of a Wind-Down Unit (GSA), which calls for mandatory self-liquidation after achieving the statutory wind-down objectives, 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) decision by the resolution authority, the company's management board no longer has a basis for continuing to prepare the financial statements based on the going concern assumption. Instead, the financial statements as at 31 December 2014 are based on the gone concern assumption;
- Disclosure made by the company's management board in the notes to the financial statements in note (4) "Valuation principles of the gone concern assumption": The company's management board does not provide for interest or capital repayment for the company's debt in the wind-down plan to be prepared according to GSA. The resolution plan to be prepared by the resolution authority according to BaSAG can deviate in terms of time and content from Heta's wind-down plan, so that from the company's management's point of view, it is uncertain (in particular for the period after the currently applicable moratorium) if a proper liquidation of Heta would be possible other than within the context of insolvency proceedings;
- Disclosure made by the company's management board in the notes to the financial statements in notes (2.3) "Adoption of the regulation pursuant to the Hypo Alpe Adria Restructuring Act", (37) "Extraordinary income" and (40.3) "Proceedings related to the Hypo Alpe Adria Restructuring Act (HaaSanG)", which relate to the coming into effect of the regulation pursuant to the Hypo Alpe Adria Restructuring Act (HaaSanG) on 1 August 2014. The Hypo Alpe Adria Restructuring Act (HaaSanG) provides that upon the proclamation of a regulation to be issued by the Austrian Financial Market Authority (FMA) for this purpose that certain subordinated liabilities and partner's liabilities of Hypo expire and that the due date of certain contested liabilities is deferred until a legally binding decision is made on the respective contested liability. This affects around EUR 0.8 billion in subordinated liabilities of the company, all outstanding supplementary capital issues and certain shareholder loans granted by BayernLB totalling EUR 0.8 billion since the first Financial Markets Stabilisation Act (FinStaG) measure in December 2008. These liabilities will be dissolved pursuant to section 3 of the Federal Law on Restructuring Measures for Hypo Alpe-Adria-Bank International AG (HaaSanG), along with all collaterals, including guarantees, relating to such subordinate liabilities. As at 16 June 2015, the company faced 33 lawsuits, in which creditors disputed the constitutionality of the Federal Law on Restructuring Measures for Hypo Alpe-Adria-Bank International AG (HaaSanG) and claimed the continued existence of the liabilities, or for payment;
- Disclosure made by the company's management board in the notes to the financial statements in note (40.2) "Proceedings related to Bayerische Landesbank", that at the end of 2012, the former majority shareholder of Heta, Bayerische Landesbank (BayernLB), sought a declaratory judgement from the Munich I regional court in relation to the financing lines, which in the view of the company are subject to the Austrian Equity Substituting Capital Act (EKEG) and may therefore neither be serviced by interest payments nor redeemed until further notice. The company submitted a comprehensive statement of defence against the application and contested the order sought in its entirety. In a hearing on 8 May 2015, the Regional Court Munich I orally announced a first-instance decision in the case between

Heta and Bayerische Landesbank (Bayern LB) relating to the Austrian Equity Substituting Capital Act (EKEG). The written verdict was submitted to the company's lawyers in this case on 2 June 2015. With its decision, which is not yet legally effective, the court largely allowed the claims of BayernLB and rejected the counter claims (repayment claims) of the company. A provision of approximately EUR 0.9 billion has been set aside for the impending availment by creditors for all liabilities that expired as a result of the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG) based on the initial judgement. The company is of the opinion that key arguments in the dispute relating to legal issues of the proceeding are not sufficiently taken into account by the senate (as well as by experts appointed by the court). It will examine the verdict in detail, file an appeal within the deadline and decide on the substance of the appeal with careful consideration of its chances. Pursuant to German law, the appeal will not affect the suspending of the decision. As a general rule, BayernLB can, on the condition that it can provide the collateral stipulated by German procedural legislation and pursuant to the verdict of the Munich I regional court, seize the company's assets. At present, there is a considerable risk that the judgement could also be enforced in Austria;

- Disclosure made by the company's management board in the notes to the financial statements in note (9.1) "Carve out of the Italian banking subsidiary (HBI)", which refers to the deconsolidation of Hypo Alpe-Adria-Bank S.p.A., Udine, and the refinancing of HBI, and the corresponding risks to the company resulting from the sale agreement. Due to the Federal Act on the Recovery and Resolution of Banks (BaSAG) moratorium the company is no longer able to meet its contractual obligations in terms of the recoverability of these receivables a figure needed to be recognised in the financial statements by Heta for its valuation which would be realistic according to a regulatory wind-down procedure in Italy.
- Disclosure made by the company's management board in the notes to the financial statements in note (9.2) "SEE network", which refers to the sale agreement and the refinancing of Hypo Group Alpe Adria (of the SEE network) and the corresponding risks to the company. The sale agreement provides for a comprehensive list of guarantees and warranties. Among other things, it grants the bidder consortium the right to transfer certain loans and advances and other assets and risk positions up to a value of EUR 800 million (net statement of financial position as at 31 December 2014) to the company or one of its nominated subsidiaries. Pursuant to contractual provisions, the company is obligated to continue to maintain the lines of credit in place as at 31 December 2014 (EUR 2.0 billion; expandable up to EUR 2.4 billion). There is uncertainty for the 2015 financial year as to whether the sales agreement will in fact be executed. The SEE network must be wound down in the event that the sale falls through before the end of the deadline set by the European Commission (closing deadline: 31 December 2015); this would place additional high financial burdens on Heta. In this case, the purchase price mechanism of the carve-out agreement would be based on a negative wind-down scenario for Heta, rather than a sales scenario. In such a scenario, it is highly likely that the nominal value of the loans and advances to HGAA of EUR 2.0 billion as at 31 December 2014 will be completely irrecoverable, which means that additional losses of up to EUR -1.0 billion are to be expected depending on the loans and advances still to be paid at the time of this decision;
- Disclosure made by the company's management board in the notes to the financial statements in note (2.5) "Federal Act on the Recovery and Resolution of Banks (BaSAG)", which refers to the fact that the resolution authority issued a decision on the wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) on 1 March 2015. This decision puts a moratorium on all of Heta's "eligible liabilities" until 31 May 2016 pursuant to section 58 (1) (10) of the Federal Act on the Recovery and Resolution of Banks (BaSAG) in preparation for the utilisation of the creditor participation instrument;
- Disclosure made by the company's management board in the notes to the financial statements in note (9) "Discontinued operations", in which the fact that comprehensive legal and business relationships to companies exist that are under the direct control of the owner of the company (i.e. the Republic of Austria), particularly with regard to the carve-out of Hypo Alpe-Adria-Bank S.p.A., Udine, is presented.

**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 auditors' 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, 16 June 2015

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Wirtschaftsprüfungsgesellschaft m.b.H.

Helmut Maukner  
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Please note:

Only the German is the authentic language version. The English version of the Auditors' Report is a translation



# **Group report according to IFRS**

HETA ASSET RESOLUTION

# Group Management Report

It should be noted that “HYPO ALPE-ADRIA-BANK INTERNATIONAL AG” was renamed “HETA ASSET RESOLUTION AG<sup>4</sup>” effective 31 October 2014. This company continues to be the ultimate parent company of the Heta Group (formerly: “Hypo Alpe Adria”).

The company prepares its separate financial statements (separate financial statements) pursuant to Austrian law (UGB/BWG). The consolidated financial statements for the group as at 31 December 2014 have been drawn up on the basis of the International Financial Reporting Standards (IFRS), as they apply in the EU; the management report relates to these. Both documents are also published on the internet ([www.heta-asset-resolution.com](http://www.heta-asset-resolution.com)).

## 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. Liabilities with a guarantee by the State of Carinthia were placed on the market with a volume of more than EUR 20 billion.

As a result of years of aggressive growth with no respective risk limitation, over-optimistic assessments of market developments and serious operating deficiencies in all major units of the bank, Hypo Alpe Adria experienced ever greater turmoil during the global financial crisis and had to be rescued by nationalisation at the end of 2009. In December 2009, the Republic of Austria became the bank's sole owner and since then the bank has been in a phase of restructuring.

On 3 September 2013, the European Commission (EU Commission) announced its final decision in the state aid investigations of the former Hypo Alpe Adria which was underway since 2009. The decision of the European Commission foresaw for the sale of the Austrian subsidiary by 30 June 2014 and the reprivatization of the SEE network by 30 June 2015 (signing) or 31 December 2015 (execution), comprising banking subsidiaries in Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro, a holding company in Austria, and the disposal of the remaining segments of the bank in such a way as to preserve value. An important step towards implementing the plan was the disposal of the

Austrian subsidiary Hypo Alpe-Adria-Bank AG Klagenfurt am Wörthersee to investor group Anadi Financial Holding Pte. Ltd in the 2013 financial year within the period set by the Commission.

The next key milestone on the path to restructuring was the timely reprivatization of the SEE network, which is considered to be a long-standing, respected partner in the financial services sector in SEE countries and specialises in supporting retail customers and small and medium-sized enterprises. Signing of the transaction took place in the second half of 2014, whereas closing is expected for mid 2015.

On 18 March 2014, the federal government made a decision regarding the subsequent wind-down procedure of the former Hypo Alpe-Adria-Bank International AG. At that time it was the intent of the owner to permit winding down the bank without entering insolvency. The SEE network is to be sold as quickly as possible and the rest of the bank is to be transformed into a partially regulated company organised as a private enterprise and provided with statutory licenses. Its business activities are restricted to the disposal of all existing assets which shall be liquidated to maximise value.

The Council of Ministers decided on a legislative package consisting of the Federal Law on the Creation of a Wind-Down Unit (GSA), the Federal Act Incorporating a Federal Wind-down Holding Company for Hypo Alpe-Adria-Bank S.p.A. (HBI-Bundesholdinggesetz), the Federal Act Incorporating a Federal Wind-down (Public Limited) Company (ABBAG-Gesetz), the Hypo Alpe Adria Restructuring Act (HaaSanG) and a federal law amending the financial market stability law and the financial market supervisory authority law. This legislative package was subsequently passed by the National Council and Federal Council, and came into force on 1 August 2014. With the publication of the Austrian Financial Market Authority (FMA) regulation on 7 August 2014, the liabilities of the former Hypo Alpe-Adria-Bank International AG listed in the Austrian Financial Market Authority (FMA) regulation in the amount of about EUR 1.6 billion expired or were deferred by law. Of this amount, EUR 0.8 billion (nominal value) consisted of subordinate liabilities to third parties and EUR 0.8 billion (nominal value) of certain liabilities of Bayerische Landesbank (BayernLB). Most of the affected parties filed suit against these measures, so that there is an intrinsic legal risk in regards to the annual and consolidated financial statements and the amount of equity reported in the same that these amounts may have to be recognised as liabilities again due to a court order.

To implement the measures defined in the legislative package to convert Hypo Alpe-Adria-Bank International AG into a wind-down unit it was necessary to transfer the ongoing regulated operations, the share in the SEE network and its Austrian holding company (carve-out) to Finanzmarktbeilegung Aktiengesellschaft des Bundes (FIMBAG). All shares in Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) were

<sup>4</sup> This company is referred to as “Heta” in these notes to the consolidated financial statements. When the group parent company (individual institution) is referred to, the company is named “Heta Asset Resolution AG”.

transferred to HBI-Bundesholding AG (HBI-BH) as part of an additional carve-out measure.

The Austrian Financial Markets Authority (FMA) resolved that the conditions for the termination of the banking license granted by the Financial Markets Authority (FMA) under the Austrian Banking Act (BWG) and that the Hypo Alpe-Adria-Bank International AG no longer conducted deposit business and had no qualifying investment in a credit institution or securities company were met on 30 October 2014 and that Hypo Alpe-Adria-Bank International AG could continue as a wind-down unit under the Federal Law on the Creation of a Wind-Down Unit (GSA). The wind-down unit has a statutory license pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) and can continue to conduct banking and leasing transactions, buy and sell interests and conduct ancillary transactions, provided that this business directly or indirectly serves the unit's purpose pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA). Certain provisions of the Austrian Banking Act (BWG) as listed in section 3 (4) of the Federal Law on the Creation of a Wind-Down Unit (GSA) continue to apply to the wind-down unit, but not those relating to minimum capital requirements among others. The wind-down unit is subject to supervision by the Austrian Financial Market Authority (FMA).

As a result of the transformation, "HYPO ALPE-ADRIA-BANK INTERNATIONAL AG" was renamed "HETA ASSET RESOLUTION AG" (in short form: Heta). Since then Heta has been carried on as an only partly regulated wind-down unit with statutory licenses organised as a private enterprise according to the Federal Law on the Creation of a Wind-Down Unit (GSA). According to the legal mandate, it is obligated to wind down the portfolio as quickly as possible, but also to the best possible advantage. Then the company is to be liquidated. Section 3 of the Federal Law on the Creation of a Wind-Down Unit (GSA) defines this as follows:

*"(1) The wind-down unit is required to manage its assets with the objective of ensuring orderly, active exploitation to the best possible advantage (portfolio wind-down). The portfolio wind-down has to be realised according to the wind-down plan pursuant to section 5 Federal Law on the Creation of a Wind-Down Unit (GSA) and must be accomplished as quickly as possible within the scope of the wind-down objectives. The wind-down unit has to work towards compliance with Paragraph 1 through 5 by the legal entities in which it holds the majority of voting rights, directly or indirectly. [...]"*

*(7) As soon as the wind-down unit has realised the portfolio wind-down, a liquidation resolution has to be passed."*

A rapid exploitation perspective was therefore established for the assets of Heta, which had to be reflected in the valuations of these consolidated financial statements.

Heta concluded a sales contract (signing) for the SEE banking network on 22 December 2014 with the Advent/EBRD bidder consortium based on a power of disposal from FIMBAG. The European Commission has set a deadline of 31 December 2015 for the closing of the sales contract, which has not taken place to date.

As at 31 December 2014, Heta is represented through its subsidiaries in Austria, Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Bulgaria, Germany and Hungary. The number of employees at the end of the year amounted to 1,805 fulltime equivalents (FTEs), of which 1,396 work in the core business, Asset Resolution Companies, and 409 provide services to the former bank subsidiaries and the SEE network or assist in the liquidation of certain tourism businesses.

As at 1 January 2015, the Federal Act on the Recovery and Resolution of Banks (BaSAG) came into force. In accordance with Section 162 (6) Federal Act on the Recovery and Resolution of Banks (BaSAG), the powers and instruments defined in the fourth part of the Act are applicable to Heta.

As part of its conversion as a wind-down unit under GSA, a group-wide Asset Quality Review (AQR) was conducted which was to reflect the targets of winding down the portfolio as quickly as possible. Following the announcement on 27 February 2015 of an asset coverage shortfall of between EUR -4.0 billion and EUR -7.6 billion identified in the Asset Quality Review (AQR), the Republic of Austria informed Heta that it would no longer provide any capital or liquidity and that Heta would not be able to fully utilise the aid approved by the EU decision. In view of the circumstances, the resolution authority 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 "eligible liabilities" of Heta until 31 May 2016 in preparation for the application of the instrument involving the participation of creditors.

In its financial statements as at 31 December 2014 according to UGB/BWG (separate financial statements) Heta reported negative equity of EUR -7.0 billion, total assets of EUR 9.6 billion and liabilities of EUR 16.6 billion. The balance sheet is therefore significantly over-indebted. Negative equity of EUR -5.4 billion (not taking into account minority capital) is reported in the IFRS consolidated financial statements – mainly due to differing accounting and measurement policies.

## 2. General economic conditions

Against the backdrop of a rise in private consumption, it is the economic recovery of industrialised countries, rather than emerging economies, the driving force behind global growth. The recovery of the economy in the EU and the eurozone gained momentum in 2014. The European Union registered growth of 1.3% (2013: 0.0%), while the overall eurozone gained 0.9% (2013: -0.5%). Due to the effects of the economic crisis which lasted several years in the EU, the upward trend was comparatively modest in 2014. The economic conditions in the core markets are as follows:

Austria is apparently on a stable road to recovery with GDP growth of 0.3% (2013: 0.2%), although economic activity is not very dynamic. This reflects the internal and external factors plaguing the country. Domestically, reduced consumer confidence and subdued corporate sentiment is hampering growth as are the negative employment market trends. A glance at external factors shows that low demand for Austrian exports in other eurozone countries had an adverse effect. A somewhat more promising economic climate is expected to lead to better economic growth in 2015, however this will remain subdued.

Italy's GDP fell for the third consecutive year in 2014 (-0.4%) and it therefore remains one of the below-average EU countries in terms of economic development. The reason for the decline is weak capital spending which in turn is a result of the ongoing clean-up of company statements of financial position and strict lending conditions – two factors that curtail GDP growth. Without the positive impact of net exports based on higher demand from abroad, the decline would have been steeper. In 2015, a marginal increase in GDP growth is expected due to a pick-up in capital spending. Given the ongoing uncertainty in terms of reforms (e.g. public administration) and the risks associated with a further increase in demand from abroad, the downside risks are greater.

In Croatia, the decline in private consumption, the ongoing deleveraging in the private economy and a lower level of investments caused GDP in 2014 to decline less than expected (-0.4%). The only positive contribution was net exports, thanks to an ongoing strong tourist season and greater demand from abroad. A low level of capital expenditure and fiscal consolidation demanded by the EU continued to weigh down on GDP, which is expected to either remain stagnant or slightly increase in 2015. Although net exports and domestic demand were expected to increase, growth was nonetheless weak, as the ongoing deleveraging in the private economy coupled with the EU requirements regarding fiscal consolidation and the reduction of jobs were not positive signals with regard to final consumption or capital expenditure.

The decline in Serbian GDP in 2014 (-1.8% after 2.6% in the previous year) was largely due to weak private consumption and a lower level of investment as well as the

negative impact of net exports relating to the flooding in May and budget consolidation measures. Given the adverse effects of budget consolidation on public and private spending, GDP growth is also likely to be negative in 2015.

Bosnia and Herzegovina registered surprisingly strong growth in 2014 (1.4%). After considerable impediments to growth due to the flooding in May 2014, the second half of the year saw a robust recovery. Increased construction activity (thanks to rebuilding following the floods) and higher-than-expected private consumption provided positive impulses. On the back of ongoing construction and investments relating to the floods, GDP is likely to be significantly positive in 2015 and continue to outperform that of the eurozone. High demand from abroad is also good news for industrial production and exports. Political risks and uncertainty remain the primary causes of downside growth risks. The country will remain dependent on international funds (particularly from the IMF).

At 2.6% Slovenian GDP growth exceeded expectations. The main reasons were higher net exports on the back of a recovery in demand from abroad, as well as greater EU spending on infrastructure. Private consumption rose mainly as a result of lower unemployment and an increase in disposable income. GDP growth of a similar volume is expected for 2015. The reason is most likely a further increase in demand from the EU due to (i) the sharp decline of the Euro Effective Exchange Rate Index (Euro EER Index), (ii) the drop in oil prices, (iii) significantly improved financing conditions, and (iv) the confidence-boosting effect of the ECB's broader-than-expected quantitative easing measures. In our view, there are some downside risks in connection with (geo) political risks and a potentially adverse development of the eurozone's economy or exports.

(Economic data for Bosnia and Herzegovina in 2014 are preliminary values)

(Source: HGAA Research Department)

## 3. Significant events in the 2014 financial year

### 3.1. Changes to the Executive Board and Supervisory Board of Heta Asset Resolution AG

On 10 January 2014, Chief Risk Officer (CRO) Wolfgang Edelmüller announced that he would resign as member of the Executive Board of the former Hypo Alpe-Adria-Bank International AG as at 28 February 2014. Chairman of the Executive Board Alexander Picker, who has been in office since 1 January 2014, succeeded Wolfgang Edelmüller as CRO on an interim basis. On 26 August 2014, the Supervisory Board announced the appointment of Rainer Jakubowski as CRO with effect from 15 September 2014.

On 30 October 2014, Alexander Picker and Rainer Siichert resigned as members of the Executive Board of the former Hypo Alpe-Adria-Bank International AG as a result of the bank's restructuring. They joined the Executive Board of

Hypo Group Alpe Adria AG (HGAA), the holding company of the SEE network. At the end of 2014, Rainer Jakubowski and Johannes Proksch were as such active members of the Executive Board of Heta.

On 26 February 2015, the Supervisory Board appointed three new members to the Executive Board. Sebastian Prinz von Schoeneich-Carolath was appointed Chairman of the Executive Board. Martin Handrich and Alexander Tscherteu were also appointed to the Executive Board. Martin Handrich assumed his responsibilities as at 16 March 2015 and Sebastian Prinz von Schoeneich-Carolath took up his responsibilities as at 16 April 2015. Alexander Tscherteu will join the company as at 1 July 2015. While Rainer Jakubowski will remain member of the Executive Board, the previous CFO Johannes Proksch will resign from the Executive Board of Heta of his own accord in mid 2015.

On 4 February 2014, Ludwig Scharinger resigned as member of the Supervisory Board. As at 21 February 2014, Klaus Liebscher resigned as chairman of the Supervisory Board. With effect from 23 May 2014, all other members of the Supervisory Board of the former Hypo Alpe-Adria-Bank International AG, comprising Deputy Chairman Rudolf Scholten, Helmut Draxler, Alois Steinbichler and Adolf Wala, resigned. At the extraordinary shareholders' meeting held on the same day, the shareholder, the Republic of Austria, represented by the Federal Ministry of Finance, appointed Herbert Walter, Wolfgang Hartmann, Christine Sumper-Billinger, Regina Friedrich and Alois Hochegger to the Supervisory Board of the former Hypo Alpe-Adria-Bank International AG. At the extraordinary shareholders' meeting on 18 September 2014, the term of the Supervisory Board was set to the legally admissible maximum term. In the inaugural meeting of the Supervisory Board on 3 June 2014, the Supervisory Board appointed Herbert Walter as Chairman and Wolfgang Hartmann as Deputy Chairman.

At the general shareholders' meeting on 7 November 2014, Michael Mendel and Bernhard Perner were appointed as new members of the Supervisory Board and the former Chairman of the Supervisory Board, Herbert Walter, and Deputy Chairman, Wolfgang Hartmann, resigned as members on the same day. After the general shareholders' meeting, Michael Mendel was appointed as Chairman and Alois Hochegger as Deputy Chairman of the Supervisory Board. The Supervisory Board of Heta therefore comprises the Chairman Michael Mendel, the Deputy Chairman Alois Hochegger and members Christine Sumper-Billinger, Regina Friedrich and Bernhard Perner. From the Works Council, Erwin Sucher and Richard Joham were appointed to the Supervisory Board.

### 3.2. EU state aid investigation

The EU's state aid investigation into the former Hypo Alpe Adria was concluded in September 2013 by the decision of the Commission of the European Union (European Commission). The basis for the decision of the European Commis-

sion communicated on 3 September 2013 was the restructuring plan of Hypo Alpe Adria announced by the Republic of Austria at the end of June 2013.

Based on the decision of 3 September 2013, the capital measures previously granted by the Republic of Austria were approved as well as other capital and liquidity measures. Of the future capital measures of up to EUR 5.4 billion that were approved by the EU decision, EUR 2.5 billion were paid to the company by the owner by 31 December 2014. The additional liquidity of EUR 3.3 billion as approved by the European Commission, which was supposed to cover the liquidity shortfall in 2016/2017 pointed out in the restructuring plan, was not granted.

The closing of the sale of the Austrian subsidiary Hypo Alpe-Adria-Bank, Klagenfurt, which had been scheduled for mid 2014 by the latest, was already completed at the end of 2013. The signing of the deal between Heta and Advent/EBRD for the sale of the SEE network on the basis of a power of attorney from FIMBAG took place on 22 December 2014. The European Commission set a deadline of 30 June 2015 for the signing and 31 December 2015 for the closing of the sales agreement (with the option of extending it by a maximum of three months due to possible delays in approval by the authorities). Compliance with the new business restrictions for the marketable units (SEE network) imposed by the European Commission's decision was necessary until the signing as part of reprivatization. The new business restrictions continue to apply for the wind-down unit, Heta, and the former subsidiary HBI, which is now owned by HBI-BH. Compliance with the terms of the European Commission's decision is regularly monitored by an independent monitoring trustee and is reported on as part of the quarterly reports of the European Commission.

### 3.3. Capital measures of the Republic of Austria

In the extraordinary shareholders' meeting held on 9 April 2014, the Republic of Austria as the sole owner of Heta passed a resolution to implement a capital increase of EUR 0.8 billion which was paid up in April. This was intended primarily to eliminate the shortfall of regulatory capital as a result of the negative annual profit of Heta as at 31 December 2013.

With the creation of a partially regulated wind-down unit with statutory licenses under private law, Heta is no longer subject to the Austrian Banking Act (BWG) capital regulations applicable to credit institutions as at 30 October 2014. Because the future state aid approved by the European Commission continues to apply, deregulation has not fundamentally eliminated the possibility of further contributions (capital, liquidity) by the state by application of the Federal Law on the Creation of a Wind-Down Unit (GSA).

To date the Republic of Austria has granted Heta equity of EUR 4.4 billion and an asset guarantee of EUR 0.2 billion. The latter is still in place as at 31 December 2014. The Republic assumed guarantees for bonds issued by Heta in the

amounts of EUR 1.4 billion (2009) and EUR 1.0 billion (2012). While bonds of EUR 1.35 billion were redeemed in full between 2011 and 2013, a state-guaranteed EUR 1.0 billion bond (subordinated bond) is still on the market as at 31 December 2014. A total of EUR 0.2 billion in

commission fees was reported for these liquidity measures and guarantees as at 31 December 2014.

The Republic of Austria resolved on 1 March 2015 not to provide Heta with any further funds, i.e. capital or liquidity aid. See note (3.14) Capital and liquidity requirements of the company, gone concern.

in EUR m

Republic of Austria				HETA	
Current year	Equity capital measures	Guarantees for issued bonds	Received guarantees	Fees paid for liquidity measures and guarantees	
2008	900,0	0,0	0,0	0,0	
2009	0,0	1.350,0	0,0	8,0	
2010	450,0	0,0	200,0	19,0	
2011	0,0	-751,7	0,0	29,0	
2012	500,0	1.000,0	0,0	24,3	
2012	0,0	-14,8	0,0	0,0	
2013	1.750,0	-583,5	0,0	75,7	
2014	750,0	0,0	0,0	70,8	
<b>Total</b>	<b>4.350,0</b>	<b>1.000,0</b>	<b>200,0</b>	<b>226,8</b>	
<b>thereof paid (up)</b>	<b>4.350,0</b>	<b>1.000,0</b>	<b>0,0</b>	<b>226,8</b>	

### 3.4. Legislative package to wind-down of the former Hypo Alpe Adria

On 18 March 2014, the Austrian Federal Government made a decision regarding the further winding-down of the former Hypo Alpe-Adria-Bank International AG. Based on this decision, the SEE network is to be split off as a functioning entity and sold as quickly as possible, and the remaining bank is to be transferred to a partially regulated, private company with statutory licenses, in a value-preserving way. It was also made clear that it is essential to include the bank's subordinated and participation capital lenders in the solution, initiate negotiations regarding an equalisation with Bayerische Landesbank and the Free State of Bavaria and to seek a commitment of the State of Carinthia towards the wind-down.

The Council of Ministers agreed on a legislative package to wind-down the former Hypo Alpe-Adria-Bank International AG, based on the Federal Law on the Creation of a Wind-Down Unit (GSA), the Federal Law incorporating a federal wind-down holding company for Hypo Alpe-Adria-Bank S.p.A. (HBI-Bundesholdinggesetz), the Federal Act Incorporating a Federal Wind-down (Public Limited) Company (ABBAG-Gesetz) and the Hypo Alpe Adria Restructuring Act (HaaSanG) and a federal law to amend the Financial Markets Stabilisation Act and the Law on the Financial Market Supervisory Authority (FMABG).

This legislative package was passed by the National Council on 8 July 2014 and by the Federal Council on 24 July 2014. After being signed by the Federal President, the laws were published in the Federal Law Gazette on 31 July 2014 and entered into effect on 1 August 2014.

### 3.5. Redemption of participation capital

With the resolution of the general shareholders' meeting of the former Hypo Alpe-Adria-Bank International AG held on 23 May 2014, the Executive Board was authorised according to section 103q (14) of the Austrian Banking Act (BWG) in conjunction with section 26b (2) (2) of the Austrian Banking Act (BWG) to withdraw, with the approval of the Supervisory Board, participation capital issued to the company in full or regarding individual issues of participation capital or separate tranches defined already at the issue, while guaranteeing equal treatment of the parties authorised up to and including 31 December 2015. The Executive Board resolved on 7 July 2014 to exercise its authority and to withdraw participation capital issued by the company in part, and to withdraw the participation capital 2009 – which was not subscribed to in accordance with the Financial Markets Stabilisation Act (FinStaG) – at a nominal value of EUR 64,428,867.95 (after reduction by resolution of the general shareholders' meeting held on 30 May 2011), for cash consideration of zero with approval from the Supervisory Board. The Supervisory Board approved the redemption with its resolution of 8 July 2014. This required approval from the Austrian Financial Markets Authority (FMA). Application for approval was submitted to the Austrian Financial Markets Authority (FMA) on 24 July 2014 and approved on 18 September 2014.

The auditor appointed by the respective court to audit the redemption plan drawn up by the Executive Board, in particular the reason stated in accordance with section 26b (4) of the Austrian Banking Act (BWG) regarding the defined appropriate cash consideration for the authorised parties, taking into account the terms of the participation capital, confirmed that the cash consideration of zero

was appropriate. On 26 September 2014, the resolution of the Executive Board and approval by the Supervisory Board, whereby the participation capital 2009 is to be fully considered withdrawn, was announced in the official gazette of the Wiener Zeitung in accordance with section 26 b (6) of the Austrian Banking Act (BWG). The participation capital lenders requested a court audit of the appropriateness of a cash consideration of zero.

### 3.6. Adoption of the regulation pursuant to the Hypo Alpe Adria Restructuring Act (HaaSanG)

The Hypo Alpe Adria Restructuring Act (HaaSanG) designates the FMA as the authority empowered to implement the reorganisation as provided by the law. The Hypo Alpe Adria Restructuring Act (HaaSanG) stipulates that with the announcement of a regulation adopted by the Austrian Financial Market Authority (FMA) for this purpose would (i) expire specific subordinated liabilities and shareholder liabilities of Hypo Alpe-Adria-Bank International AG and (ii) defer the maturity of certain contested liabilities until a final decision is made with regard to the contested liabilities in question. The measures provided pursuant to the Hypo Alpe Adria Restructuring Act (HaaSanG) will become effective immediately without the issuer needing to take further action or the liabilities needing to be formally withdrawn pursuant to their terms and conditions.

With the announcement of the Austrian Financial Market Authority (FMA) regulation on 7 August 2014, the termination and deferment of the liabilities of the former Hypo Alpe-Adria-Bank International AG listed in the Austrian Financial Market Authority (FMA) Regulation takes effect which means that repayment sums, interest or other ancillary fees owed by the former Hypo Alpe-Adria-Bank International AG, where applicable, will automatically be reduced to zero. The payment date for disputed liabilities was postponed to 30 June 2019 at the earliest.

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. The derecognition of liabilities had an impact on profit or loss; the respective income was reported in a separate item. On the basis of the judgment of first instance of the Higher Regional Court of Munich I, which relates to the equity substitution case between BayernLB and Heta, provisions of EUR 0.9 billion were recognised in the financial statements as at 31 December 2014. Please refer to group management report note (3.17) Bayerische Landesbank equity substituting loans and (130.2) of the notes proceedings related to Bayerische Landesbank.

### 3.7. Lawsuits in connection with the Hypo Alpe Adria Restructuring Act (HaaSanG)

The Austrian Hypo Alpe Adria Restructuring Act (HaaSanG) entered into force on 1 August 2014 and foresees the expira-

tion of all supplementary capital issues and subordinated liabilities of around EUR 0.8 billion held by third parties with guarantees by the State of Carinthia. Furthermore, this law concerns some EUR 0.8 billion in liabilities to the former major shareholder, Bayerische Landesbank (BayernLB), which were granted after the first capital measure pursuant to the Financial Markets Stabilisation Act (FinStaG) in December 2008. 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 will expire.

As at the reporting date 16 June 2015, 33 charges had so far been brought against Heta in which creditors challenge the constitutional legitimacy of the Hypo Alpe Adria Restructuring Act (HaaSanG) and demand confirmation of the existence of the receivables and payment. In many of these law suits, the proceedings were interrupted by the courts due to appeals to the Constitutional Court of Austria to examine the constitutional legitimacy of the law. Should the Constitutional Court of Austria repeal the law entirely, this would negatively impact the future income statement and equity by around EUR -0.9 billion.

### 3.8. Carve-out of the SEE network and the signing of a sales agreement for the privatisation of the SEE network

In addition to the bidding process for the privatisation of the SEE network, which started in 2012, the shares held in Hypo Group Alpe Adria AG, Klagenfurt (HGAA; formerly: Hypo SEE Holding AG) had to be transferred to the Republic of Austria or another federal institution as a condition for the withdrawal of the license granted by the Austrian Financial Market Authority (FMA) pursuant to the Austrian Banking Act (BWG) from the then Hypo Alpe-Adria-Bank International AG.

The signing and closing relating to the sale of HGAA were concluded on 30 October 2014 pursuant to the resolution of the general shareholders' meeting of then Hypo Alpe-Adria-International AG held on 16 October 2014. The share purchase agreement (SEE carve-out agreement) relating to all of the HGAA shares held by Heta was concluded with FIMBAG, which will hold the shares in trust for the Republic of Austria.

HGAA, including its subsidiary banks in South-East Europe, left the scope of consolidation of Heta following the conclusion of the share purchase agreement and the delivery of the global note to FIMBAG. Taking into account the supplementary agreements dated 18 and 25 November 2014 (first supplement) and 22 December 2014 (second supplement), Heta was authorised within the scope of the carve-out (power of attorney) to sell the shares in HGAA to the highest bidder.

Following intensive negotiations, especially at the end of the fourth quarter of 2014, the consortium of bidders, con-

sisting of Advent/EBRD, came out as the winners from an open, transparent and unconditional disposal process.

The power of attorney was initially limited until 20 and 27 November 2014 (extension pursuant to the first supplementary agreement).

The negotiations on the Republic's hedge between the Republic of Austria and bidders Advent/EBRD were not successfully concluded by 27 November 2014; as a result, the offer authorised by the bidders at the end of October 2014 could not be approved. Heta did not have a power of attorney after this date to sell the SEE network, which was then owned by FIMBAG. FIMBAG then continued the sales process.

In this case, the carve-out agreement provided that the wind-down scenario would take effect when determining the purchase price. Heta informed the public of this fact in an ad hoc announcement.

The general shareholders' meeting of Heta held on 22 December 2014 approved the conclusion of the second supplementary agreement on the share purchase price agreement dated 30 October 2014. The second supplementary agreement again granted power of attorney and placed Heta in the sale scenario once again.

The conclusion of the sales agreement was preceded by comprehensive internal deliberations at Heta. In particular, the Executive Board of Heta assessed in detail the advantages of the sale of the SEE network compared to the wind-down of the SEE network on the basis of the opinions of internal and external experts and weighed this out together with Heta's Supervisory Board. The Executive Board came to the unequivocal conclusion that the sale of the SEE network was more advantageous than a winding-down. In a further step, the Executive Board conducted commercial and legal analyses of the final offers received during the sales process and compared them.

It was on this basis that the general shareholders' meeting held on 22 December 2014 approved the sale to the consortium of bidders on the basis of the power of attorney from FIMBAG. The sales agreement regulates the transfer of all shares in HGAA to the buyers on the basis of FIMBAG's power of attorney. The conclusion of the sales agreement is 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. These conditions precedent must be fulfilled by 30 June 2015. Heta expects the transaction to be completed around mid-2015.

The sales agreement provides for a basic purchase price subject to purchase price adjustment mechanisms relating to specific key figures for 2014 and 2015 compared to defined reference values. Upper and lower limits are in place for the final purchase price, i.e. the purchase price after adjustments.

The sales agreement provides for an additional comprehensive list of guarantees. Heta considers this list of guarantees to be understandable given the history of Heta and the SEE network and the public discussion concerning these, as well as the complexity of the business areas in which the SEE network operates.

Guarantee claims are subject to normal liability rules, particularly liability limitations. Heta's liability for exemption claims is limited; however, the maximum liability far exceeds the highest possible purchase price.

Certain of the buyer's claims against Heta under the sales agreement, particularly claims relating to breaches of warranty or from exemptions that are hedged by means of a hedging instrument of the Republic of Austria. Heta is required to pay an appropriate fee to the Republic of Austria for this hedging instrument on the basis of the stipulation included in the SEE network carve-out agreement. The buyer's claims against Heta under the sales agreement, particularly claims relating to breaches of warranty or from exemptions, are also hedged by means of a pledge of the lines of credit granted to HGAA by Heta for the benefit of the buyer.

The sales agreement grants the buyer the right to transfer certain loans and advances and other assets and risk positions up to a value of EUR 0.8 billion (net statement of financial position as at 31 December 2014) to Heta or one of its nominated subsidiaries ("buyer brush option"). Retransfers must be completed by no later than March 2016. The lines of credit granted to HGAA will be reduced as consideration for the retransfer of assets and to hedge the risk positions to be transferred.

Pursuant to contractual provisions, Heta is obligated to continue to maintain the lines of credit in place as at 31 December 2014 (EUR 2.0 billion; expandable up to EUR 2.4 billion). The conditions will be raised gradually up to a normal bank financing level. The lines of credit, which are not offset against exemption or guarantees, must be repaid by no later than 2022, taking into account the retransferred assets and risk positions.

Pursuant to contractual stipulations, the purchase price agreed with FIMBAG pursuant to the SEE carve-out agreement dated 30 October 2014 was determined by an independent auditor. FIMBAG's profit participation was also determined pursuant to the contractual provisions. With regard to the agreed purchase price it should be noted that this was determined on the basis of the expectations as at the date of the carve-out with regard to the possible risks arising from the SEE network and no adjustments are planned if the risks are not as extensive as initially planned. A draft of the expert opinion was presented on 3 June 2014; both parties have up to 14 days, that is until 17 June 2015, to state whether they agree with the results of the assessment. There is no evidence at present that the other party plans to exercise its contractually agreed veto. The liability commission to be paid to the Republic of Austria for the takeover of



counter guarantees (hedging instrument) is also based on this expert opinion by the independent assessor and was calculated actuarially.

Corresponding provisions were made in the consolidated financial statements for the buyer's expected claims relating to guarantees and exemptions as well as for the shift in credit risks resulting from the retransfer of credit portfolios.

A forecasted portfolio volume and the group-wide measurement guidelines prepared within the scope of the AQR are applied when determining the extent of these credit risks. Due account is taken of the fact that loans and advances to the SEE network bear low interest rates and therefore an impairment had to be recognised in the amount of the difference between the contractual interest rate premiums and the minimum interest rates as defined in the internal measurement guidelines.

Taking into account the disposal of HGAA's equity, the recognition in profit or loss of the negative currency reserve, the measurement effects from the sales agreement with Advent/EBRD and the carve-out agreement with FIMBAG as well as the liability commission to be paid to the Republic of Austria, this results in a total disposal loss before taxes of approximately EUR -2.5 billion.

There is significant uncertainty for the 2015 financial year as to whether the sales agreement will in fact be executed. The SEE network must be wound down in the event that the sale falls through before the end of the deadline set by the European Commission (closing deadline: 31 December 2015); this would place additional high financial burdens on Heta. In this case, the purchase price mechanism of the carve-out agreement would be based on a negative wind-down scenario, rather than a sale scenario. In such a scenario, it is highly likely that the nominal value of the loans and advances to HGAA will be completely irrecoverable, which would lead to an additional loss of up to EUR 1.0 billion.

### 3.9. Carve-out of the Italian subsidiary bank (HBI)

In meeting the statutory requirements of the Federal Law on the Creation of a Wind-Down Unit (GSA) and the HBI-Bundesholdinggesetz, Heta had to transfer all shares it held in HBI to HBI-Bundesholding AG (HBI-BH). A total of 318,187,083 shares in HBI with 99.9% of the capital stock were therefore sold to HBI-BH with the share purchase agreement dated 8 September 2014 ("carve-out"). Heta also has liabilities vis-à-vis HBI-BH in the event of a negative outcome of the criminal proceedings which is pending for HBI in connection with the Italian joint liability law. Heta recognised provisions for possible future utilisation.

The closing of the transaction took place after receiving approval from Banca d'Italia on 30 October 2014, so that HBI was excluded from Heta on that day.

The share purchase agreement calls for Heta as the seller to pay HBI-BH as the buyer the negative enterprise value of

HBI in the amount of EUR -2.4 million determined on 30 June 2014. It also foresees that the buyer, as at the closing of the agreement, is responsible for ensuring that the Tier 1 minimum capital ratio prescribed by Banca d'Italia is maintained.

To meet this obligation, HBI-BH needs sufficient external funds. At present it cannot be determined to what degree the owner of HBI-BH will undertake capital measures to ensure that HBI-BH is capable of fulfilling this obligation.

The agreement also calls for the contracting parties to select an audit firm that values HBI on 31 October 2014, as quickly as possible after concluding the contract and in any case before the closing. According to the HBI contract for the establishment of a separate legal structure, the results of the audit firm's report are binding for both parties. The audit firm, which was jointly selected with HBI-BH, presented its valuation report on 25 October 2014, determining the objective enterprise value of HBI on the valuation date at EUR -12.3 million. The difference has already been paid.

The existing refinancing lines of Heta to HBI as at 31 December 2014 are around EUR 1.6 billion (nominal), and have a – historically – low interest rate, which will remain unchanged following the sale to HBI-BH in the fourth quarter of 2014. In the course of the carve-out, Heta also obligated itself to provide what is known as an emergency liquidity facility of up to EUR 0.3 billion in case customer deposits are withdrawn from HBI. The emergency liquidity line, which had not been utilised as at 1 March 2015, is deferred by the moratorium imposed in the meantime by the Austrian Financial Market Authority (FMA) as the resolution authority and can no longer be utilised by HBI. Due to the Federal Act on the Recovery and Resolution of Banks (BaSAG) moratorium Heta is no longer able to meet its contractual obligations which is leading to an ongoing deterioration in HBI's liquidity situation, which without external support is unable to offset its constant outflow of deposits.

The refinancing lines should be fully repaid in the short to medium term or need to be replaced within the wind-down procedure of HBI. In terms of the recoverability of these receivables a figure needed to be recognised in the consolidated financial statements by Heta for its valuation which would be realistic according to a regulatory wind-down procedure in Italy. In this context provisions for credit risks of some EUR 0.8 billion – in addition to taking into account the effects from the low interest rate of EUR 0.4 billion – were recognised.

Heta is currently in discussions with representatives of the Republic of Austria as to how to prevent such a procedure in Italy given the current restrictions of the Federal Act on the Recovery and Resolution of Banks (BaSAG) in order to ensure that Heta receives a higher repayment amount for funds tied up with HBI.

### 3.10. Transformation into a wind-down unit pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA), change in the name of the company

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 BWG was terminated by the resolution of the Austrian Financial Market Authority (FMA) on 30 October 2014. Pursuant to statutory provision, this company will now be operated as a wind-down entity pursuant to the Federal Law on the Creation of a Wind-Down Entity (BGBl I 2014/51, Federal Law on the Creation of a Wind-Down Unit (GSA)). 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. The business purpose of Heta from now on focuses on the winding-down of assets; within this framework, the company is authorised to, among other things, conduct banking or leasing transactions for this purpose.

Pursuant to section 3 (4) of the Federal Law on the Creation of a Wind-Down Unit (GSA), Heta is subject to a limited extent to the provisions of the Austrian Banking Act (BWG) but is not subject to minimum capital regulations. The scope of the Austrian Banking Act (BWG) relates to the application of bank-specific accounting standards as well as notification duties vis-à-vis the Austrian Financial Market Authority (FMA). The Austrian Financial Market Authority (FMA) continues to be the responsible regulatory authority and is obligated, pursuant to section 8 of the Federal Law on the Creation of a Wind-Down Unit (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 statute was amended in view of the transformation into a wind-down unit; the company name 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 GSA - transactions required to fulfil the company's task (complete reduction of the portfolio as quickly as possible). Article 2.4 of the amended articles of association foresees 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 from that date. As this amendment relates exclusively to the name of the company and not the reestablishment of the company, this does not affect the legal person of the company itself or any of its contractual obligations.

After the disposal of the qualifying participations in credit institutions and investment firms in the meaning of CRR and the expiry of the bank license granted by Austrian Financial Market Authority (FMA) according to BWG, the

Federal Law on the Creation of a Wind-Down Unit (GSA) became directly applicable at the end of October 2014 and Heta continued to operate as a wind-down unit (under the Federal Law on the Creation of a Wind-Down Unit (GSA)). According to the statutory provisions of the Federal Law on the Creation of a Wind-Down Unit (GSA) (see section 3 (1) of the Federal Law on the Creation of a Wind-Down Unit (GSA)), the exploitation is to be orderly, active and to the best possible advantage in accordance with the wind-down targets. To reflect these targets in the asset valuation method, Heta – with the help of an external, independent expert – issued new valuation guidelines based as a basis of an Asset Quality Review. In the valuation guidelines, it is assumed that all portfolio-wind-down relevant assets will be sold to investors within a limited period.

### 3.11. Wind-down plan according to GSA

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. According to section 5 (2) the wind-down plan must contain the following:

- a presentation of the business activities and liquidation measures planned for the wind-down of the portfolios,
- a timetable for the complete liquidation of assets,
- periodic reports on net assets, financial position and results of operations including cash flow statements and budgeted balance sheets, budgeted income statements and liquidity plans and
- information on risk management which reflects the wind-down targets.

The wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) is prepared in accordance with the accounting principles of the Austrian Commercial Code/Austrian Banking Act (UGB/BWG) and refers to Heta Asset Resolution AG (single institution). The Heta Executive Board has weighed up the wind-down objectives of an orderly, active exploitation to the best possible advantage with the legal requirements of "a portfolio wind-down as quick as possible" and subsequently defined a time frame of five years as adequate for the wind-down of the relevant portfolios. The plan, which is currently being prepared, solely presents the liquidation of assets (assets side) and the expenses accrued in the wind-down process. On the equity and liabilities side, the plan foresees no interest or capital repayments, merely an increase of cash reserves.

The target of the wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) is to fully liquidate all portfolio-wind-down-relevant assets by the end of 2020. As a milestone, around 80% of the assets are to be liquidated by the end of 2018 starting with the figures as at 31 December 2014. To achieve the targets,

receivables and real estate are to be sold to investors through individual and, increasingly, through package and portfolio transactions. Preparations for the first package and portfolio transactions began in the first half of 2015. The receivables from HBI and HGAA are to be viewed separately and are likely to be still in place after 2020, as well as to performing mortgage loans, in accordance with the wind-down plan.

Performing loans and securities with short residual terms are to be recovered through regular repayment and those with longer terms are to be liquidated in the medium term by being placed on the market. Underlying collateral for non-performing loans should only be collected if they can be expected to be sold immediately (within 12 months). Repossession should only be carried out in exceptional cases.

According to section 6 Federal Law on the Creation of a Wind-Down Unit (GSA), the management of the wind-down unit is obliged to report to the Supervisory Board. This is to be conducted either on a regular basis in the form of quarterly and asset reports or on an ad-hoc basis in the form of special reports.

In parallel to the creation of the wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA), the Austrian Financial Market Authority (FMA) is preparing a resolution-plan in its role as the resolution authority, which contains the final valuation under section 57 Federal Act on the Recovery and Resolution of Banks (BaSAG) (as at valuation date 1 March 2015).

### 3.12. Asset Quality Review (AQR)

In order to fulfil the statutory requirements under section 3 (1) GSA, Heta conducted an Asset Quality Review (AQR) of all the portfolio-wind-down relevant assets. The objective of the AQR was to value all assets of Heta relevant to the wind-down of the portfolio based on the wind-down objectives. From now until 2020, the liquidation of the asset positions should be at the centre of the company's business activities. According to the company's articles of association, the company should then dissolve itself.

To ensure this target is achieved Heta has drawn up new guidelines for measuring loans and real estate with the help of an auditing company as an independent expert. The measurement parameters were defined on the basis of sound expert estimates. These parameters formed the basis of the subsequent valuation of the loans and real estate by Heta. To measure loans a realisable sales value (RSV) and for real estate a market value under special assumptions (MV<sub>usa</sub>) were established.

These values represent the best possible estimate of the sales value of assets in saturated markets as at 31 December 2014, which can be achieved by proper and professional sales procedures during a limited timeframe.

The group-wide valuation of loans and real estate led to a devaluation result of around EUR -3.3 billion which resulted in impairments on the own cross-border loan portfo-

lio and internal group refinancing lines granted to subsidiaries in the consolidated financial statements. The following factors were primarily responsible for the impairments:

- As part of the AQR all loans and real estate (inventories) were valued whereas individual reviews are only carried out during regular audits or if there is any indication of impairment.
- The parameters were determined based on an investor's perspective. Each price is calculated according to the price a potential investor would acquire the assets for in their current condition taking into account special legal circumstances (e.g. documentation) and the respective markets (e.g. limited circle of buyers).
- Whereas as the liquidation of loans is generally carried out as a partial or full financing of the buyer by the bank selling them, this is not the case in this AQR as it would contradict the wind-down targets according to GSA. It was assumed that potential buyers would have to refinance themselves on the market calculating a risk premium.
- Real estate markets in Southern Eastern Europe (SEE) and Italy are marked by declining prices, a rising vacancy rate and a diminishing number of transactions. This was taken into account when determining the AQR parameters.
- Many of Heta's properties (collaterals) are not in central or attractive locations (e.g. city centers, near the coast etc.) but in peripheral areas or rural areas where a stronger decline in prices and demand has been observed. Due to their previous use (e.g. industrial land), many land assets are only suitable for an extremely limited circle of potential buyers (e.g. no ongoing returns from rents).
- The conditions of the assets, particularly of those where the borrower has not fulfilled his payment obligations, has deteriorated rapidly due to the lack of adequate maintenance and repairs as most of the remaining non-performing loans have been in default for more than three years. In addition several properties were also severely affected by the flooding in the Balkans in May 2014. For collected collaterals (bail-out purchases/repossession) maintenance measures are only permitted after relevant proof has been submitted and the EU trustee has been informed, which also led to a deterioration of the condition of these assets.
- Findings regarding the disposal of an own portfolio of non-performing loans (NPL) in SEE countries ("DINARA") project in mid 2014, which revealed extremely low realisable prices, were also taken into account when determining parameters from an investor's perspective as well as recent results from other sales procedures, initial contact from investors

and the experience of the assisting audit company relating to similar transactions in Eastern Europe.

- In cases where collaterals cannot be collected through negotiation, the risks of legal enforcement (lasting for several years) are reflected in the discounted realisable market values.
- Due to the condition of collaterals, the largely second-rate locations and the fact that Heta has no possibility of investing in improving the value of the property, Heta is unlikely to be able to profit from a potential recovery of the overall market in SEE countries. On the contrary, it is more likely to face further losses if it waits any longer to liquidate the assets. Subsequently, in the majority of cases, the emphasis is on a swift liquidation to gain the best possible result.
- The market value of Heta's assets is also suffering from media coverage and reputational damage, which also had or will have a negative impact on valuations.

It should be taken into account that the valuation of real estate as part of the AQR was largely based on desktop analyses using available documentation and according to the current condition of the assets. Regardless of this, the Executive Board is confident that the assets, based on the application of the group-wide AQR valuation guidelines, are valued at realisable market values which can be achieved in a proper portfolio wind-down. According to the Executive Board, this also meets the final measurement requirements under section 57 BaSAG as defined by the resolution authority.

Given that other banks and wind-down companies will also place their loan portfolios on the market during the defined liquidation period, it might also prove difficult for Heta to achieve its budgeted targets. It is uncertain whether investors with adequate financial backing will make offers. The ability of realising these values also largely depends on the attractiveness of the markets to investors, whereby a stable economic environment (economic growth, exchange rates, unemployment, public safety etc.) and a stable political and social framework are essential factors. Should any of these factors deteriorate significantly, this would have a direct impact on the recoverability of Heta's assets.

### **3.13. Entry into force of the Federal Act on the Recovery and Resolution of Banks (BaSAG)**

The Federal Act on the Recovery and Resolution of Banks (BaSAG) came into force on 1 January 2015. According to section 162 (6) of the Federal Act on the Recovery and Resolution of Banks (BaSAG), the authorisations and instruments defined in part 4 of the law apply to Heta. Among the instruments applicable to Heta is the instrument of participation of holders of relevant capital instruments.

While at the time of the initial results from the AQR 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) of the 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.

The Executive Board of Heta promptly informed the Supervisory Board of the results (special report pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA)). On 27 February 2015, the company notified the Republic of Austria as the sole shareholder of the shortfall, and asked whether it would be willing to compensate for the expected liquidity gaps in 2016 and 2017 and the capital shortfall through suitable measures on the basis of this new information and the application of the Federal Act on the Recovery and Resolution of Banks (BaSAG). On the same day, the Executive Board also submitted a precautionary notice according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) to the resolution authority 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 and Heta on 1 March 2015 that no further measures will be implemented for Heta under the Federal Act on Financial Market Stability (FinStaG). On the same day, the resolution authority issued a decision ordering resolution measures according to the Federal Act on the Recovery and Resolution of Banks (BaSAG). This decision in accordance with section 58 (1) (10) of the Federal Act on the Recovery and Resolution of Banks (BaSAG) on the preparation for the applying instrument which involves the participation of creditors, placed all so-called "eligible liabilities" of Heta under a moratorium until 31 May 2016. With regard to additional information, we refer to the decision of the Austrian Financial Market Authority (FMA) dated 1 March 2015 which is published on the FMA's homepage [www.fma.gv.at](http://www.fma.gv.at) and can be found also on Heta's homepage under [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Press → Austrian Banking Restructuring and Resolution Act).

An appeal against the decision from the resolution authority – a decision issued without conducting previous preliminary investigations – could have been submitted within three months after it was released (1 March 2015), but this is without suspensory effect. Affected investors have announced they will also take legal steps against Heta itself. As at 16 June 2015 2 lawsuits have been filed against Heta so far for payments of bonds which were not paid on the original date of maturity due to the moratorium imposed on 1 March 2015. In addition, legal proceedings were initiated against Heta by the State of Carinthia and the Kärntner Landesholding (KLH) in relation to legal proceedings initiated by an investor against the State of Carinthia and the Kärntner Landesholding (KLH) on the basis of the state guarantee relating to bonds affected by the moratorium.

According to media reports, further lawsuits have already been filed or will shortly be filed with German courts.

It should also be noted that the written decision of Regional Court Munich I in the first instance in the case between Heta and the Bayerische Landesbank (BayernLB) with regard to the Austrian Equity Substituting Capital Act (EKEG) was provided to Heta's legal team on 2 June 2015.

In this proceeding the court rejected the recognition in Germany of recent measures of the Austrian legislator and the regulatory authorities in connection with the wind-down of Heta and did not take into consideration the deferral ordered by the resolution authority according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) due to mainly formal reasons. The deferral is based on the Federal Act on the Recovery and Resolution of Banks (BaSAG), with which the European guidelines on bank restructuring were implemented in Austria. For this reason, Heta believes that this deferral order should also be recognised in another EU member state Heta reported equity-substitution loans from BayernLB of EUR 1.5 billion in its balance sheet; of this amount, EUR 0.8 billion was declared as expired in accordance with the Hypo Alpe Adria Restructuring Act (HaaSanG) and the resolution released in relation to this Act (HaaSanV) as at 7 August 2014 and are no longer reported in the balance sheet.

### **3.14. Capital and liquidity requirements of the company, gone concern**

Up to and including the preparation of the consolidated financial statements for 2013, the company based the going concern assessment on the assumptions underlying the group's restructuring plan dated June 2013 as approved by the European Commission. Those assumptions foresaw capital measures planned for subsequent years to maintain the going concern assumptions, in order to cover the losses accrued as part of the portfolio wind-down. The European Commission decision provided for future capital measures of up to EUR 5.4 billion, EUR 2.5 billion of which were paid to the company by 31 December 2014 by means of contributions from the owner. Additionally, the European Commission also approved liquidity measures from the owner of EUR 3.3 billion, which would have been used to cover liquidity gaps in 2016/17 shown in the restructuring plan. In total a maximum of EUR 2.9 billion in capital as well as an additional EUR 3.3 billion in liquidity subsidies that was approved but not yet paid out would therefore have been available.

Based on the decision of the Council of Ministers on 18 March 2014, which followed the recommendations of the task force established by the Federal Minister of Finance and prevented the insolvency of Hypo Alpe Adria, it was established that the former Hypo Alpe-Adria-Bank International AG would be transformed into a structure which no longer requires the company to comply with regulatory capital regulations.

After the transformation of Heta into a partially regulated but not insolvency-proof wind-down unit became fully effective through the Federal Law on the Creation of a Wind-Down Unit (GSA) at the end of October 2014, a group-wide valuation of all assets was promptly initiated. This reflected the short to medium-term disposal intention in saturated markets in a wind-down period of five years.

After the initial interim results of the Asset Quality Review (AQR) were announced, indicating an asset shortfall between EUR -4.0 billion and EUR -7.6 billion, which is in excess of the EUR 2.9 billion permitted by the European Commission for pending capital measures as well as the expected implications for the company's capital and liquidity situation, the Republic of Austria as the company's owner announced on 1 March 2015 that no further measures would be taken for Heta under the Federal Act on Financial Market Stability (FinStaG). Subsequently the Austrian Financial Market Authority (FMA) (resolution authority) issued a decision on 1 March 2015 ordering wind-down measures according to 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 Law on the Creation of a Wind-Down Unit (GSA), which calls for mandatory self-liquidation after achieving the statutory wind-down objectives, 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) decision by the resolution authority, the Executive Board no longer has a basis for continuing to prepare the financial statements based on the going concern assumption. Instead the financial statements as at 31 December 2014 are based on the gone concern assumption.

In general, according to section 7 (1) GSA, Heta is not subject to section 67 of the Insolvency Ordinance (IO, grounds for opening insolvency proceedings regarding over-indebtedness under insolvency law). The Executive Board does not provide for interest or capital repayment for the company's debt in the wind-down plan to be prepared by the Executive Board according to GSA. The resolution plan to be prepared by the resolution authority according to BaSAG can deviate in terms of time and content from Heta's wind-down plan, so that from the Executive Board's point of view, it is uncertain (in particular for the period after the currently applicable moratorium) if a proper liquidation of Heta would be possible other than within the context of insolvency proceedings.

### **3.15. Negative consolidated equity on 31 December 2014**

A group-wide Asset Quality Review (AQR) was performed to implement the requirements of the Federal Law on the Creation of a Wind-Down Entity (GSA). This resulted in significantly higher credit risk provisions and in impairments of real estate and other assets. In addition the gone concern

measurement approach (as opposed to the going concern approach), these valuations reflect in particular the short-term disposal intention in saturated markets.

The consolidated result after taxes was EUR -7.4 billion (2013: EUR -1.8 billion). This loss was influenced to a large extent by the result from discontinued operations, the disposal of the SEE network for EUR -2.5 billion, and the disposal (loss EUR -0.7 billion) and the further negative development (EUR -0.8 billion) of the former Italian subsidiary as well as the AQR.

Due to the heavy losses, consolidated equity according to IFRS at EUR -4.7 billion is significantly negative and will not be equalised by measures of the owner according to the notice from the Federal Ministry of Finance dated 1 March 2015.

However, the negative equity of EUR -7.0 billion reported in the annual financial statements of Heta Asset Resolution AG as at 31 December 2014 according to the UGB/BWG (separate financial statements) is relevant specially for the creditors of the company from the perspective of the Executive Board.

In view of the accounting standards under UGB and BWG applicable to the separate financial statements of the Heta resolution unit, the respective parameters and estimates were determined within the valuation range which was as cautious as possible based on the criteria defined in sections 54 and 57 BaSAG in order to prevent future losses. In addition a provision for future personnel costs and material costs in connection with the wind-down was recognised according to BaSAG and the specifications of the gone concern approach.

As at 31 December 2014, Heta's separate financial statements reported total assets of EUR 9.6 billion and liabilities of EUR 16.6 billion. At EUR -7.0 billion the company is extremely over-indebted (negative equity). This negative equity is due to the loss of -EUR 7.0 billion incurred in the 2014 financial year which is largely the result of the following.

Significant deviations result from the different accounting regulations that apply for the consolidated financial statements (IAS/IFRS) and the individual financial statements (UGB/BWG).

Besides the different accounting regulations, expected losses in the consolidated financial statements could not be anticipated. Loss expectations not included under IFRS stem from future operating expenses and expected losses from the disposal of performing loans and real estate. For this reason the consolidated financial statements according to IFRS show a EUR +2.3 billion higher equity (EUR -4.7 billion) compared to the separate financial statements according to UGB/BWG (EUR -7.0 billion). This is due to the following reasons:

- Measurement of own liabilities at fair value under IFRS (EUR +0.4 billion) while according to UGB/BWG these were recognised at redemption values Differences in measurement of provisions relating to assumed guarantees (EUR +0.1 billion)
- future personnel and material costs expected in connection with the wind-down of Heta AG (EUR +0.5 million) for which a wind-down cost provision was recognised under UGB/BWG
- expected operating losses at the subsidiaries included in the consolidated financial statements (EUR +0.3 billion) which were under UGB/BWG included in the measurement of refinancing lines for subsidiaries.
- Appreciation of the Swiss franc after the balance sheet date (EUR +0.1 billion) for which a general loan loss provision was created according section 57 (1) BWG due to expected loan impairments
- Expected losses from the sale of performing loans (EUR +0.1 billion) for which a loan loss provision according to section 57 (1) BWG was also set aside.
- Recognition of a provision under UGB/BWG for negative market values from derivatives which were previously in a hedging relationship for liabilities (EUR +0.2 billion).

Given the different recognition of loss components in the separate financial statements under UGB/BWG, the Executive Board is of the opinion that the separate financial statements provide a more accurate presentation of the company's net assets, financial position and results of operations.

### 3.16. Forensic investigation of the past

Since its introduction as part of the line organisation of Heta, the Forensics department has been concerned with investigations into the past, and particularly with the determination of the causes of the loss of value before nationalisation. It focuses on protecting, preparing and describing the results of forensic investigations.

By 31 December 2014, a total of 94 cases (124 individual cases) in Austria and abroad had been reported to the relevant public prosecutors. In addition, seven civil law suits against former senior executives and third parties are currently pending before the civil courts in Austria, in which claims for around EUR 109 million are being asserted.

To date, the findings made in the course of forensic investigations into the past, and the statements of fact that could be derived from those investigations, have resulted in 13 convictions, of which six are binding judgements with prison sentences of multiple years. In 2014, a settlement was reached in the "special dividends/consultants" civil suit for EUR 19.1 million. In future, activities will be continued to the necessary extent in line with the requirements in terms of financial prudence and efficiency of the Federal Law on the Creation of a Wind-Down Unit (GSA).

### 3.17. Bayerische Landesbank equity substituting loans

At the end of 2012, the former majority shareholder of Hypo Alpe-Adria-Bank International AG (now Heta Asset Resolution AG - Heta), Bayerische Landesbank (BayernLB), sought a declaratory judgement from the Munich I regional court in relation to the financing lines, which in the view of the former Hypo Alpe Adria are subject to the EKEG and may therefore neither be serviced by interest payments nor redeemed until further notice. The former Hypo Alpe-Adria-Bank International AG submitted a comprehensive statement of defence against the application and contested the order sought in its entirety.

After receiving the original, contractual maturity for the majority of the financing on 31 December 2013, BayernLB almost completely converted the order sought into an action for performance. In the 2014 financial year (as already in November 2013), there were several hearings with testimonies given by witnesses and experts. Both sides submitted extensive expert reports on legal issues and relevant commercial matters.

The former Hypo Alpe-Adria-Bank International AG had also made repayments from August 2008 until knowledge of the existence of the conditions for an interest and repayment ban under the Equity Substituting Capital Act on refinancing lines of BayernLB, which were subsequently recognised as substituting for equity following a thorough analysis into the circumstances (particularly due to historical shortfalls in capital which led to a "crisis" in terms of equity substitution regulations). Based on the Austrian Equity Substituting Capital Act (EKEG), Heta is therefore entitled to claim these interest payments and repayments back from BayernLB. In order to avert the threat of time-barring, the former Hypo Alpe-Adria-Bank International AG was compelled to judicially enforce the respective repayments it had made by means of counterclaim in the proceedings named above against BayernLB in Munich. A total of five counterclaims have been made against BayernLB for repayment of an amount totalling around EUR 4.8 billion.

In a hearing on 8 May 2015, the Regional Court Munich I verbally announced a first-instance decision in the case between Heta and Bayerische Landesbank (BayernLB) relating to the Austrian Equity Substituting Capital Act (EKEG). The written ruling was delivered to the lawyers representing Heta in this matter on 2 June 2015. The court allowed nearly all claims of BayernLB and rejected the counter claims (repayment claims) of Heta. The reason is primarily based on four arguments: firstly, the court regards the shortfall in regulatory capital as claimed by Heta (crisis according to section 2 (3) of the Austrian Equity Substituting Capital Act (EKEG)) as non-existent. With regard to the knowledge of the capital shortfall or other breaches of due diligence by BayernLB, (alternatively demanded) by the court, the court regards that there is no evidence – neither in principle nor in terms of case law according to the interpretation of the Austrian Equity Substituting Capital Act (EKEG) in this case.

Secondly, according to the court, Heta was not significantly over-indebted during the period in question (crisis in the meaning of section 2 (1) (2) of the Austrian Equity Substituting Capital Act (EKEG)) as the court stated a positive going concern assumption for Heta based on the continuation of Heta after 2009. Based on the assessment of these two points, the court did not carry out any evidence taking in terms of key aspects (historical capital shortfall or over-indebtedness). Thirdly, the court rejected the application of the Hypo Alpe Adria Restructuring Act (HaaSanG) and subsequent measures by the authorities to recover receivables under German law as asserted by a German court. The reason given was that the Austrian Financial Market Authority (FMA) Resolution on the Hypo Alpe Adria Restructuring Act (HaaSanV) issued by the Austrian Financial Market Authority (FMA) based on the Hypo Alpe Adria Restructuring Act (HaaSanG) does not represent a restructuring measure in the meaning of the restructuring regulation (guideline 2001/24/EU). The court also rejected that a court measure or measure by the authorities is at hand (a condition for recognition) because according to the court, the Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV) issued by the Austrian Financial Market Authority (FMA) was already determined by the Hypo Alpe Adria Restructuring Act (HaaSanG) and Austrian Financial Market Authority (FMA) could not make a decision at its discretion. Fourth, the court rejected the application of the decision of Austrian Financial Market Authority (FMA) of 1 March 2015 on the basis of the Federal Act on the Recovery and Resolution of Banks (BaSAG), which deferred the disputed receivables of BayernLB until 31 May 2016. The reason given was that the Federal Act on the Recovery and Resolution of Banks (BaSAG), which is legally applicable to Heta, does not comply with the provisions of the wind-down guideline / BRRD (guideline 2014/59/EU) and is therefore not recognised in Germany.

Provisions of approximately EUR 0.9 billion have been set aside in the consolidated financial statements as at 31 December 2014 as a result of the first instance verdict for all liabilities that expired as a result of the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG). Heta is of the opinion that key arguments in the dispute relating to legal issues of the proceeding are not sufficiently taken into account by the senate (as well as by experts appointed by the court). The rejection of a crisis based on a shortfall in capital (section 2 (3) of the Austrian Equity Substituting Capital Act (EKEG)) was based on a legal opinion which has no precedent in legal writings or supreme court rulings and is in contradiction with the clear wording of the law. If the law had been interpreted correctly the court would have taken evidence where Heta could have proven a historical shortfall in equity. Rejection of a crisis on the grounds of significant over-indebtedness (section 2 (1) (2) of the Austrian Equity Substituting Capital Act (EKEG)) is also based on a simplified opinion based on the continued

existence of Heta after the period in question (after 2009); the fact that the Republic of Austria had to pay in billions into the capital as sole shareholder to avoid insolvency was totally ignored. The applicability of the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Austrian Financial Market Authority's (FMA) Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV), which is based on it, was rejected on the grounds of mere formalities without considering the fact that the restructuring guideline (unlike the wind-down guideline/BRRD) does not determine how to set up structuring measures, which provided the Austrian legislators with a certain leeway which they used. The non-recognition of the Austrian Financial Market Authority's (FMA) Ordinance on the Hypo Alpe Adria Restructuring Act (HaaSanV) as an official measure also rejects its legal quality (adopted by an Austrian agency authorised to issue statutory regulations). The court's rejection of the legal effectiveness of the decision of 1 March 2015 is incomprehensible because – as legal writings shows – the applicability of the Federal Act on the Recovery and Resolution of Banks (BaSAG) for Heta is not only valid under EU law, it also on the legislator's obligation to uphold it.

In view of all these arguments, Heta will extensively review this decision, file an appeal with the Higher Regional Court Munich within the specified period and, after carefully weighing up the chances of success, make a decision on whether to appeal or not. The legal avenue of appeal has no suspensory effect under German law. BayernLB can, in principle, draw on the assets of Heta on the basis of the judgement, on the condition that it can provide the surety required under German law and in accordance with the decision of the Higher Regional Court Munich. At the moment, there is a significant risk that the decision could also be enforced in Austria.

Audit conducted by the Österreichische Prüfstelle für Rechnungslegung

On 13 May 2014, the Österreichische Prüfstelle für Rechnungslegung (OePR) initiated a special audit of the consolidated financial statements as at 31 December 2013 regarding the valuation of the assets belonging to the SEE network. Subsequently the audit was expanded to include the interim report as at 30 June 2014. The performed audit was related both to a sample of individual credit cases in the SEE countries and the valuation of the entire SEE network in the (interim) consolidated financial statements of Heta.

The OePR announced the results of the audit on 10 April 2015 and, regarding the statement of financial position item "Credit risk provisions for customers", noted that these were too low in the consolidated financial statements as at 31 December 2013 by at least EUR -8.1 million and in the interim report as at 30 June 2014 by at least EUR -3.8 million. It was also noted that the "Provisions" statement of financial position item in the interim report as

at 30 June 2014 with a corresponding effect on results was too high by EUR -1.2 billion, since in the opinion of the OePR the conditions for recognising a provision for the loss on disposal were not given as at 30 June 2014. Insofar as permitted by the relevant IFRS standards, the assets side of the group would instead have to be remeasured regarding the assets of the SEE network.

According to the opinion of the OePR, the losses reported as at 30 June 2014 would have been significantly lower than those actually reported by recognising a provision in the amount of the expected loss on disposal.

Since it is the opinion of the Executive Board that there was an obligation to recognise a provision for the disposal of the SEE network as at 30 June 2014, Heta notified the OePR on 27 April 2015 that it objects to the results of the audit. The Austrian Financial Market Authority (FMA) is pursuing the case.

### **3.18. Organisational changes at Heta – transformation into a wind-down unit pursuant to the Federal Law 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 Law on the Creation of a Wind-Down Unit (GSA), led to an urgent need for restructuring at the level of the parent company, Heta. After the systematic division of continued and wind-down portfolios at the level of the subsidiaries in recent years, the banking operations in Southern Eastern Europe of Hypo SEE Holding AG, which is now called Hypo Group Alpe Adria AG (HGAA), that were earmarked for privatisation were bundled in accordance with corporate law in the first quarter of 2014. From the second quarter of 2014, these activities were grouped into a project initiated by the shareholder together with the Federal Law on the Creation of a Wind-Down Unit (GSA) requirements in order to be able to turn the Italian subsidiary Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) into a related company and to transform the former Hypo Alpe-Adria-Bank International AG into a wind-down unit besides establishing the SEE Holding.

These milestones were successfully achieved in the fourth quarter of 2014. The disposal of HGAA (SEE network) to FIMBAG took place in the fourth quarter 2014. Heta then sold HGAA on 22 December 2014 to the bidder consortium Advent/EBRD. The closing of this transaction is planned for mid 2015. As the contractually agreed transfer of employees could not be carried out immediately, a general framework service agreement (FSA) and individual service level agreements (SLA) were required for the proper management of HGAA's business operations and to secure the required level of services which Heta provides to HGAA. Other activities in connection with this project relate to the establishment of a separate IT infrastructure for HGAA, to obtain a banking license and other spatial and organisational measures to



establish the business operations of HGAA. HBI was hived off and transferred to its own holding company. Follow-up projects have been set up for both Heta and HGAA in order to implement the closing conditions and to ensure a smooth separation of the two companies in terms of services.

The previous bank structures at Heta Asset Resolution AG must be adjusted to the new legal framework in order to ensure that portfolios are wound down in a proper, proactive and value-sustaining manner in accordance with the wind-down targets and that assets are liquidated quickly.

For this purpose, a comprehensive Heta Implementation Program (HIP) was established at the end of 2014 to ensure that a relevant Target Operating Model (TOM) is developed. The objective is to create a stable, functioning and flexible management and infrastructure and to adapt the business model to the wind-down unit so that the targeted systematic reduction of the portfolio can be implemented at the level of the operations. The procedural and structural organisation need to be optimised and agreed with the decision makers, and existing responsibilities for the wind-down need to be defined more accurately. A lot of effort is also being put into drafting a wind-down plan according to Federal Law on the Creation of a Wind-Down Unit (GSA) on time. The requirements relating to the processes, organisation and management structure which arise from this plan are integrated into TOM and subsequently implemented at Heta. This wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) will also be decisive for personnel-related measures at Heta. In 2014, a redundancy scheme for the employees of Heta was drawn up with the works council in an arbitration process which will run until 31 December 2018. Relevant wind-down measures will be defined in the HIP in 2015.

### 3.19. Rating

In November 2011, the former Hypo Alpe-Adria-Bank International AG retained 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 ratings and also all associated Moody's publications is published on the group's website ([www.heta-asset-resolution.com](http://www.heta-asset-resolution.com)) in the Investors section.

## 4. Business development in Heta

### 4.1. Development of results

In the 2014 financial year, the focus of Heta was to realise the transformation to a partially regulated unit pursuant to the Federal Law on the Creation of a Wind-Down Entity (GSA), sell the SEE network and the Italian subsidiary and push ahead with the winding-down of portfolios. Following the negative results in the 2013 financial year, the financial indicators worsened significantly in 2014. This was mainly determined by the effects of measuring assets (AQR) in the course of winding down the group's portfolios as quickly as possible as requested by the Federal Law on the Creation of a Wind-Down Entity (GSA). Comparisons with the previous year's figures are only possible to a limited extent as a result of the switch to the gone concern premise in the fourth quarter of 2014.

The development of the annual result reflects this accordingly: Due to the maturing wind-down portfolio and the new business which was exclusively carried out in the SEE network during 2014, the net interest result continued to fall significantly. Credit risk provisioning required in the course of the Asset Quality Review (AQR) that was conducted show an increase of more than 400% compared to 2013. Operating expenses fell compared to the previous year, operating income was positive at EUR 961.6 million including one-off effects. The result from continued operations was negative at EUR -4,197.2 million (adjusted comparative value 2013: EUR -1,230.7 million). At the level of the segments, the greatest negative effects in terms of value came from the segments Holding and Asset Resolution. The result after taxes from discontinued operations at EUR -3,220.8 million shows the effects from the sales of the HGAA (SEE network) and the HBI. Overall, the negative annual result after taxes was EUR -7,418.0 million.

The group's net interest income fell from EUR 147.2 million in the same period of the previous year to EUR 47.7 million, which corresponds to a decline of EUR -99.4 million, or -67.6%. The wind-down portfolio continues to mature and new business has largely been stopped. In addition to the increase in non-interest-bearing assets, the high level of non-performing loans (NPL) – for which, in accordance with IFRS, interest may only be recognised based on the net present value of the net receivables (gross exposure less specific risk provisioning, also known as unwinding) – had a negative impact on the interest income in the current financial year as well. Expenses from the guarantee commission of EUR -53.3 million for the state-guaranteed subordinated bond issued in December 2012 of EUR 1.0 billion are also recognised in net interest income.

**Net interest result**

in EUR m

881.9	31.12.2010
753.3	31.12.2011
597.9	31.12.2012
147.2	31.12.2013
47.7	31.12.2014

Net fee and commission income for the financial year was negative at EUR -19.0 million (adjusted value 2013: EUR -18.9 million). Fee and commission expenses also include commissions payable to the Republic of Austria for a guarantee in the amount of EUR -17.6 million (2013: EUR -18.2 million).

The result from financial assets, which are not designated at fair value through profit or loss, amounted to EUR 12.3 million compared to EUR 0.7 million in the previous year's period (adjusted). The positive result for the current year is mainly due to the positive difference between the full fair value and current measurement at amortised cost of asset and liability items previously included under hedging transactions, which is deferred over the remaining term.

The positive trading result, which includes the result from foreign currency transactions, contributed EUR +12.6 million to the consolidated result (adjusted value 2013: EUR -10.1 million). It includes effects caused by changes in the market values of derivatives.

The result from hedge accounting is negative at EUR -286.7 million since all asset hedging relationships outside the wind-down period (> 2020) and all liability hedging relationships in the group have been dissolved. The adjusted comparative value for the previous year is EUR -3.0 million.

The result from financial investments designated at fair value through profit or loss (fair value option) was recognised in profit and loss with an overall effect of EUR 225.3 million; the corresponding figure for the previous year was EUR 55.1 million (adjusted). The positive result in 2014 was largely due to the measurement of own issues which registered considerably lower share prices as at 31 December 2014. This income item also includes the valuation of the portfolio of the investment company HBInt Credit Management Limited, Jersey.

The operating result from investment properties, which was EUR 21.6 million (adjusted) in the previous year's period, was also positive in the reporting period at EUR 22.7 million. This was the net result from income and depreciation and other expenses on investment properties. Other operating income, which came to EUR -103.9 million (adjusted) during the same period in the previous year, deteriorated to EUR -1,012.4 million in the 2014 financial

year. This item includes other tax expenses of EUR -1.7 million (2013 adjusted: EUR -25.4 million). Also included in this item is a refund in 2014 of the banking tax that was payable in Austria in the amount of EUR 5.0 million in 2013. Newly required credit risk provisioning increased compared to the previous year, from EUR -870.1 million to EUR -4,168.5 million. This new requirement was due to the valuation as part of the Asset Quality Review.

Impairments of non-financial assets amounted to EUR -709.8 million in the current financial year after EUR -251.0 million (adjusted) during the same period in the previous year. These are related to the valuation of investment properties and repossessed assets according to the provisions of the Federal Law on the Creation of a Wind-Down Entity (GSA). Two Croatian hotel projects, which are recognised as assets available for sale are also included as they fulfil the formal IFRS 5 criteria.

On the cost side, expenses increased by a total of EUR -71.4 million compared to the previous year. Personnel expenses increased by EUR -1.6 million, from EUR -98.1 million to EUR -99.8 million. At EUR -155.5 million, administrative expenses are significantly higher compared to the previous year (EUR -79.7 million).

Depreciation and amortisation on tangible and intangible assets amounted to EUR -7.4 million (2013: adjusted value: EUR -13.4 million).

Overall, operating income of EUR 961.6 million (2013: adjusted value of EUR 88.8 million) was recorded against impairments of EUR -4,883.9 million (2013: adjusted value of EUR -1,127.0 million) and operating expenses of EUR -262.7 million (2013: adjusted value of EUR -191.3 million). The operating result was EUR -4,185.0 million (2013: EUR -1,229.4 million).

After taking into account the result from investments accounted for at equity of EUR -4.9 million (2013: EUR -1.4 million), the annual result before tax from continued operations in 2014 amounted to EUR -4,189.9 million (2013: adjusted value of EUR -1,230.8 million).

Income taxes in the 2014 financial year were negative at EUR -7.4 million (2013: adjusted value of EUR 0.1 million.) The negative change was largely attributable to the balance of the recognition of deferred taxes at the Italian subsidiary. For this company, recoverability does not depend on future taxable profits since they can be offset by other taxes and duties under local law as well as the tax expenses included in this item incurred due to the transfer of portfolios.

This amounts to a result after tax from continued operations of EUR -4,197.2 million (2013: adjusted value of EUR -1,230.7 million).

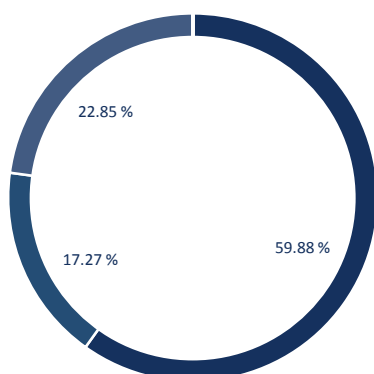
The annual result after tax from discontinued operations amounted to EUR -3,220.8 million (2013: adjusted value of EUR -612.7 million) with EUR -709.9 million resulting from the sales of the former Italian subsidiary bank, HBI, and EUR -2,510.9 million from the sale of HGAA.

Overall, this leads to a consolidated result after tax of EUR -7,418.0 million (2013: adjusted value of EUR -1,843.4 million), whereby Heta from the application of the Federal Law on the Creation of a Wind-Down Unit (GSA) and the switch to the gone concern premise had to report a high loss.

#### 4.2. Statement of financial position

The consolidated total assets of Heta continued to fall significantly in the 2014 financial year, by EUR -14.2 billion from EUR 26.2 billion to EUR 12.0 billion. This is mainly due to the disposal of the HGAA, the carve-out of HBI and the provisions and impairments recorded in 2014. The capital injection of EUR 0.75 billion provided by the Republic of Austria in April 2014 was cash effective and therefore increased cash and cash equivalents as well as total assets.

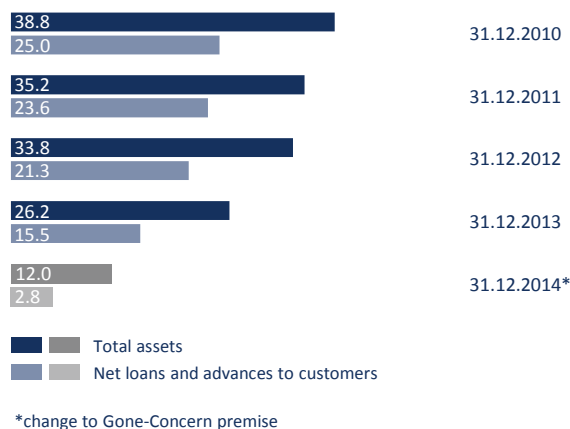
**Total assets per segment**  
In percent



- 59.88% Holding
- 17.27% Asset Resolution
- 22.85% Consolidation

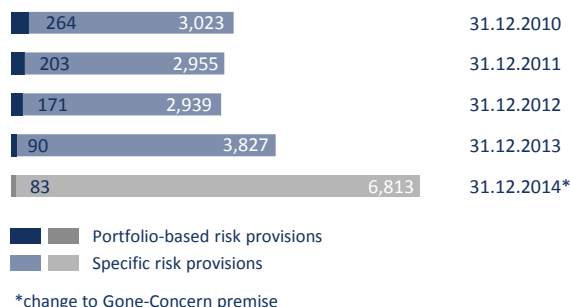
In total, net loans and advances to customers (loans and advances to customers less risk provisioning) decreased from EUR 15.5 billion to EUR 2.8 billion, a decrease of EUR 12.7 billion or some -82.2%. Most of this reduction is due to the disposal of the HGAA Group and HBI (EUR -8.8 billion). Granting new loans ceased due to the “behavioural measures” ordered by the European Commission. Overall, (gross) loans and advances to customers decreased from EUR 19.3 billion to EUR 8.7 billion, which corresponds to a reduction of around -54.7%.

**Total assets/net loans and advances to customers**  
in EUR bn



Loans and advances to credit institutions increased by EUR 1.9 billion to EUR 3.9 billion compared to 31 December of the previous year. The refinancing lines of the former SEE subsidiary banks and HBI are being maintained even though they have left the group. Cash and balances remained virtually unchanged at EUR 2.4 billion compared to the reporting date of the previous year, and consist primarily of funds invested short-term at Oesterreichische Nationalbank.

**Development of risk provisions on loans and advances**  
in EUR m



The level of credit risk provisioning reached EUR -6.9 billion as at 31 December 2014, thereby increasing by EUR -3.0 billion compared to the previous year (2013: adjusted value of EUR -3.9 billion). The share of non-performing loans (NPL) continued to grow in the 2014 financial year. While the problem portfolio was reduced, there was a parallel migration of performing customers to this NPL portfolio. The holding company accounted for the majority of total risk provisioning. The amount of risk provisions on loans and advances increased as a result of the revaluation of loans and advances to customers within the scope of the AQR.

Trading assets for 2014 were close to zero. Derivative financial instruments – which, on the assets side, include positive fair values from derivatives and are reported collectively as a single item – were below the previous year at EUR 1.0 billion (2013: adjusted value of EUR 1.1 billion). This is attributable to the change in interest rates and the reduced maturities of liabilities, which account for the majority of the underlying business.

Financial assets designated at fair value through profit or loss (FVO) fell slightly in the reporting period to EUR 0.5 billion. The total value of financial assets available for sale (AFS) declined severely in the financial year, by EUR -1.3 billion to EUR 1.1 billion. This was primarily a result of the reduced holdings of debt instruments and fixed-income securities related to the disposal of HGAA (EUR -0.6 billion).

Held to maturity financial assets amounted to EUR 0 as at 31 December 2014 as these had previously been held by HGAA, which left the group during the course of 2014.

Investment properties fell by EUR -0.3 billion, from EUR 1.1 billion to EUR 0.8 billion, which was largely a result of impairments in the 2014 financial year, and from the balance of additions and disposals.

The EUR 0.3 billion decline in tangible assets from to almost zero is due to the disposal of HGAA and HBI. Write-downs and the reclassification of real estate in Croatia previously used internally by the group and recorded to the investment properties item also had to be taken into account.

On the liabilities side, liabilities to credit institutions decreased from EUR 4.7 billion to EUR 2.8 billion in the reporting period.

Around EUR -0.9 billion is due to the disposal of HGAA and HBI, and some EUR -0.8 billion to the expiry of liabilities due to the Hypo Alpe Adria Restructuring Act (HaaSanG). The remaining decrease was due to the repayment of maturing liabilities.

Liabilities to customers registered a EUR -4.5 billion decline to EUR 1.6 billion compared to 31 December 2013. This decrease in deposits is due to the exits of HGAA and HBI from the group. The ban on new business ordered by

the European Commission in the wind-down unit is revealing its effects as well.

Liabilities evidenced by certificates fell significantly in the 2014 financial year by EUR -1.6 billion, or -15.8%, to EUR 10.4 billion due to regular repayments.

Provisions amounted to EUR 1.4 billion.

Subordinated capital fell by EUR -0.8 billion in the 2014 financial year due to the elimination of liabilities under the Hypo Alpe Adria Restructuring Act (HaaSanG).

Compared to 31 December 2013, equity deteriorated from EUR 1.9 billion in the previous year to EUR -4.7 billion and shows that the group is significantly over-indebted in terms of capital.

### 4.3. Key profit indicators

The cost/income ratio, which shows the ratio of operating expenses to operating income, and capital-related ratios are not disclosed as they are not meaningful in view of the losses and negative equity.

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

In the 2014 financial year, the focus of HR management was preparing and implementing the privatisation of the SEE network and creating an operating wind-down unit.

### Active employees in finance and finance-related areas Figures from 2010 to 2014



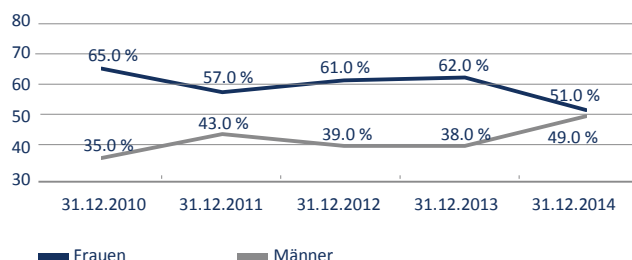
As at 31 December 2014, the Heta group had 1,805 active employees (measured as employee capacity / FTE – full time employees). This significant reduction compared to the previous year is mainly attributable to the spin-off of the SEE network and HBI.

Of the 6,008 active employees as at 31 December 2013, 1,788 were employees in companies which became Heta companies during the course of the 2014 financial year. The creation of new wind-down companies at the level of the state led to an increase in the number of employees during the year. The largest reduction in employee capacity of 128 was related to the disposal of the IT service company in Serbia.

The fluctuation rate remained at a high level at 7.3% on average throughout the year.

### Employees by age group Figures from 2010 to 2014

in percent



The proportion of men and women was balanced in 2014 and almost equal at 51.0% (women) to 49.0% (men).

### Employees by age group as of 31.12.2014



The age group of 30 to 40-year-olds represents almost half of employees, whereby the changes to the working and business environment had a significant impact on the average term of employment. More than one third of employees worked less than three years for the company.

### Supporting wind-down activities

Personnel management teams focus on supporting investor relations within the scope of preparing for the sale of HGAA and the related transfer of employees. This process was started back in 2013 and was concluded in mid 2014 in some group countries. Preparations at the level of the holding company continued at the beginning of 2015 as planned. A total of 152 employees left Heta in the first half of 2015 and were transferred to HGAA by means of a transfer of business.

### Learning & Development

During the separation process, the emphasis was on the transfer of knowledge. Training opportunities on specific subjects were also available to management and specialist employees to a limited extent.

### Development in remuneration

Strict remuneration regulations applied within the group and a ban on all variable remuneration was imposed as was constant monitoring of personnel costs.

## 6. 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 ICS is based on the COSO framework (Committee of the Sponsoring Organisations of the Treadway Commission), although the Executive Board has independently determined the scope and direction of the ICS on the basis of the specific requirements of the organisation.

The ICS, as part 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 the organisation's resources in order to achieve targeted commercial success
- 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 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 in accordance with 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 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 (Heta Asset Resolution AG) and at the level of the group (Heta) in accordance with section 39 (2) of the Austrian Banking Act (BWG)
- 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
- Responsibilities related to the accounting processes for the set-up of the consolidated financial statements are clearly and unambiguously regulated
- 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 in place at the group companies are subjected to ongoing evaluation and development. As a result of these efforts to intensify existing systems in a practical way, further qualitative improvements were achieved during the financial year.

The group subsidiaries draw up their financial statements at local level on the basis of local accounting regulations and transmit their data – stated in conformity with the rest of the group in accordance with IFRS – 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 proc-

esses and systems related to accounting. The local group subsidiaries are supported throughout the whole group accounting process by partners at the head office in the Group Accounting & Reporting division.

Management at the subsidiaries is responsible for the implementation and monitoring of the local ICS and confirms its compliance on a quarterly 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. This process includes the related coordination work, the supervision of required timeframes, processes and contents and the performance of system controls and manual reviews. 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 produced on a consolidated basis by Group Accounting & Reporting and submitted to the Executive and Supervisory Boards once a quarter. Financial reports by Group Financial Controlling are produced once a month. 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 Law on the Creation of a Wind-Down Entity (GSA).

In accordance with the Stock Exchange Act (BoerseG), an interim financial report on the first six months is produced; this report conforms to the requirements of IAS 34.

### **6.1. Internal control system related activities in the 2014 financial year**

A project was initiated in the 2014 financial year with the objective of realigning the internal control system in the national organisations in Croatia, Montenegro, Bosnia and Herzegovina and Bulgaria. Sampling of the core systems was used to analyse and evaluate the related core processes in the course of on-site audits. New control mechanisms were designed based on the evaluation and subsequently implemented.

### **6.2. Planned internal control activities for the 2015 financial year**

With the realignment of Heta according to its wind-down objectives, a new target operating model is currently being implemented under the Heta Implementation Program (HIP). This is associated with pronounced changes to the process landscape. Plans are in place for the continuous further development of the internal control system and its adaptation to the conditions and new processes of the wind-down unit in 2015. Here, the focus will be on the credit

processes so an adequate contribution towards meeting the wind-down objective will be made in this area.

## **7. Public Corporate Governance Codex**

The Austrian Federal Public Corporate Governance Code (B-PCGK) includes measures and regulations that prescribe a high degree of corporate governance in state-owned and quasi-government businesses. Heta considers this Codex to be an important code of practice and therefore introduced the observance of the rules of the Austrian Federal Public Corporate Governance Code (B-PGK) into its articles of association in July 2013.

One of the specific measures was to adapt the by-laws of the Supervisory Board and the Executive Board in strict accordance with the provisions of the Austrian Federal Public Corporate Governance Code (B-PCGK). The by-laws now serve as the basis for the business practices of these bodies. Subsequently, the provisions of the Austrian Federal Public Corporate Governance Code (B-PCGK) are successively adopted by implementing them in the respective documents of the individual group companies and the process is likely to be completed in the 2015 financial year.

Subsequently, Heta is committed to reporting annually on the observance of the Code. Compliance with the rules will be reviewed every five years by an external specialist.

## **8. Other disclosures**

Information in accordance with section 267 of the Austrian Commercial Code (UGB) (note (141) Events after the reporting date), including the notes on the risk management targets and methods used for the use of financial instruments, are presented in the notes to the consolidated financial statements.

## **9. Research and development**

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

## 10. Outlook

2015 will be the first full financial year as a wind-down unit (according to the GSA for Heta. In addition to the legal framework of the EU decision of September 2013 and the Federal Law on the Creation of a Wind-Down Entity (GSA) that came into effect at the end of October 2014, the decision of the financial market supervisory authority ordering wind-down measures under the BaSAG came into force on 1 March 2015. This now constitutes the basis for the further activities of Heta.

Several changes are expected in 2015 according to the altered basis of the business. In addition to executing the contract for the sale of the SEE banking network to the Advent/EBRD bidder consortium on the basis of the power of disposal of FIMBAG, the wind-down plan according to section 5 of the Federal Law on the Creation of a Wind-Down Entity (GSA) has to be finalised, saleable portfolios have to be formed and rapidly exploited, subsidiaries need to be liquidated and staff levels must be adapted to the changes.

On the basis of the power of attorney of FIMBAG, Heta signed a sales agreement on 22 December 2014 regarding the transfer of shares in HGAA to the bidding consortium Advent/EBRD, which was based on an open, transparent and non-discriminatory bidding process. The effects of this agreement were already reflected in the 2014 consolidated financial statements. Closing this contract is subject to several conditions precedent, such as the approval of the relevant regulatory authorities and the consent of the EU Commission from a state-aid perspective. All parties to the contract are intensively engaged in obtaining the required approvals at this time, and expect the closing of the contract by mid-year. If a positive conclusion of the transaction ultimately fails to be realised, the owner of the SEE network has to liquidate it due to existing EU requirements. In this case Heta expects additional heavy losses since the recoverability of the remaining existing financing to HGAA would be significantly affected by such an event.

Heta will also submit the wind-down plan according to GSA required under law to the Federal Ministry of Finance and the Austrian resolution authority by the middle of 2015 after it is approved by the Supervisory Board. This plan is based on the valuations determined in the course of the AQR. The resolution authority is developing a resolution plan according to BaSAG in parallel, which may deviate from the Heta wind-down plan in terms of content and timing so that an adjustment to the wind-down plan may be required.

According to these new general conditions, the Heta head office in Austria will continue functioning as the central controlling unit for all wind-down activities going forward. The entire organisation is being dedicated to the wind-down, which also results in numerous internal restructuring measures. Reorganising the company is intended to ensure a clear focus on rapid exploitation of the assets, which can result in the redeployment of employees and

subsequently in a reduction of staffing levels. This internal reorganisation process is intended to be completed in the course of 2015.

The Executive Board expects the internal realignment to result in an even more pronounced focus on the exploitation of the portfolios. According to the change in the business purpose to wind-down, the goal is now to exploit the portfolio wind-down relevant assets within five years; however, 80% of these assets will be disposed of within three years. In the opinion of the Executive Board, this is a period in which an orderly, active exploitation of Heta's assets can be realised to best possible advantage and as quickly as possible within the scope of the wind-down objectives according to the requirements of the GSA.

It must be noted that such a wind-down horizon is only available if the corresponding conditions are established by implementing adequate wind-down measures. This requires corresponding intensive preliminary work in preparing saleable portfolios. Several major portfolio transactions have already been agreed or concluded in the course of 2015.

The desired exploitation is subject to uncertainty regarding subsequent economic developments in South-East Europe. According to the EU spring forecast from May 2015, the economic recovery in Europe is uneven: While GDP growth of 1.5% is expected for the Eurozone, Austria and the countries in South-East Europe are lagging behind this growth. A plus of 0.8% is predicted for Austria and a plus of 0.3% for Croatia. The Wiener Institut für Internationale Wirtschaftsvergleiche (WIIW) expects a GDP decrease of 0.5% for Serbia in 2015.

Economic growth above the average for the Eurozone is expected for Slovenia, Bosnia and Herzegovina and Montenegro. With the exception of Slovenia however, the unemployment rate in the entire region for 2015 according to the WIIW will be in the double-digit range and as high as 26.8% for Bosnia and Herzegovina. Accordingly a significant improvement in the situation for the NPL portfolios is not expected in the countries for the entire region, which will continue to present challenges for Heta in the course of exploitation.

Pending various legal disputes constitute an additional factor of uncertainty in the 2015 financial year. In the legal dispute between Heta and Bayerische Landesbank (BayernLB) regarding the application of the EKEG to certain refinancing liabilities, the written judgement of the court was delivered to the lawyers representing Heta in this matter on 2 June 2015. The court issued an enforceable judgement subject to appeal in which it decided predominantly in favour of BayernLB and rejected Heta's counterclaim (repayment claims). Heta believes that key arguments in the dispute on all legal matters relevant to the proceedings have not been adequately recognised by the senate (nor by the appraisers appointed by the courts). Based on existing expert opinions, Heta continues to hold the position that the funds issued qualify as equity substitution according to the



Austrian Equity Substituting Capital Act (EKEG) and the receivables of BayernLB are subject to both the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Federal Act on the Recovery and Resolution of Banks (BaSAG). Heta will review the extensive written judgement delivered on 2 June 2015, file an appeal in compliance with the deadline and decide upon the content-related execution of the appeal under careful consideration of the chances of success. The judgement is currently enforceable if BayernLB provides the court with an appropriate security deposit.

A decision could also be reached in numerous suits by creditors against the Hypo Alpe Adria Restructuring Act (HaaSanG). A large number of suits demanding a review whether the law is unconstitutional were filed against the law which came into force in 2014 and resulted in the expiration of subordinate bonds in the amount of about EUR 800 million and liabilities of BayernLB in the amount of around EUR 800 million. The Constitutional Court has announced it will review the matter in autumn 2015. If the law were overturned entirely, derecognition of liabilities performed based on the Hypo Alpe Adria Restructuring Act (HaaSanG) would be reversed. While the liabilities would not come due immediately from the perspective of Heta because of the moratorium issued in the meantime according to the Federal Act on the Recovery and Resolution of Banks (BaSAG), the decision would have a significant impact on the 2015 consolidated financial statements and espe-

cially the amount of equity. Additional lawsuits would also be expected.

Ultimately, the wind-down decision according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) is being fought in the courts as well. The decision of the resolution authority dated 1 March 2015 ordered a moratorium on the repayment of all eligible liabilities until 31 May 2016. In these lawsuits the creditors are also requesting the payment of their liabilities in full. While legally effective clarification by the courts is not expected in 2015, these legal disputes also tie up significant personnel resources of Heta.

In general, according to section 7 (1) GSA, Heta is not subject to section 67 of the Insolvency Ordinance (IO, grounds for opening insolvency proceedings regarding over-indebtedness under insolvency law). The Executive Board does not provide for interest or capital repayment for the company's debt in the wind-down plan to be prepared by the Executive Board according to GSA. The resolution plan to be prepared by the resolution authority according to BaSAG can deviate in terms of time and content from Heta's wind-down plan, so that from the Executive Board's point of view, it is uncertain (in particular for the period after the currently applicable moratorium) if a proper liquidation of Heta would be possible other than within the context of insolvency proceedings.

# Consolidated Financial Statements

as at 31 December 2014

# I. Consolidated statement of comprehensive income

## Income statement

EUR m

	Note	1.1. - 31.12.2014*	1.1. - 31.12.2013**
Interest and similar income	(43)	546.6	707.9
Interest and similar expenses	(44)	-498.9	-560.8
<b>Net interest income</b>		<b>47.7</b>	<b>147.2</b>
Fee and commission income	(45)	5.8	9.8
Fee and commission expenses	(46)	-24.8	-28.7
<b>Net fee and commission income</b>		<b>-19.0</b>	<b>-18.9</b>
Gains/losses on financial instruments that are not measured at fair value	(47)	12.3	0.7
Result from HaaSanG	(48)	1,675.3	0.0
Result from trading	(49)	12.6	-10.1
Result from hedge accounting	(50)	-3.0	-3.0
Result from fin. investments – designated at fair value through profit or loss	(51)	225.3	55.1
Operating income from investment properties	(52)	22.7	21.6
Other operating result	(53)	-1,012.4	-103.9
<b>Operating income</b>		<b>961.6</b>	<b>88.8</b>
Impairment of financial assets	(54)	-4,174.1	-875.9
thereof financial assets – at costs (risk provision)		-4,168.5	-870.1
thereof financial assets– available for sale		-5.7	-5.9
thereof financial assets – held to maturity		0.0	0.0
Impairment of non financial assets	(55)	-709.8	-251.0
<b>Operating income after impairment</b>		<b>-3,922.3</b>	<b>-1,038.2</b>
Personnel expenses	(56)	-99.8	-98.1
Other administrative expenses	(57)	-155.5	-79.7
Depreciation and amortization on tangible and intangible assets	(58)	-7.4	-13.4
<b>Operating expenses</b>		<b>-262.7</b>	<b>-191.3</b>
<b>Operating result</b>		<b>-4,185.0</b>	<b>-1,229.4</b>
Result from companies accounted for at equity	(59)	-4.9	-1.4
<b>Result before tax from continued operation</b>		<b>-4,189.9</b>	<b>-1,230.8</b>
Taxes on income	(60)	-7.4	0.1
<b>Result after tax from continued operation</b>		<b>-4,197.2</b>	<b>-1,230.7</b>
<b>Result after tax from discontinued operations</b>	(9)	<b>-3,220.8</b>	<b>-612.7</b>
<b>Result after tax</b>		<b>-7,418.0</b>	<b>-1,843.4</b>
thereof attributable to non-controlling interests	(61)	17.3	20.3
thereof from continued operations		17.3	20.3
thereof from discontinued operations		0.0	0.0
thereof attributable to equity holders of parent (consolidated result after tax and non-controlling interest)		-7,435.3	-1,863.7
thereof from continued operations		-4,214.5	-1,251.0
thereof from discontinued operations		-3,220.8	-612.7

\*The values in the consolidated financial statements as at 31 December 2014 are based on the gone concern premise for the first time.

\*\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

## Other comprehensive income

EUR m

	1.1. - 31.12.2014*	1.1. - 31.12.2013**
<b>Result after tax</b>	<b>-7,418.0</b>	<b>-1,843.4</b>
Remeasurement of the net defined benefit liability	0.4	0.1
Remeasurement of the net defined benefit liability from discontinued operations	0.0	-0.1
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>0.4</b>	<b>0.0</b>
Available-for-sale-reserve	8.0	14.2
Gains/losses on available-for sale evaluation	21.1	13.4
Effects of deferred taxes	-0.2	0.0
Gains/losses on available-for sale disposal (reclassification)	-15.9	0.0
Effects of deferred taxes	0.4	0.0
Gains/losses on available-for sale impairment (reclassification)	3.4	5.8
Effects of deferred taxes	0.2	0.0
Gains/losses from discontinued operation	(9) -1.2	-6.5
Effects of deferred taxes from discontinued operations	0.2	1.5
Foreign exchange differences (change in foreign currency reserve)	114.1	-8.6
<b>Items, that will be reclassified to profit or loss</b>	<b>122.1</b>	<b>5.6</b>
<b>Total other comprehensive income</b>	<b>122.5</b>	<b>5.6</b>
<b>Total comprehensive income</b>	<b>-7,295.5</b>	<b>-1,837.8</b>
thereof attributable to non-controlling interests	16.7	18.7
thereof from continued operations	16.7	18.7
thereof from discontinued operations	0.0	0.0
thereof attributable to equity holders of parent	-7,312.3	-1,856.5
thereof from continued operations	-4,235.9	-1,238.6
thereof from discontinued operations	-3,076.3	-617.8

\*The values in the consolidated financial statements as at 31 December 2014 are based on the gone concern premise for the first time.

\*\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures

## II. Consolidated statement of financial position

EUR m

	Note	31.12.2014*	31.12.2013
<b>ASSETS</b>			
Cash and balances at central banks	(62)	2,365.3	2,312.7
Loans and advances to credit institutions	(63)	3,938.5	2,087.4
Risk provisions on loans and advances to credit institutions	(65)	-837.2	-8.3
Loans and advances to customers	(64)	8,739.1	19,289.0
Risk provisions on loans and advances to customers	(65)	-5,984.3	-3,825.1
Trading assets	(66)	0.0	12.5
Derivative financial instruments	(67)	956.3	1,070.1
Financial investments – designated at fair value through profit or loss	(68)	489.2	505.2
Financial investments – available for sale	(69)	1,106.1	2,421.5
Financial investments – held to maturity	(70)	0.0	83.7
Investments in companies accounted for at equity	(71)	2.0	5.9
Investment properties	(72)(75)	789.6	1,115.3
Intangible assets	(73)(75)	0.0	16.3
Tangible assets	(74)(75)	42.8	260.8
Tax assets		44.8	126.7
thereof current tax assets		20.7	29.0
thereof deferred tax assets	(60)	24.1	97.7
Assets classified as held for sale	(76)	99.8	97.5
Other assets	(77)	309.3	688.6
Risk provisions on loans and advances on other assets	(65)	-30.6	-41.2
<b>Total assets</b>		<b>12,030.8</b>	<b>26,218.6</b>
<b>EQUITY AND LIABILITIES</b>			
Liabilities to credit institutions	(78)	2,845.3	4,665.3
Liabilities to customers	(79)	1,575.5	6,120.9
Liabilities evidenced by certificates	(80)	8,750.8	10,395.8
Derivative financial instruments	(81)	789.8	777.3
Provisions	(82)	1,445.9	191.5
Tax liabilities		33.3	14.8
thereof current tax liabilities		30.4	2.3
thereof deferred tax liabilities	(60)	2.8	12.4
Liabilities included in disposal groups classified as held for sale	(83)	4.1	5.6
Other liabilities	(84)	130.4	272.7
Subordinated capital	(85)	1,155.4	1,914.8
Hybrid capital	(86)	0.4	1.2
negative equity/equity	(87)	-4,700.1	1,858.8
thereof attributable to equity holders of parent		-5,221.1	1,341.1
thereof attributable to non-controlling interests		521.0	517.7
<b>Total equity and liabilities</b>		<b>12,030.8</b>	<b>26,218.6</b>

### III. Group statement of changes in equity

EUR m

	Issued capital	Participati on capital	Additional paid-in capital	Available-for-sale-reserve	Foreign currency translation	Cumulativ e 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>

EUR m

	Issued capital	Participati on capital	Additional paid-in capital	Available-for-sale-reserve	Foreign currency translation	Cumulativ e results	Owners of the parent	Non-controlling interests	Total
<b>Equity as at 1.1.2013</b>	<b>969.1</b>	<b>339.5</b>	<b>0.0</b>	<b>-43.1</b>	<b>-95.7</b>	<b>277.7</b>	<b>1,447.6</b>	<b>520.9</b>	<b>1,968.4</b>
Capital increases	700.0	800.0	250.0	0.0	0.0	0.0	1,750.0	0.0	1,750.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-22.4	-22.4
Total comprehensive income	0.0	0.0	0.0	15.8	-8.6	-1,863.8	-1,856.5	18.7	-1,837.9
Result after tax	0.0	0.0	0.0	0.0	0.0	-1,863.7	-1,863.7	20.3	-1,843.4
Other comprehensive income	0.0	0.0	0.0	15.8	-8.6	-0.1	7.2	-1.6	5.6
Other changes	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.5	0.6
<b>Equity as at 31.12.2013</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>

The reduction of the nominal value of the participation capital in the amount of EUR 64.4 million is attributable to the recovery of participation capital issues, which took place according to the regulations under section 103q (14) in conjunction with section 26b (2) sentence 2 of the Austrian Banking Act (BWG). The capital was issued at an indemnity of EUR 0.

For further information on equity, please refer to notes (87) Negative equity/equity and (128) Participation capital.

## IV. Group statement of cash flows

EUR m

	2014	2013
<b>Result after tax from continued operation</b>	<b>-4,197.2</b>	<b>-1,230.7</b>
<b>Result after tax from discontinued operations</b>	<b>-3,220.8</b>	<b>-612.7</b>
<b>Result after tax</b>	<b>-7,418.0</b>	<b>-1,843.4</b>
<b>Non-cash items included in profit and reconciliation to cash flows from operating activities:</b>		
Gewinne/Verluste aus dem Verkauf von Tochtergesellschaften	3,264.0	96.7
Gewinn aus Anwendung HaaSanG	-1,675.3	0.0
Depreciation and amortisation of tangible fixed assets and financial investments	603.0	328.7
financial investments	9.4	9.0
intangible and tangible assets	593.6	319.8
Change in risk provisions	4,159.7	1,184.8
Change in provision	1,387.4	199.6
Gains (losses) from disposals of tangible fixed assets and financial investments	-16.1	-5.5
Financial investments	-13.1	-2.4
Intangible and tangible assets	-3.0	-3.1
<b>Subtotal</b>	<b>304.6</b>	<b>-39.1</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	-350.1	2,045.4
Financial investments	55.0	-37.8
Trading assets	7.3	-11.4
Other assets	277.0	244.0
Liabilities to credit institutions and customers	1,316.5	-1,245.7
Liabilities evidenced by certificates	-1,501.9	-3,015.7
Trading liabilities	0.0	0.0
Provisions	-79.9	-110.7
Other liabilities from operating activities	159.0	-43.8
<b>Cash flows from operating activities</b>	<b>187.7</b>	<b>-2,214.8</b>
Proceeds from the sale of:	41.5	70.6
Financial investments and participations	19.5	10.2
Tangible assets, investment properties, operate lease assets and intangible assets	21.9	60.4
Payments for purchases of:	-159.7	-275.4
Financial investments and participations	-6.4	-8.1
Tangible assets, investment properties, operate lease assets and intangible assets	-153.3	-267.3
Payments from the purchase of subsidiaries	-734.1	11.8
Payments for acquisitions of subsidiaries	-0.3	-1.8
Other changes	-28.5	151.8
<b>Cash flows from investing activities</b>	<b>-881.1</b>	<b>-43.0</b>
Capital contributions / disbursements	750.0	1,750.0
Subordinated capital and other financing activities	40.1	-26.7
Dividends paid	-13.3	-22.4
thereof dividends paid to owners of the parent	0.0	0.0
thereof dividends paid to non controlling interest	-13.3	-22.4
<b>Cash flows from financing activities</b>	<b>776.8</b>	<b>1,701.0</b>

EUR m

	2014	2013
<b>Cash flows for taxes, dividends and interests</b>	<b>10.0</b>	<b>25.0</b>
Payments for taxes on income	9.0	-10.2
Payments for interests	-425.4	-592.1
Dividends received	0.0	0.0
Interests received	426.5	627.3

EUR m

	2014	2013
<b>Cash and cash equivalents at end of previous period (1.1.)</b>	<b>2,312.7</b>	<b>2,873.2</b>
Cash flows from operating activities	187.7	-2,214.8
Cash flows from investing activities	-881.1	-43.0
Cash flows from financing activities	776.8	1,701.0
Effect of exchange rate changes	-30.8	-3.6
<b>Cash and cash equivalents at end of period (31.12.)</b>	<b>2,365.3</b>	<b>2,312.7</b>

For further information on the statement of cash flows, please refer to note (88) Statement of cash flows.



## V. Notes to the consolidated financial statements

### Accounting policies and basis of consolidation

#### (1) The company

##### 1.1. Heta Asset Resolution<sup>5</sup>

Heta (formerly: Hypo Alpe-Adria-Bank International AG) was founded in 1896 as Landes- und Hypothekenbankanstalt, and operates as the parent company of the Heta group (formerly Hypo Alpe Adria). It has been wholly owned by the Republic of Austria since 30 December 2009. It is registered in the commercial register (Firmenbuch) of the Commercial Court of Klagenfurt under the 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 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) to conduct banking activities was terminated by the resolution of the FMA on 30 October 2014. This company is now continuing as a partially regulated wind-down entity pursuant to the Federal Law on the Creation of a Wind-Down Entity (BGBl I 2014/51, Federal Law on the Creation of a Wind-Down Entity (GSA)). 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 with the restructuring of Heta implemented in 2014. The business purpose of Heta focuses on the complete winding-down of assets; within this framework, the company is authorised to, among other things, conduct banking or leasing transactions for this purpose on the basis of the legal concessions of the Federal Law on the Creation of a Wind-Down Entity (GSA).

Pursuant to section 3 (4) of the Federal Law on the Creation of a Wind-Down Entity (GSA), Heta is subject to a limited extent to the provisions of the Austrian Banking Act (BWG) and is therefore required to comply with the reporting and notification duties vis-à-vis the Austrian Financial Market Authority (FMA). The Austrian Financial Market Authority (FMA) continues to be the responsible regulatory authority and is obligated, pursuant to section 8 of the Federal Law on the Creation of a Wind-Down Entity (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 statute was amended in view of the then-pending transformation into a partially regulated wind-down unit; the company name was also amended, from "HYPO ALPE-ADRIA-BANK INTERNATIONAL AG" to "HETA ASSET RESOLUTION AG" and the obligation to dissolve the company after the liquidation of the portfolio was included in article 2.4 of the statute. This statute amendment was entered in the commercial register on 31 October 2014 and has been effective as from that date. As this amendment related exclusively to the name of the company and did not entail the reestablishment of the company, this did not affect the legal person of the company itself.

The Executive Board of Heta approved the consolidated financial statements as at 31 December 2014 for publication on 16 June 2015 by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the consolidated financial statements and announcing whether it ratifies the consolidated financial statements as at 31 December 2014. The consolidated financial statements are published in the Wiener Zeitung and under [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Financial Reports). They are disclosed in the commercial register and at Heta Asset Resolution AG in 9020 Klagenfurt am Wörthersee, Alpen-Adria-Platz 1.

##### 1.2. Important events

###### 1.2.1. LEGISLATIVE PACKAGE ON WIND-DOWN OF FORMER HYPO ALPE ADRIA

On 14 March 2014, the Federal Minister of Finance publicly announced the further course of action to be taken in relation to the former Hypo Alpe-Adria-Bank International AG, and thus put an end to the widespread public discussion of insolvency issues at the beginning of 2014, which had also spread through the media across the borders into the South-East European countries and Italy.

The decision by the Austrian Federal Government on 18 March 2014 gave specific form to the bank's wind-down strategy, providing for the sale of the SEE network as quickly as possible and for the transfer of the bank's wind-down unit into a partially regulated company organised on private sector principles. It was furthermore resolved that the subordinated capital

<sup>5</sup> HYPO ALPE-ADRIA-BANK INTERNATIONAL AG" was renamed "HETA ASSET RESOLUTION AG" effective 31 October 2014. This company continues to be the parent company of the Heta Group (formerly: "Hypo Alpe Adria"). These notes generally use the name 'Heta' for the company in the reporting period. At some points where reference is explicitly made to the parent company as a single entity, the name 'Heta Asset Resolution AG' is used.

and participation capital lenders – Bayerische Landesbank as the majority owner prior to nationalisation and the State of Carinthia – should make significant contributions to the wind-down. As a result, the Republic of Austria resolved as sole shareholder at the shareholders' meeting held on 9 April 2014 a capital measure of EUR 750.0 million, which was contributed on 11 April 2014. The measure largely served to eliminate the regulatory capital shortfall of Heta Asset Resolution AG (single institution) resulting from the negative result for 2013 and to ensure its continued existence.

To implement this government decision, the Council of Ministers agreed on a legislative package to wind down the former Hypo Alpe-Adria- Bank International AG, consisting of the Federal Law on the Creation of a Wind-Down Entity (GSA), the Federal Law on the Establishment of a wind-down Holding Company for Hypo Alpe-Adria Bank S.p.A (HBI-Bundesholdinggesetz), the Federal Act Incorporating a Federal Wind-down (Public Limited) Company (ABBAG-Gesetz) and the Hypo Alpe Adria Restructuring Act (HaaSanG), and also a Federal act amending the Financial Market Stability Act (FinStaG) and the Federal Act on the Financial Market Supervisory Authority (FMABG). The legislative package was passed by the Austrian National Council (Nationalrat) on 8 July 2014 and by the Austrian Federal Council (Bundesrat) on 24 July 2014. It was proclaimed on 31 July 2014 in the Federal Law Gazette for the Republic of Austria (Bundesgesetzblatt) and came into operation on 1 August 2014.

#### 1.2.2. FEDERAL LAW ON THE CREATION OF A WIND-DOWN UNIT

The Federal Law on the Creation of a Wind-Down Entity (GSA) provides for the former Hypo Alpe Adria-Bank International AG to continue to operate in the form of a partially regulated wind-down unit. The former Italian banking subsidiary Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) was deconsolidated from Hypo Alpe-Adria-Bank International AG and transferred to a specially created wind-down holding company HBI-Bundesholding AG, (carve-out HBI). The transfer of shares in HBI could have been carried out on a legal basis or via transfer order. The Republic of Austria decided on the conclusion of a sales agreement and therefore a legal transfer which was carried out on 30 October 2014. The business purpose of HBI-Bundesholding AG is to manage the shares in HBI and to sell them directly or indirectly. For more details see note (9.1) Carve-out of the Italian subsidiary (HBI).

On 3 September 2013 the European Commission reached a final decision in the state aid investigation of the former Hypo Alpe-Adria-Bank International AG underway since 2009. The decision provided for the division of the company into the marketable, reprivatizable units of the SEE network and the wind-down unit. The SEE network<sup>6</sup> in Slovenia, Croatia, Bosnia-Herzegovina, Serbia and Montenegro are to be reprivatized by the end of 2015 (closing). To prepare for the implementation of GSA the former Austrian subsidiary HGAA was deconsolidated from the group in the fourth quarter of 2014. HGAA applied for a banking license in the first half of 2014 which was granted at the beginning of September 2014. HGAA acts as a management holding company for its subsidiaries in South-East Europe. The application period until the end of October 2014 was marked by extensive preparatory work, to obtain a banking license for HGAA, implementing the respective organisational requirements and conducting additional portfolio transfers from HGAA to the Heta wind-down unit. The shares in HGAA were transferred to FIMBAG as trustee of the Republic of Austria (carve-out HGAA). This transfer took place on 30 October 2014. See note (9.2) SEE network for more details.

With the FMA decision of 30 October 2014, the banking license of Hypo Alpe-Adria-Bank International AG granted by the FMA according to BWG for banking operations was rescinded. The Austrian Federal Minister of Finance is empowered by the Federal Law on the Creation of a Wind-Down Entity (GSA) to transfer the shares in Heta currently held directly by the Republic of Austria to the wind-down holding company, known for short as ABBAG. The corporate objective of ABBAG consists of managing the shares in the wind-down unit. The transfer of the Heta Asset Resolution AG shares to ABBAG has not yet occurred.

The decision of the Austrian Financial Market Authority (FMA) determined that the following two preconditions existed: firstly, that the bank no longer undertakes any deposit transactions; and, secondly, that the bank no longer either directly or indirectly holds any qualified participations within the meaning of the Capital Requirements Regulation (CRR) in credit institutions or financial securities firms. The termination of the license for in the Federal Law on the Creation of a Wind-Down Entity (GSA) is not to be equated with the termination of the license under section 7 of the Austrian Banking Act (BWG), since, in accordance with section 3 of the Federal Law on the Creation of a Wind-Down Entity (GSA), the wind-down unit continues to have a statutory license to conduct banking activities. For this reason, partial regulation does not create any termination rights, power of approval, other decision-making rights or rights to guarantee receivables that are associated with the necessary circumstances for an expiration under banking law. Neither does the license expire completely, since banking activities can continue to be conducted in the context of the wind-down activities. Heta's present task as a wind-down unit consists of the management of its assets, which it has to liquidate in an orderly, active manner to the best possible advantage. The wind-down unit may only conduct those transactions that serve to wind down the portfolio. Hence, for example, no new business

<sup>6</sup> 'Hypo SEE Holding AG' was renamed 'Hypo Group Alpe Adria AG' effective 30 October 2014. In these notes, the designations 'HGAA' or 'SEE network' will be used to refer to the company for the reporting period.

areas may be established or existing areas be expanded. The work to be done is entirely focused on the optimal liquidation of assets. The wind-down unit may additionally deliver transitional services to former group companies, those that were included in the consolidated financial statements of former Hypo Alpe Adria on 31 December 2013. However, these services are limited to those that are delivered on a contractual basis on the date of partial deregulation. The duration of these services is limited to two years after the date on which the Republic of Austria holds neither a direct nor an indirect share in the recipient of the services. The Austrian Banking Act (BWG) now applies only to a limited extent to the wind-down unit, the banking license of which was then withdrawn with the deregulation by the Austrian Financial Market Authority (FMA). In particular, those regulations intended to ensure the long-term viability of the business activities in the context of normal banking operations lapse, such as, in particular, regulatory capital and liquidity rules. In order to ensure the supervision that is nevertheless needed in the sub-areas, the Federal Law on the Creation of a Wind-Down Entity (GSA) renders individual provisions of the Austrian Banking Act (BWG) applicable. The wind-down unit is forbidden to accept money from the public or to provide investment services. As a wind-down unit, Heta continues to be subject to regulation by the Austrian Financial Market Authority (FMA).

Based on a power of attorney granted by FIMBAG, Heta signed a sales agreement relating to the transfer of the shares in HGAA to a consortium of bidders comprising the US fund Advent International Corporation (Advent) and the European Bank for Reconstruction and Development (EBRD) on 22 December 2014, which was the result of an open, transparent and unconditional bidding procedure. If the sale is not concluded by 2015, these companies are to be wound down. At present, the Executive Board of Heta assumes that the closing of the sale of HGAA to Advent/EBRD will take place by mid 2015. Closing is dependent on the fulfilment of certain contractual conditions. If closing is not completed with the above-mentioned contractual parties by mid 2015, the sales agreement is no longer contractually binding. If the parties cannot agree on a new date for the closing by the end of 2015 or if a sale is not agreed with an alternative buyer, HGAA and its subsidiaries have to be wound down according to the EU decision of 3 September 2013. Heta could expect additional losses on existing refinancing lines of up to EUR -1.0 billion.

#### 1.2.3. ADOPTION OF THE REGULATION PURSUANT TO THE HYPO ALPE ADRIA RESTRUCTURING ACT

The Hypo Alpe Adria Restructuring Act (HaaSanG) establishes the FMA as the authority authorised to decide the implementation of the restructuring measures provided for in the law. The Hypo Alpe Adria Restructuring Act (HaaSanG) provides that upon the proclamation of a regulation to be issued by the Austrian Financial Market Authority (FMA) for this purpose (i) certain subordinated liabilities and partner's liabilities of Hypo expire and (ii) the due date of certain contested liabilities is deferred until a legally binding decision is made on the respective contested liability. This affects around EUR 0.8 billion in subordinated liabilities of the company, all outstanding supplementary capital issues and certain shareholder loans granted by BayernLB totalling EUR 0.8 billion since the first Financial Markets Stabilisation Act (FinStaG) measure in December 2008. The statutory measures provided for in accordance with the Hypo Alpe Adria Restructuring Act (HaaSanG) are directly legally enforceable, without further action on the part of Heta or a formal collection of the liabilities in accordance with their conditions being necessary. Upon the proclamation of the Austrian Financial Market Authority (FMA) regulation (HaaSanV), the expiration or deferral of the liabilities listed in the Austrian Financial Market Authority (FMA) regulation occurs with statutory effect, i.e., a repayment amount, interest amounts or other ancillary fees, in so far as these apply, are automatically reduced to zero. For contested liabilities, the due date is deferred until at least 30 June 2019. Under section 3 of the Hypo Alpe Adria Restructuring Act (HaaSanG), as well as the subordinated liabilities, all collaterals, including guarantees for such liabilities, expire. The corresponding regulation (HaaSanV) was issued through the Austrian Financial Market Authority (FMA) on 7 August 2014.

The constitutionality of the Hypo Alpe Adria Restructuring Act (HaaSanG) and its compatibility with EU law are questioned by many of the investors affected. Hence, after the regulation was issued, numerous individual complaints about the legislation were filed with the Constitutional Court of Austria (VfGH) and a process for examining the legislation was initiated by one-third of the Nationalrat members. As an affected party, Heta was given the opportunity by the Constitutional Court of Austria to make statements on the individual complaints. Heta made use of this opportunity. In addition, 33 lawsuits were filed against Heta involving demands for payment or for declaration of the existence of the respective bonds or for payment as at the reporting date of 16 June 2015. For further details see note (130.3) Proceedings related to the Hypo Alpe Adria Restructuring Act (HaaSanG).

The effects resulting from the Hypo Alpe Adria Restructuring Act (HaaSanG) from the derecognition of the liabilities are recognised in this report at approximately EUR +1.6 billion. Those subordinated liabilities which had been issued in the past by the former Hypo Alpe-Adria-Bank International AG and those liabilities towards Bayerische Landesbank (BayernLB) that had previously been reported in the consolidated financial statements of Hypo Alpe-Adria Bank International AG as liabilities and are covered by the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Austrian Financial Market Authority (FMA) regu-

lation (HaaSanV) which came into force on 7 August 2014, have been treated as expired liabilities. Derecognition occurred on the basis of the carrying amounts as at 30 June 2014 with a reporting date of 7 August 2014.

Due to the loss allocation performed to date to the supplementary capital issued by the former Hypo Alpe-Adria-Bank International AG under section 23 (7) of the Austrian Banking Act (BWG) (old version), the value of this supplementary capital had to be fixed at EUR 0; explicit note was made of this in the preceding consolidated financial statements. Due to this circumstance and the supplementary capital already recorded in the separate financial statements with a carrying amount of EUR 0, through the application of the Hypo Alpe Adria Restructuring Act (HaaSanG) no positive effects have been achieved from the supplementary capital.

#### 1.2.4. ORGANISATIONAL CHANGES IN HETA – TRANSFORMATION INTO A WIND-DOWN UNIT UNDER GSA

In 2014, Heta worked as fast as possible on its transformation into a wind-down unit. Originally, the Austrian Federal Minister of Finance had tasked Österreichische Industrieholding AG (ÖIAG) with setting up and heading a project for the creation of the new wind-down unit. At the time, this was done under the assumption that the wind-down unit to be deregulated in the course of the restructuring process to be planned would be transferred into the direct or indirect ownership of ÖIAG. However, in the Federal legislation finally passed, the Federal Law on the Creation of a Wind-Down Entity (GSA) and the Federal Act Incorporating a Federal Wind-down (Public Limited) Company (ABBAG-Gesetz), stipulated that the shares in the wind-down unit were to be taken over from ABBAG, which in turn is directly owned by the Republic of Austria. Since ABBAG was only set up in autumn 2014, ÖIAG was still tasked by the Austrian Federal Ministry of Finance with the management and co-ordination of the project. After the appointment of Herbert Walter as chairman of Heta's Supervisory Board, project management was assumed internally by the bank; representatives of the Austrian Federal Government, the Austrian Federal Ministry of Finance and ÖIAG acted in an advisory capacity. The project was completed in the second half of 2014 with the successful implementation of the carve-out of HGAA and HBI and the partial deregulation of Heta. At present, follow-up projects are being conducted, focussing on the creation of the wind-down plan within the meaning of the Federal Law on the Creation of a Wind-Down Entity (GSA) and the implementation of the target operating model of Heta.

#### 1.2.5. FEDERAL ACT ON THE RECOVERY AND RESOLUTION OF BANKS

Following the sale of the qualified participations in credit institutions and financial securities firms within the meaning of the Capital Requirements Regulation (CRR) as well as the withdrawal of the banking license granted by the Austrian Financial Market Authority (FMA) in accordance with the Austrian Banking Act (BWG) the Federal Law on the Creation of a Wind-Down Unit (GSA) became directly applicable end of October 2014. Heta continued its operations as wind-down unit according to this law. According to section 3 (1) of the Federal Law on the Creation of a Wind-Down Unit (GSA), the portfolio is to be wound down in an "orderly, proactive manner to the best possible advantage". As far as the timeframe is concerned, the GSA does not define any specific deadlines. In view of the wind-down target of liquidating the assets in a "proactive manner to the best possible advantage" and the legal requirement of achieving this "as quickly as possible" according to section 3 (1) of the Federal Law on the Creation of a Wind-Down Unit (GSA), the Executive Board of Heta defined a timeframe of five years for the liquidation as adequate to complete the wind-down of the portfolio, with 80% of the assets to be liquidated by 2018. With the assistance of an external independent expert, Heta issued new measurement guidelines, which were based on a comprehensive measurement of the portfolio-wind-down relevant assets, a so-called "Asset Quality Review" (AQR), so as to reflect the targets when measuring the assets. See note (5) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA.

The interim results of the group-wide Asset Quality Review (AQR) were available on 27 February 2015. These results indicated a potential capital shortfall in the range of approximately EUR -4.0 billion to approximately EUR -7.6 billion. Although the company was still able at that time to repay its debts and meet its liabilities when due, the Executive Board had assessed that objective and specific indications existed within the meaning of section 51 (1) (3) second half of the sentence of the Federal Act on the Recovery and Resolution of Banks (BaSAG) which indicated that in the near future, the company will no longer be able to repay its debts and meet its liabilities when due.

The Executive Board of Heta immediately reported these developments to the Supervisory board (special report pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA)) and further informed its sole shareholder, the Republic of Austria, on 27 February 2015 about the capital shortfall and inquired whether the Republic of Austria, in light of such new information and the effectiveness of the Federal Act on the Recovery and Resolution of Banks (BaSAG), was prepared to compensate for the future liquidity shortfalls in 2016 and 2017 as well as the capital shortfall by undertaking appropriate measures. On the same day, the company's Executive Board also submitted a notification pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) to the resolution authority as a precautionary measure, proposing that a decision be made in the event that the company's owner did not give a binding commitment to implement appropriate measures.

On 1 March 2015, the Austrian Minister of Finance notified the Austrian Financial Market Authority (FMA) and Heta that no further measures in accordance with the Federal Act on Financial Market Stability (FinStaG) will be taken. The resolution authority issued a decision on the wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) on the same day. This decision puts a moratorium on all of Heta's "eligible liabilities" until 31 May 2016 pursuant to section 58 (1) (10) of the Federal Act on the Recovery and Resolution of Banks (BaSAG) in preparation for the utilisation of the creditor participation instrument. Please refer to the decision of the Austrian Financial Market Authority (FMA) dated 1 March 2015, which is published on the FMA's website [www.fma.gv.at](http://www.fma.gv.at) (→ Special Topics → Heta-Asset-Resolution.AG) as well as on Heta's website [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Press → Austrian Banking Restructuring and Resolution Act (BaSAG)), for more information.

An objection to the decision of the resolution authority could have been filed within three months of the announcement (1 March 2015), although this would not have effected the suspension of the decision. Investors affected by the decision have announced that they will also be taking legal action against Heta themselves.

#### 1.2.6. LEGAL PROCEEDING WITH BAYERISCHE LANDESBANK CONCERNING THE AUSTRIAN LAW ON EQUITY SUBSTITUTION (EKEG)

In a hearing on 8 May 2015, the Regional Court Munich I verbally announced a first-instance decision in the case between Heta and Bayerische Landesbank (BayernLB) relating to the Equity Substitution Act (EKEG). The written decision was sent to Heta's lawyers on 2 June 2015. In its decision which is not yet legally effective, the court largely allowed the claims of BayernLB and rejected the counter claims (repayment claims) of Heta. The court rejected the application of HaaSanG and BaSAG and the related measures by the authorities for claims under German law. The decision is currently enforceable provided BayernLB provides the respective collateral.

Heta will review the extensive written judgement delivered on 2 June 2015, file an appeal in compliance with the deadline and decide upon the content-related execution of the appeal under careful consideration of the chances of success. For more information see note (130.2) Proceedings in connection with Bayerische Landesbank (BayernLB).

In view of the first-instance decision, a provision for potential claims by borrowers of EUR 0.9 billion for liabilities that expired as a result of the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG) was recognised in the consolidated financial statements as at 31 December 2014.

## (2) Gone concern assumption

In the consolidated financial statements as at 31 December 2013 and the interim financial report as at 30 June 2014, the Executive Board based its going concern assessment on the assumptions underlying the group's restructuring plan approved by the European Commission, which foresaw capital measures for subsequent years to maintain the going concern assumption to cover accrued losses over the course of the portfolio wind-down. The European Commission's decision dated 3 September 2013, which was based on the former Hypo Alpe-Adria-Bank International AG's restructuring plan as submitted by the Republic of Austria, provided for future capital measures of up to EUR 5.4 billion, of which EUR 2.5 billion had been transferred to the company by 31 December 2014 by means of contributions from the owner. The European Commission also approved liquidity support to be provided by the owner of EUR 3.3 billion, which was to be utilised in 2016/2017 to cover the liquidity gaps identified in the restructuring plan. In total a maximum of up to EUR 2.9 billion in capital as well as an additional EUR 3.3 billion in liquidity support, would therefore have been available. The short- and medium-term plan that was updated in April 2014 within the context of the recapitalisation, included various scenario analyses which showed that the forecast capital and liquidity requirements within the planning period would have been within range of approved state-aid, meaning that at that time there were no doubts regarding the further support of the owner.

Based on the decision of the Council of Ministers dated 18 March 2014, which followed the recommendations of the task force established by the Austrian Minister of Finance and prevented the insolvency of Heta, it was determined that the then Hypo Alpe-Adria-Bank International AG was to be transferred into a structure that would no longer require the company to comply with minimum regulatory capital regulations. This required the regulated continued operations, which comprise the SEE network and its management as well as the participation in HBI as a regulated credit institute, to be carved out from the group at a later date; this was implemented in October 2014.

The valuation of the group's portfolio-wind-down relevant assets was initiated once the Federal Law on the Creation of a Wind-Down Unit (GSA) fully came into force at the end of October 2014 following the transfer of Heta into a partially regulated but not insolvency-proof wind-down unit. This valuation reflects the short- to medium-term intention to sell in saturated markets within a timeframe of five years for the portfolio wind down under the assumption that 80% of the assets are to be wound down by 2018.

Following the announcement of the interim results of the Asset Quality Review (AQR), which indicated a potential capital shortfall of between EUR -4.0 billion and EUR -7.6 billion, in excess of the capital measures still available under the state aid framework approved by the European Commission of EUR 2.9 billion as well as the expected implications of these 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 in accordance with the Federal Act on Financial Market Stability (FinStaG) will be taken for Heta. The resolution authority then issued a decision on the wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) on the same day. This decision puts a moratorium on all of Heta's co-called "eligible liabilities" until 31 May 2016.

Based on the amended business purpose, the implications of the Federal Law on the Creation of a Wind-Down Unit (GSA), which calls for mandatory self-liquidation after achieving the statutory wind-down objectives, 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) decision by the resolution authority, the Executive Board no longer has a basis for continuing to prepare the financial statements based on the going concern assumption. Instead, the consolidated financial statements as at 31 December 2014 are based on the gone concern assumption.

In general, according to section 7 (1) GSA, Heta is not subject to section 67 of the Insolvency Ordinance (IO, grounds for opening insolvency proceedings regarding over-indebtedness under insolvency law). The Executive Board does not provide for interest or capital repayment for the company's debt in the wind-down plan to be prepared by the Executive Board according to GSA. The resolution plan to be prepared by the resolution authority according to BaSAG can deviate in terms of time and content from Heta's wind-down plan, so that from the Executive Board's point of view, it is uncertain (in particular for the period after the currently applicable moratorium) if a proper liquidation of Heta would be possible other than within the context of insolvency proceedings.

### (3) Applicable significant accounting policies

The consolidated financial statements of Heta as at 31 December 2014 were drawn up in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU and include comparative figures for 2013 which were drawn up according to the going concern principle. Please refer to note (6) Use of estimates and assumptions/uncertainties in connection with estimates with regard to estimates and assumptions in accordance with IAS 8. The consolidated financial statements of Heta as at 31 December 2014 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 International Financial Reporting Standards (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 (106) Remaining maturity. They are based on contractually agreed maturities and do take into account the implications of the decision of the FMA of 1 March 2015 for the maturity of certain liabilities. For further details see note (1.2.) Important events.

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.

In the context of GSA, all assets are now measured under the gone concern premise. In order to meet the target of an orderly, proactive exploitation of the portfolio to the best possible advantage and as quickly as possible, changes were made to key assumptions and model parameters for measurement in terms of future expectations. See note (5) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA.

For the measurement of assets and liabilities, the requirements of GSA and BaSAG as well as the gone concern premise were applied provided they complied 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.

#### **(4) Wind-down plan according to the GSA**

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. According to section 5 (2) the wind-down plan must contain the following:

1. a presentation of the business activities and liquidation measures planned for the wind-down of the portfolios
2. a timetable for the complete liquidation of assets
3. periodic reports on net assets, financial position and results of operations including cash flow statements and budgeted balance sheets, budgeted income statements and liquidity plans and
4. information on risk management which reflects the wind-down targets.

The wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) is prepared in accordance with the accounting principles of the Austrian Commercial Code/Austrian Banking Act (UGB/BWG) and refers to Heta (single institution). The Heta Executive Board has weighed up the wind-down objectives of an orderly, active exploitation to the best possible advantage with the legal requirements of “a portfolio wind-down as quick as possible” and subsequently defined a time frame of five years as adequate for the complete wind-down of the relevant portfolios. The plan, which is currently being prepared, solely presents the liquidation of assets (assets side) and the expenses accrued in the wind-down process. On the equity and liabilities side, the plan foresees no interest or capital repayments, merely an increase of cash reserves.

The target of the wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) is to fully liquidate all portfolio-wind-down-relevant assets by the end of 2020. As a milestone, around 80 % of the assets are to be liquidated by the end of 2018 starting with the figures as at 31 December 2014. To achieve the targets, receivables and real estate are to be sold to investors through individual and, increasingly, through package and portfolio transactions. Preparations for the first package and portfolio transactions began in the first half of 2015. The receivables from HBI and HGAA are to be viewed separately and are likely to be still in place after 2020 as well as performing mortgage loans in accordance with the wind-down plan.

Performing loans and securities with short residual terms are to be recovered through regular repayment and those with longer terms are to be liquidated in the medium term by being placed on the market. Underlying collateral for non-performing loans should only be collected if they can be expected to be sold immediately (within 12 months). Repossession should only be carried out in exceptional cases.

According to section 6 of the Federal Law on the Creation of a Wind-Down Unit (GSA), the management of the wind-down unit is obliged to report to the Supervisory Board. This is to be conducted either on a regular basis in the form of quarterly and asset reports or on an ad-hoc basis in the form of special reports.

In parallel to the creation of the wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA), the Austrian Financial Market Authority (FMA) prepares a resolution-down plan in its role as the resolution authority, which contains the final valuation under section 57 Federal Act on the Recovery and Resolution of Banks (BaSAG) (as at valuation date 1 March 2015).

#### **(5) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA**

##### **5.1. Adjustment of measurement parameters**

In order to fulfil the statutory requirements under section 3 (1) GSA, Heta conducted an Asset Quality Review (AQR) of its assets. The objective of the AQR was to value all assets of Heta relevant to the wind-down of the portfolio based on the wind-down objectives. From now until 2020, the liquidation of the asset positions should be at the centre of the company's business activities. According to the company's articles of association, the company should then dissolve itself.

To ensure this target is achieved Heta has drawn up new guidelines for measuring loans and real estate with the help of an auditing company as an independent expert. The measurement parameters were defined on the basis of sound expert estimates. These parameters formed the basis of the subsequent valuation of the loans and real estate by Heta. To measure loans a realisable sales value (RSV) and for real estate a market value under special assumptions (MV usa) were established.

To date, real estate classified as investment properties has been recognised at cost or, in the event that the value in use is less than the carrying amount, less write-downs on impairment. Whereas the value in use had previously been determined on

the basis of ongoing usage or the generation of ongoing proceeds, this is now determined exclusively on the basis of the amount that the real estate can generate in the event of a short-term sale in markets that are limited in their receptiveness.

For loans, it had previously been assumed that the company itself would manage its loans and advances and that collaterals would be liquidated in the long term. The Federal Law on the Creation of a Wind-Down Unit (GSA) stipulates that these may now have to be sold in the short to medium term. The following two valuation methods were selected:

- Loan cash flow valuation approach
- Collateral valuation approach

On the basis of a defined decision-making tree, the first step was to determine whether loans were to be measured using the loan cash flow valuation or collateral valuation methods. To this end, the measurement guidelines were divided into individual steps and the measurement provisions and parameters transferred to a measurement model.

When applying the loan cash flow valuation method, future cash flows were calculated using interest rate and repayment plans. Investors' expected returns were derived on the basis of the measurement guidelines, graded according to loan quality, the amount of collateral and the country risk. The amount remaining after the deduction of the prescribed transaction costs corresponds to the realisable sales value discounted at the original effective interest rate using the loan cash flow valuation method as at 31 December 2014.

Individual measurements were performed for the following forms of loan collateral where the decision-making tree called for the application of the collateral valuation method:

- Loans with a net exposure > EUR 1.0 million (at the level of the group; at the level of Heta Asset Resolution AG > EUR 3.0 million)
- Real assets where these do not consist of immovable assets,
- Financing where the borrower is to be allocated to the retail or corporate sectors,
- Real estate collateral with a market value > EUR 0.5 million.

Deductions for sales and liquidation strategy, real estate risks, legal enforceability and investor returns as well as other (transaction) costs were deducted from the newly calculated values, and a present value was calculated from the value of the collateral taking into account the expected period in which the collateral can be exploited. Any additional cash flows besides the disposal of collateral were recognised at present value. The resulting present-value amount corresponds to the realisable sales value using the collateral valuation method.

Other loan collaterals (net exposure < EUR 1.0 million or real estate collateral < EUR 0.5 million), collateral from Public Finance and Financial Institutions sector borrowers or collaterals in the form of real assets from movable assets were grouped into homogenous portfolios and discounted using the valuation discounts specified in the measurement criteria. For defaulted loans, the RSV calculated was discounted with the original effective interest rate.

In turn, the findings of the AQR performed at the level of the individual loans led to an adjustment to the parameters established for portfolio risk provisions recorded pursuant to IAS 39 for incurred but not yet reported losses of credit portfolios. The following loss estimate parameters were affected by adjustments:

- The amount of the loss given at default (LGD): this has been replaced by an average realisable sales value, which is based on individual analyses in the Asset Quality Review and estimated differently depending on portfolio characteristics (country of the risk position, predominant form of collateral and customer segment).
- The cure rate: this is no longer used given the changed assessment of the going concern of the company.
- The loss identification period (LIP): the minimum threshold for retail and corporate customers was adjusted from 0.5 to 1.0 in the course of the AQR; this is in line with the recommendation of the European Central Bank relating to how an asset quality review should be conducted. The LIP factors currently valid for banks and states remain at 0.1.

The market value under special assumptions, which is the market value under wind-down conditions, of a wind-down unit pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA), taking into account the current market situation (based on macroeconomic market data updated annually) as well as the ongoing recession and illiquidity of SEE markets in the event that assets are sold at short notice, were all determined for real estate. The valuation did not take into account any market recovery, meaning that current market conditions and restrictions were assumed. Greater emphasis was also put on legal object risks as well as risks from the contamination of properties, documentation that is not available or restricted access when conducting the initial examination, and the mentioned specific wind-down aspects (fire sale of a high number and volume of real estate in illiquid markets) using standardised general hair cuts.



It should be taken into account that the valuation of the real estate as part of the AQR was largely based on desktop analyses using available documentation and according to the current condition of the assets. Regardless of this, the Executive Board is confident that the assets, based on the application of the group-wide AQR valuation guidelines, are valued at realisable market values which can be achieved in a proper portfolio wind-down. According to the Executive Board, this also meets the final measurement requirements under section 57 BaSAG as defined by the resolution authority.

Based on the AQR method, realisable present values of loans and real estate are determined; these present values are in line with market conditions. All results of the AQR are validated and approved in the appropriate committees on an individual loan basis.

Performing loans are to be completely sold by 2020. Due to accounting regulations under IAS 39, no impairment was carried out for loans and receivables classified as financial instruments in the consolidated financial statements in the event that the carrying amount was lower than the market value.

## 5.2. Impact of the AQR on the consolidated financial accounts

The group-wide valuation of loans and real estate led to a devaluation result of around EUR 3.3 billion which resulted in impairments on the cross-border loan portfolio of Heta Asset Resolution AG and portfolios of the subsidiaries and well as write-downs on real estate and other assets in the consolidated financial statements under IFRS. The following factors were primarily responsible for the impairments:

- As part of the AQR all loans and real estate (inventory) were valued whereas individual reviews are only carried out during regular audits or if there is any indication of impairment.
- The parameters were determined based on an investor's perspective. Each price is calculated according to the price a potential investor would acquire the assets relevant to the portfolio wind-down for in their current conditions taking into account special legal circumstances (e.g. documentation) and the respective markets (e.g. limited circle of buyers).
- Whereas as the liquidation of loans is generally carried out as a partial or full financing of the buyer by the bank selling them, this is not the case in this AQR as it would contradict the wind-down targets according to GSA. It was assumed that potential buyers would have to fully refinance themselves on the market calculating a risk premium.
- Real estate markets in Southern Eastern Europe (SEE) and Italy are marked by declining prices, a rising vacancy rate and a diminishing number of transactions. This was taken into account when determining the AQR parameters.
- Many of Heta's properties (collaterals) are not in central or attractive locations (e.g. city centers, near the coast etc.) but in peripheral areas or rural areas where a stronger decline in prices and demand has been observed. Due to their previous use (e.g. industrial land), many land assets are only suitable for an extremely limited circle of potential buyers (e.g. no ongoing returns from rents).
- The conditions of the assets, particularly of those where the borrower has not fulfilled his payment obligations, has deteriorated rapidly due to the lack of adequate maintenance and repairs as most of the remaining non-performing loans have been in default for more than three years. In addition several properties were also severely affected by the flooding in the Balkans in May 2014. For collected collaterals (bail-out purchases/repossessions) maintenance measures are only permitted after relevant proof has been submitted and the EU trustee has been informed, which also led to a deterioration of the condition of these assets.
- Findings regarding the disposal of an own portfolio of non-performing loans (NPL) in SEE countries ("DINARA") project in mid 2014, which revealed extremely low realisable prices, were also taken into account when determining parameters from an investor's perspective as well as recent results from other sales procedures, initial contact from investors and the experience of the assisting audit company relating to similar transactions in Eastern Europe.
- In cases where collaterals cannot be collected through negotiation, the risks of legal enforcement (lasting for several years) are reflected in the discounted realisable market values.
- Due to the condition of collaterals, the largely second-rate locations and the fact that Heta has no possibility of investing in improving the value of the property, Heta is unlikely to be able to profit from a potential recovery of the overall market in SEE countries. On the contrary, it is more likely to face further losses if it waits any longer to liquidate the assets. Subsequently, in the majority of cases, the emphasis is on a swift liquidation to gain the best possible result.
- The market values of Heta's assets is also suffering from negative media coverage and reputational damage, which also had or will have a negative impact on valuations.

## (6) Use of estimates and assumptions/uncertainties in connection with estimates

The consolidated financial statements contain values based on discretionary decisions and which have been calculated using estimates and assumptions. Important uncertainties relate in particular to establishing risk provisions for loans and advances, assessing fair values, measurement of equity investments, the measurement of provisions, the recognition of deferred taxes on tax loss carry-forwards, the treatment of deferred tax risks, performance-related insurance schemes and leasing relationships.

Significant changes were made to estimates and assumptions in the 2014 financial year due to the change in the assessment of the going concern assumption for Heta. Due to the provisions of the Federal Law on the Creation of a Wind-Down Entity (GSA) and the subsequent switch to the gone concern premise, material measurement assumptions and model parameters were adjusted in line with changed future expectations. See note (5) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA. The effects out of this on the result were applied prospectively in accordance with IAS 8. The change in estimates relating to the measurement of loans and real estate had a negative impact of EUR -3.3 billion on the income statement for 2014.

The AQR involved a comprehensive assessment of the measurement of non-performing loans and leasing receivables. In this collectability assessment, the amount, the time period, and the probability of expected repayment is measured. This measurement is based on a detailed analysis of carefully ascertained assumptions which are subject to uncertainties. A different assessment of these assumptions may result in significantly different valuations of risk provisions on loans and advances. The actual loan defaults can therefore differ from the risk provisions for loans and advances reported in these consolidated financial statements. For further information on the methodology employed in making risk provisions on loans and advances, please see note (5) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA and note (25) Risk provisions on loans and advances.

The fair value of financial instruments for which there are no active markets is established by means of various valuation models. The input parameters used are based – whenever available – on observable market data. If this is not possible, fair value is established on the basis of estimates. Further details on the measurement of financial instruments are provided in note (16) Financial Instruments: Recognition and Measurement (IAS 39).

The measurement of equity investments in non-consolidated entities relates primarily to real estate companies. The intrinsic value of these companies is verified annually through expert appraisals, whereby these valuations are based on cash flow forecasts on the basis of time periods specific to projects and markets as well as on discounted interest rates.

Deferred tax assets from loss carry-forwards are only recorded when it is probable that future taxable profits will be made which will enable these tax losses to be offset. The basis for these estimates is the respective business plans which essentially have a time horizon until 2020. Deferred tax assets are not recognised if they will be utilised beyond this planning period. Given the history of losses, there has been no capitalisation of tax loss carry-forwards for the members of the Heta Austrian tax group as well as for the wind-down companies in other countries. Deferred taxes are only recognised if their intrinsic value is not dependent on future taxable profits and is likely within the planning horizon (2020). The recognition of tax risks has been carried out in accordance with the recognition criteria in IAS 37. There is no recognition of deferred tax risks viewed as unlikely to materialise or the extent of which cannot be reliably estimated, neither as a provision nor as a contingent liability.

The valuation of subsidiaries classified as held for sale under IFRS 5 is carried out on the basis of the lower of carrying amount and fair value less costs to sell. The fair value is determined using existing quotations or, in cases where no binding offer is available as at the balance sheet date, taking the AQR measurement guidelines as a basis. Deviations from the actual sale price cannot be ruled out.

The costs of the performance-based pension plan are calculated using an actuarial process. The actuarial valuation is based on assumptions relating to discount rates, expected returns and asset values, future salary levels, mortality and future rises in pension rates. Such estimates are subject to significant uncertainties due to the long-term nature of these plans. The assumptions and estimates made for the calculation of long-term employee obligations are described in note (34) Provisions for pensions and similar provisions. Quantitative data on long-term employee benefit provisions is given in note (82) Provisions.

Heta takes the view that it must make discretionary decisions as a lessor – in particular with regard to classification between finance leases and operate leases – and uses as its criterion whether all principal risks and opportunities are transferred from the lessor to the lessee. In addition the measurement of leasing contracts can be significantly influenced by the assumption regarding the unguaranteed residual value.

In view of the ongoing weak economic growth in South-East Europe, it cannot be ruled out that additional provisions will be required for the existing loan and leasing portfolio. Subsequently, uncertainties relating to the estimates and assumptions could lead to results which require adjustments to the carrying value of the assets in question or liabilities of future periods.

**(7) Application of new and amended standards**

The following new or amended IFRS/IAS standards and interpretations, which were issued by the IASB and adopted by the EU, were applied by Heta for the first time in 2014:

Standard	Description		Compulsory for annual period
IAS 32	Financial instruments : Presentation	Offsetting Financial Assets and Financial Liabilities (December 2011)	2014
IAS 36	Impairment of assets	Amended by recoverable amount disclosures for non-financial assets	2014
IAS 39	Financial Instruments	Amended by Novation of Derivatives and Continuation of Hedge Accounting	2014
IFRS 10	Consolidated Financial Statements	2011	2014
IFRS 10	Consolidated Financial Statements	Transition Guidance (June 2012)	2014
IFRS 10	Consolidated Financial Statements	Amended by Investment Entities (October 2012)	2014
IFRS 11	Joint Arrangements	2011	2014
IFRS 11	Joint Arrangements	Transition Guidance (June 2012)	2014
IFRS 12	Disclosure of Interests in Other Entities	2011	2014
IFRS 12	Disclosure of Interests in Other Entities	Transition Guidance (June 2012)	2014
IFRS 12	Disclosure of Interests in Other Entities	Amended by Investment Entities (October 2012)	2014
IAS 27 (2011)	Separate Financial Statements	Supersedes IAS 27 Consolidated and Separate Financial Statements	2014
IAS 27 (2011)	Separate Financial Statements	Amended by Investment Entities (October 2012)	2014
IAS 28 (2011)	Investments in Associates and Joint ventures	supersedes IAS 28 (2003) Investments in Associates	2014

The standards that affect the consolidated financial statements of Heta are explained below.

IAS 32 was expanded with respect to an exact explanation of the criteria that must be met to offset financial assets and liabilities. The amendments relate to the clarifying the criteria: “currently has a legally enforceable right to set off the recognised amounts” (meaning that this legally enforceable right may not be dependent on a future event) and “intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously”. The amendment does not impact the consolidated financial statements of Heta.

The amendment to IAS 36 “Impairment of Assets” relates to the disclosure obligations when determining the recoverable amount of impaired non-financial assets in the event that this amount is based on the fair value less costs to sell. This amendment will not impact Heta, as these are associated with determining the recoverable amount of cash-generating units that include goodwill or intangible assets with indefinite useful lives.

As a consequence of the amendment to IAS 39, derivatives are still designated as hedging instruments in continuing hedging relationships despite novation. In order to benefit from the amended guidance, novation to a central counterparty must happen as a consequence of statutory or regulatory provisions. This amendment will be taken into account in the case of novations.

Heta already applied the consolidation package, whose application was mandatory from 1 January 2014, comprising IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements”, IFRS 12 “Disclosure of Interests in Other Entities”, as well as IAS 27 “Separate Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” and the corresponding transitional guidelines for 2013. IFRS 10 replaces the rules hitherto contained in IAS 27 and SIC 12 and includes a uniform definition of “control”. According to IFRS 10, control requires the parent company to have power over an associated or affiliated company, to participate in the variable returns of the associated or affiliated company and has the ability to affect those returns through its power over the associated or affiliated company. Based on this new definition of control, Heta has assessed whether this would result in a change in the scope of consolidation, especially as to whether contractual arrangements exist that justify compulsory consolidation. However, the first-time application of IFRS 10 in 2013 has not led to a change in Heta’s scope of consolidation in the financial year. IFRS 11 replaces the previous IAS 31 “Interest in Joint Ventures” and SIC-13 “Jointly Controlled Entities” and introduces a modified terminology and classification of companies as joint arrangements. It describes accounting for companies that have joint control over an arrangement. Joint control includes the contractually agreed sharing of control. Arrangements subject to joint control are classified either as joint ventures or as joint business activity. The previous option to apply pro rata consolidation for joint ventures was abolished and the application of the equity method is now mandatory. As Heta does not use pro rata consolidation, this standard does not have any effect on

the consolidated financial statements. IFRS 12 sets out required disclosures which make it possible for those studying the financial statements to judge the type, risk and financial implications of the company's interests in subsidiaries, associated companies, joint arrangements and unconsolidated structured entities (special purpose entities). The disclosures required under IFRS 12 are much more extensive than those of the standards currently in force and are presented accordingly in the notes.

The modifications to IAS 27 contain rules on the presentation in the accounts and disclosures in the notes about subsidiaries, joint ventures and associated companies that are only relevant for separate financial statements drawn up under IFRS.

The modified IAS 28 deals with accounting for shares in associated companies and the requirements for applying the equity method when accounting for shares in associated companies and joint ventures.

The following new or amended IFRS/IAS Standards and interpretations, which were issued by the IASB and adopted by the EU, were not yet compulsory as at 31 December 2014. The group also did not apply these standards prematurely in 2014; Heta applies them on the obligatory dates.

Standard	Description	Compulsory for annual period
IAS 19	Employee Benefits	2015
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
Collective Standard	IFRS December 2013 (Improvements 2011–2013)	Annual Improvements IFRS 1, IFRS 3, IFRS 13, IAS 40
IFRIC 21	Levies	2015

IAS 19 "Employee Benefits" clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be allocated. In addition, it provides relief if the amount of the contributions is independent of the number of years of service. Application of this amendment is mandatory for the first time for financial years commencing on or after 1 July 2014.

Application of omnibus standard (IFRS December 2013 – Improvement 2010-2012) published by the IASB is mandatory for the first time for financial years commencing on or after 1 July 2014 and includes the following standards: IFRS 2 "Share-based payment" clarifies the definition of "vesting conditions", IFRS 3 "Business Combinations" clarifies the accounting of contingent purchaser price payments for company acquisitions, IFRS 8 "Operating Segments" refers to the disclosures in the notes on the aggregation of operating segments and the reconciliation from segment assets to group assets, the amendment to IFRS 13 "Fair Value Measurement" relates to the end to the discounting of short term loans and advances as well as liabilities, IAS 16 "Property, Plant and Equipment" clarifies the proportional adjustment of the cumulative depreciation when using the revaluation method, IAS 24 "Related Party Disclosures" includes a definition of related parties and their influence on the interpretation of "key management personnel" and IAS 38 "Intangible Assets" clarifies the proportional adjustment of the cumulative depreciation when using the revaluation method.

The IASB published a second omnibus standard (IFRS December 2013 – Improvement 2011-2013) including the following standards and is applicable for the first time for financial years starting on or after 1 July 2014. IFRS 1 "First-time Adoption of the International Financial Reporting Standards" includes the definition of IFRS 1.7 "all IFRS effective at the end of the reporting period", IFRS 3 "Business Combinations" is expanded by the definition of the exception from the scope of application for joint arrangements, IFRS 13 "Fair Value Measurement" comprises the clarification of scope of application of the portfolio exception, and the amendment to IAS 40 "Investment Property" includes the clarification key to answering the question as to whether the acquisition of investment properties is a business combination within the scope of IFRS 3.

Interpretation IFRIC 21 "Levies" deals with the accounting of obligations to the public sector; these guidelines include when a liability is to be recognised for levies imposed by the government. Application of this interpretation is mandatory for the first time for financial years commencing on or after 17 June 2014.

The following new standards and interpretations, which were issued by the IASB, have not yet been adopted by the EU and were therefore not applied prematurely. The table also includes the date from which application will be compulsory:

Standard	Description		Compulsory for annual period
IFRS 9	Financial Instruments	Accounting of financial instruments	2018
IFRS 14	Regulatory Deferral Accounts	first-time adopters to IFRS	2016
IFRS 11	Joint Arrangements	Acquisitions of interests in joint operations	2016
IAS 16 and 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
IFRS 10 and IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures	Sold or contribution of assets	2016
IAS 1	Presentation of Financial Statements	Statement initiative	2016
IFRS 10, IFRS12 and IAS 28	Consolidated Financial Statements, Disclosure of Interests in Other Entities	Use of consolidation exceptions	2016
Collective Standard	IFRS September 2014 (improvements 2012–2014)	Annual improvements IFRS 5, IFRS 7, IAS 19, IAS 34	2016
IFRS 15	Revenue from Contracts with Customers	Recognition of revenues	2017

The IASB published amended standard IFRS 9 – Financial Instruments on 24 July 2014, primarily bringing about changes to the classification and measurement of financial instruments, as well as provisions relating to impairments and hedge accounting.

In future, instead of the previous four measurement categories of IAS 39 (see note (16) Financial Instruments: Recognition and Measurement (IAS 39)) according to IFRS 9, there will be the following three measurement categories: at amortised cost, fair value not recognised in the income statement and fair value through profit or loss.

The classification of financial assets depends on the entity's business model for managing financial assets and the characteristics of the contractual cash flows of the financial asset. A financial asset is measured at amortised cost only if it is associated exclusively with cash flows with the character of interest payments and repayments and if it is held within a business model whose sole objective is to hold assets in order to collect contractual cash flows. A financial asset is measured at fair value not recognised in the income statement only if it is associated exclusively with cash flows with the character of interest payments and repayments and if it is held within a business model that is focused both on holding assets in order to collect contractual cash flows and selling the financial instruments. Pursuant to IFRS 9, all other financial assets are measured at fair value through profit or loss. Impairment will move to a model whereby the entity is required to recognise at initial recognition a risk provision on loans and advances in the amount of the credit losses in the form of 12-month expected losses. IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. Generally, some restrictions under current rules have been removed and a greater variety of hedging instruments and hedged items become available for hedge accounting. IFRS 9 is effective for annual periods commencing on or after 1 January 2018. The European Union has yet to adopt any of the IFRS 9 sections; as a result, the group has not applied any sections prematurely. It is expected, however, that the application of IFRS 9 will have a material impact on the classification and measurement of financial instruments, as well as on reporting; however, the impact can only be estimated reliably once an analysis has been conducted.

The amended IFRS 14 enables first-time adopters of International Financial Reporting Standards to recognise regulatory deductions in accordance with their previous accounting standards provided they also continue to do so after transitioning to IFRS. This standard is an interim solution while the longer term rate-regulated business activities project is undertaken by the IASB.

The amendment to IFRS 11 clarifies the accounting for acquisitions of interests in joint operations if these constitute a business. The acquirers of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, are required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11.

The amended standards IAS 16 and IAS 38 clarify acceptable methods of depreciation and amortisation. Guidelines are provided including methods that can be used for the depreciation of property, plant and equipment and the amortisation of intangible assets. Revenue-based depreciation models are mentioned specifically.

The amendments to IAS 27 again permit the use of the equity method to account for investments in subsidiaries, joint ventures and associates in an investor's separate financial statements.

The amendments to IFRS 10 and IAS 28 clarify gain or loss recognition in relation to transactions involving associates or joint ventures. In the case of transactions involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

Application of collective standard (IFRS September 2014 – Improvement 2010-2012) published by the IASB is mandatory for the first time for financial years commencing on or after 1 July 2016 and includes amendments to the following standards: IFRS 5 "Assets Held for Sale" includes guidelines for cases in which an entity resolves to submit an asset to shareholders as a dividend in kind, IFRS 7 "Financial Instruments: Disclosures" clarifies if and when a servicing contract represents a continuing involvement through financial assets disposed via a portfolio, IAS 19 "Employee Benefits" is supplemented by a clarification on the requisite currency equivalence of the interest rate, IAS 34 "Interim Financial Reporting" includes a stipulation that, in addition to the publication of particularly significant material events and business activities, supplementary selected disclosures need to be included in the notes to the interim financial statements.

The new IFRS 15 "Revenue from Contracts with Customers" stipulates when and to what extent an IFRS reporter is required to recognise revenue. This standard must be applied by all IFRS reporters.

A reliable assessment of the impact of these new standards can only be made after a thorough analysis.

**(8) Scope of consolidation****8.1. Changes to the consolidated group**

These consolidated financial statements comprise 15 Austrian companies (2013: 16) – including Heta Asset Resolution AG – and 63 (2013: 70) foreign subsidiaries. Changes to the scope of consolidation are as follows:

	31.12.2014		31.12.2013	
	Fully consolidated	Equity method	Fully consolidated	Equity method
<b>Start of period (1.1.)</b>	<b>84</b>	<b>2</b>	<b>102</b>	<b>4</b>
Newly included in period under review	9	2	6	0
Merged in period under review	0	0	-3	0
Excluded in period under review	-19	0	-21	-2
Reclassified	0	0	0	0
<b>End of period (31.12.)</b>	<b>74</b>	<b>4</b>	<b>84</b>	<b>2</b>
thereof Austrian companies	13	2	14	2
thereof foreign companies	61	2	70	0

For further information, refer to note (140) Scope of consolidation.

The following eleven companies were included in the consolidation for the first time in the 2014 financial year:

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
Tridana d.o.o.	Ljubljana	100.00%	Fully consolidated	Materiality
HETA 2014 Tanácsadó Kft	Budapest	100.00%	Fully consolidated	Foundation
HYPO Alpe-Adria-Leasing, družba za financiranje d.o.o. (ehem. HYPO CB d.o.o.)	Ljubljana	100.00%	Fully consolidated	Materiality
Saraxe Beteiligungsverwaltungs GmbH	Wien	100.00%	Fully consolidated	Materiality
HYPO PREP d.o.o.	Ljubljana	100.00%	Fully consolidated	Materiality
O-CENTER d.o.o.	Maribor	100.00%	Fully consolidated	Materiality
HYPO GALERIJA d.o.o.	Zagreb	100.00%	Fully consolidated	Materiality
SKORPIKOVA PSOLOVNI CENTAR d.o.o.	Zagreb	100.00%	Fully consolidated	Materiality
Prep Management d.o.o.	Ljubljana	100.00%	Fully consolidated	Materiality
LANDTRUST DOO BEOGRAD	Beograd	50.00%	Equity method	Materiality
HYPO PARK DOBANOVCI DOO BEOGRAD	Beograd	50.00%	Equity method	Materiality

Tridana d.o.o. is a project company headquartered in Ljubljana, whose business activities focus on the construction and sales of real estate, that was established to construct a commercial and residential complex in Ljubljana. The shares in the company were assumed by Heta in the context of credit restructuring.

Heta 2014 Tanacsado Kft. is a Hungarian subsidiary established in the first quarter of 2014 and serves to acquire assets taken over as part of rescue purchases.

Centrice Real Estate Ljubljana d.o.o.<sup>7</sup>, HYPO Alpe-Adria-Leasing, družba za financiranje d.o.o.<sup>8</sup> and Saraxe Beteiligungsverwaltungs GmbH are companies that assumed portfolios and equity investments from other group companies within the scope of the restructuring.

HYPO Alpe-Adria-Leasing, družba za financiranje d.o.o. (formerly: HYPO CB d.o.o.) and Centrice Real Estate Ljubljana d.o.o., which have to date not been consolidated on grounds of materiality, assumed real estate and leasing portfolios from group companies in their books in the context of the restructuring; Centrice Real Estate Ljubljana d.o.o. assumed a real estate portfolio while HYPO Alpe-Adria-Leasing, družba za financiranje d.o.o. assumed a leasing portfolio from other group companies. The companies were consolidated for the first time in the second quarter of 2014.

<sup>7</sup> "Hypo Prep d.o.o." was renamed "Centrice Real Estate Ljubljana d.o.o." effective 27 January 2015.

<sup>8</sup> "Hypo CB d.o.o." was renamed "Hypo Alpe-Adria-Leasing družba za financiranje d.o.o." effective 2 June 2014.

Saraxe Beteiligungsverwaltungs GmbH acquired a consolidated subsidiary whose main activity is the holding of equity investments at the end of the first half of 2014. Saraxe Beteiligungsverwaltungs GmbH, Vienna, is purely a holding company and a wholly-owned subsidiary of Heta Asset Resolution AG, which acquired the participations in Hypo Alpe-Adria-Beteiligungen GMBH from Cedrus Handels- und Beteiligungs GmbH at the end of the first half of the year 2014. This acquisition meant that Saraxe Beteiligungsverwaltungs GmbH, Vienna, was also included in the scope of consolidation. Saraxe Beteiligungsverwaltungs GmbH Vienna was contractually merged with Hypo Vermögensverwaltung GmbH, also a wholly-owned subsidiary of Heta, on 9 December 2014 and was therefore excluded from the scope of consolidation in the second half of 2014.

Wholly-owned subsidiaries Centrice Real Estate Ljubljana d.o.o., Centrice Galerija<sup>9</sup>d.o.o., Skorpikoba Poslovni Centar d.o.o. Zagreb, and Centrice Ljubljana d.o.o.<sup>10</sup> were pooled within the scope of the concentration of performing real estate portfolios under Centrice Real Estate GmbH<sup>11</sup> and are represented in the Heta Group as a consolidated entities. These participations are therefore included in the IFRS scope of consolidation. O-Center d.o.o. Maribor was also consolidated, although this company will be allocated to the asset resolution companies for internal control purposes due to the restricted use of the property. Landtrust d.o.o. Beograd and Hypo Park Dobanovci d.o.o. Beograd are 50% participations of the Serbian Heta Asset Resolution d.o.o. Beograd. Both companies were included in the consolidation and accounted for using the at-equity method due to their significance.

Companies which are of little or no significance to Heta due to reduced business activities or because of planned liquidation, are excluded from the scope of consolidation. HGAA and the Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) are also no longer part of the group as a result of carve-out transactions. See note (9). Discontinued business operations. The following 19 (2013: 24) fully consolidated subsidiaries and no (2013: 2) companies valued at equity were excluded from the scope of consolidation in 2014.

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	Materiality
Hypo Alpe-Adria (Jersey) II Limited	St. Helier - Jersey	100.0%	Fully consolidated	Materiality
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	Wien	100.0%	Fully consolidated	Merger
ZAJEDNIČKI INFORMACIJSKI SUSTAVI d.o.o.	Zagreb	100.0%	Fully consolidated	Materiality
<b>HGAA GRUPPE</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. (ehem. HYPO CB d.o.o.)	Ljubljana	100.00%	Fully consolidated	Sale
HYPO ALPE-ADRIA-BANK AD BEOGRAD	Beograd	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

<sup>9</sup> "Hypo Galerija d.o.o." was renamed "Centrice Galerija d.o.o." effective 29 January 2015.

<sup>10</sup> "Prep Management d.o.o." was renamed "Centrice Ljubljana d.o.o." effective 27 January 2015

<sup>11</sup> "Probus Real Estate GmbH" was renamed "Centrice Real Estate GmbH" effective 12 December 2014



The systematic wind-down of the investment portfolio and therefore the complexity of Heta continued in the 2014 financial year. The sale of the Ukrainian leasing company was concluded in the second quarter of 2014; this resulted in the end of the former Hypo Alpe Adria's business activities in Ukraine. The result out of the sale amounted to approximately EUR -1.0 million.

Hypo Alpe-Adria Jersey Limited and Hypo Alpe-Adria (Jersey) II Limited, two wholly-owned subsidiaries of Heta, were excluded from the scope of consolidation due to materiality.

Zajednicki Informacijski Sustavi d.o.o. Zagreb, an indirect wholly-owned subsidiary of Heta Asset Resolution Hrvatska d.o.o.<sup>12</sup>, is also no longer included in the scope of consolidation of Heta due to materiality.

Heta Asset Resolution AG owned 99.99% of Hypo Alpe-Adria-Bank S.p.A. Udine (HBI), that was sold to HBI Bundesholding AG (HBI-BH) due to the enactment according to the GSA law on 31 October 2014. The company's wholly-owned subsidiary, HYPO SERVICE S.R.L. headquartered in Tavagnacco, was also sold to HBI-BH. For further information, please refer to note (9.1) Carve-out of the Italian banking subsidiary (HBI).

The shares had to be transferred to a third party as a condition for the transformation of the then Hypo Alpe-Adria-Bank International AG into a wind-down unit. The signing and closing relating to the sale of HGAA were concluded on 30 October 2014; the share purchase agreement was concluded with Finanzmarktbeteiligung Aktiengesellschaft des Bundes (FIMBAG), which will hold the shares in HGAA AG in trust for the Republic of Austria. For further information, please refer to note (9.2) SEE network.

Furthermore, the assets and liabilities of the Serbian IT company Zajednicki Informacioni Sistem d.o.o. Beograd (ZIS), which provides IT services, are accounted for pursuant to the regulations of IFRS 5 and reported separately in the consolidated financial statements as at 31 December 2014.

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<sup>12</sup> "Hypo-Leasing Kroatien d.o.o." was renamed "Heta Asset Resolution Hrvatska d.o.o." effective 10 December 2014.

The following fully-consolidated subsidiaries were excluded from the scope of consolidation in the course of the 2013 financial year:

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
ALFA CAR PROJEKT d.o.o.	Zagreb	100.0%	Fully consolidated	Materiality
ALFA NEKRETNINE d.o.o.	Zagreb	100.0%	Fully consolidated	Materiality
ALPE ADRIA BETEILIGUNGS GMBH	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Materiality
Alpe Adria Venture Fund GmbH & Co KG	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Materiality
Ananke Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Materiality
BETA NEKRETNINE d.o.o.	Zagreb	100.0%	Fully consolidated	Materiality
BLOK 67 GmbH	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Materiality
D.S. Car d.o.o.	Zagreb	100.0%	Fully consolidated	Materiality
DOSOR d.o.o.	Radenci	50.0%	Equity method	Materiality
ERCS 2008 Kft.	Budapest	100.0%	Fully consolidated	Sale
Grundstücksgesellschaft HLG Achilles mbH & Co. KG	Munich	6.0%	Fully consolidated	Loss of control
Grundstücksgesellschaft Kleine Seilerstrasse 1 GmbH & Co KG	Munich	100.0%	Fully consolidated	Merger
HILLTOP Holding Anstalt	Vaduz	100.0%	Fully consolidated	Materiality
Hypo Alpe Adria IT Holding GmbH	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Materiality
HYPO ALPE-ADRIA-BANK AG	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Sale
HYPO Consultants Holding GmbH	Klagenfurt am Wörthersee	100.0%	Fully consolidated	Materiality
Hypo Group Netherland Holding B.V. in liquidatie	Amsterdam Zuidoost	100.0%	Fully consolidated	Materiality
Hypo Group Netherlands Corporate Finance B.V. in liquidatie	Amsterdam Zuidoost	100.0%	Fully consolidated	Materiality
HYPO PC d.o.o.	Ljubljana	100.0%	Fully consolidated	Materiality
HYPO ULAGANJA d.o.o., Zagreb	Zagreb	100.0%	Fully consolidated	Materiality
PIPER d.o.o.	Zagreb	100.0%	Fully consolidated	Materiality
QLANDIA MARKETING d.o.o.	Ljubljana	100.0%	Fully consolidated	Materiality
SINGULUS d.o.o.	Zagreb	100.0%	Fully consolidated	Materiality
URBANA PRENOVA IZOLA d.o.o.	Izola	40.0%	Equity method	Materiality
Verwaltungsgesellschaft HLG Achilles mbH	Munich	100.0%	Fully consolidated	Merger
Verwaltungsgesellschaft Kleine Seilerstrasse 1 GmbH	Munich	100.0%	Fully consolidated	Merger

## 8.2. Subsidiaries with material non-controlling interests

Two companies with material non-controlling interests are included in the scope of consolidation of Heta. The material non-controlling interests for Heta are as follows:

Company	Registered office	2014	2013
HBInt Credit Management Limited	St. Helier - Jersey	49.0	49.0
Norica Investments Limited	St. Helier - Jersey	49.0	49.0

HBInt Credit Management Limited holds investments in the two investment companies Carinthia I Limited and Carinthia II Limited, also based in St. Helier – Jersey.

In the 2014 financial year, the following profits/losses are allocated to the subsidiaries before the elimination of intercompany revenues and expenses:

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 fin. 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>

The following profits/losses were allocated in 2013:

EUR m

	HBInt Credit Management Limited	Norica Investments Limited
<b>Net interest income</b>	<b>5.8</b>	<b>16.9</b>
Result from trading	0.0	-2.6
Result from fin. investments – designated at fair value through profit or loss	12.0	0.0
Other operating result	0.0	0.0
<b>Operating income</b>	<b>17.8</b>	<b>14.3</b>
Impairment of financial assets	0.6	0.0
<b>Operating income after impairment</b>	<b>18.4</b>	<b>14.3</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>18.0</b>	<b>14.0</b>
<b>Result before tax from continued operation</b>	<b>18.0</b>	<b>14.0</b>
<b>Result after tax from continued operation</b>	<b>18.0</b>	<b>14.0</b>

As at 31 December 2014, non-controlling shares will be allocated EUR -4.3 million of group net profit for the period (2013: EUR +9 million) with regard to HBInt Credit Management Limited, Jersey, as the minority shareholder does not participate in administrative expenses. Given a special dividend granted to a non-controlling shareholder, non-controlling shareholders are assigned EUR +21.6 million (2013: EUR +11.5 million) of the net profit of Norica Investments Limited, Jersey.

The dividends paid to non-controlling shareholders at HBInt Credit Management Limited amounted to EUR 3.1 million (2013: EUR 3.0 million) and – EUR 10.1 million (2013: EUR 19.3 million) at Norica Investments Limited.

The assets and liabilities of HBInt Credit Management Limited and Norica Investments Limited at 31 December 2014 are 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>

As at 31 December 2013, the assets and liabilities were as follows:

EUR m

	HBInt Credit Management Limited	Norica Investments Limited
Loans and advances to credit institutions	147.4	183.3
Risk provisions on loans and advances to credit institutions	0.0	0.0
Loans and advances to customers	137.0	0.0
Risk provisions on loans and advances to customers	-6.7	0.0
Derivative financial instruments	0.0	1.2
Financial investments – designated at fair value through profit or loss	189.9	0.0
Financial investments – available for sale	67.8	326.7
Other liabilities	-0.2	0.0
<b>Equity</b>	<b>535.1</b>	<b>511.2</b>

The statement of cash flows of HBInt Credit Management Limited and Norica Investments Limited for the current 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	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>

For the 2013 financial year, the statement of cash flows 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	5.7	29.9
Cash flows from investing activities	0.0	0.0
Cash flows from financing activities	-5.7	-29.9
<b>Cash and cash equivalents at end of period (31.12.)</b>	<b>0.0</b>	<b>0.0</b>

### 8.3. Investments in joint ventures

Heta Asset Resolution AG holds a 50% interest in Hypo-BA Leasing Süd GmbH<sup>13</sup>, which is classified as a joint venture according to IFRS 11. This company is purely a holding company with subsidiaries located in Croatia and Slovenia that process real estate lease agreements. The group's investment in Hypo-BA Leasing Süd GmbH is included in the consolidated financial statements using equity consolidation.

The reconciliation of the financial information with the carrying amount of the investment in Hypo-BA Leasing Süd GmbH as at 31 December is as follows:

EUR m

	2014	2013
Current asset	0.8	0.8
Non-current assets	2.0	2.0
Provisions	0.0	0.0
<b>Equity</b>	<b>2.8</b>	<b>2.8</b>
Percentage interest	50.0%	50.0%
<b>Book value of the investment</b>	<b>1.4</b>	<b>1.4</b>

The income statement of Heta-BA Leasing Süd GmbH as at 31 December of the financial year is as follows:

EUR m

	2014	2013
Other operating expenses	0.0	0.0
Financial expenses	0.0	0.3
<b>Profit from ordinary activities</b>	<b>0.0</b>	<b>0.2</b>
Taxes on income	0.0	0.0
<b>Net income</b>	<b>0.0</b>	<b>0.2</b>
Attributable to equity holders of parent	0.0	0.1

Heta has a 20% stake in Hypo Park Dobanovci d.o.o. Beograd and 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

	2014	2013
Current asset	0.1	0.1
Non-current assets	10.4	11.0
Current liability	-23.2	-21.8
Provisions	0.0	0.0
<b>Equity</b>	<b>-12.8</b>	<b>-10.8</b>
Percentage interest	50.0%	0.0%
<b>Book value of the investment</b>	<b>0.0</b>	<b>0.0</b>

<sup>13</sup> "Hypo-BA Leasing Süd GmbH" was renamed "Heta-BA Leasing Süd GmbH" effective 3 March 2015.

The income statement of Hypo Park Dobanovci d.o.o. Beograd for the past two financial year is as follows:

EUR m

	2014	2013
Other operating expenses	-0.1	0.0
Financial expenses	-2.6	-1.6
<b>Profit from ordinary activities</b>	<b>-2.6</b>	<b>-1.6</b>
Taxes on income	0.0	0.0
<b>Net loss</b>	<b>-2.6</b>	<b>-1.6</b>
Attributable to equity holders of parent	-1.3	0.0

The reconciliation of the financial information with the carrying amount of the investment in Landtrust d.o.o. Beograd for the past two financial years is as follows:

EUR m

	2014	2013
Current asset	0.0	0.0
Non-current assets	2.0	2.1
Current liability	-0.1	-0.1
Provisions	0.0	0.0
<b>Equity</b>	<b>1.9</b>	<b>2.0</b>
Percentage interest	50.0%	0.0%
<b>Book value of the investment</b>	<b>0.7</b>	<b>0.0</b>

The income statement of Landtrust d.o.o. Beograd as at 31 December is as follows:

EUR m

	2014	2013
Other operating expenses	0.0	-1.0
Financial expenses	0.0	0.0
<b>Profit from ordinary activities</b>	<b>0.0</b>	<b>-1.0</b>
Taxes on income	0.0	0.0
<b>Net income/loss</b>	<b>0.0</b>	<b>-1.0</b>
Attributable to equity holders of parent	0.0	0.0

#### 8.4. Shares in an associated company

Bergbahnen Nassfeld Pramollo AG operates ski lifts in Carinthia and is included in the consolidated financial statements at 29.5% using equity consolidation. Since the financial statements are prepared for 30 April, the reporting date differs from that of the group.

The reconciliation of the financial information with the carrying amount of the investment in Bergbahnen Nassfeld Pramollo AG is as follows:

	EUR m	
	30.4.2014	30.04.2013*
Current asset	2.3	1.5
Non-current assets	36.4	35.6
Current liability	-6.2	-4.9
Non-current liability	-10.9	-11.6
Provisions	-0.3	-0.1
<b>Equity</b>	<b>21.3</b>	<b>20.4</b>
Percentage interest	29.5%	29.5%
<b>Book value of the investment</b>	<b>0.0</b>	<b>4.5</b>

The income statement of Bergbahnen Nassfeld Pramollo AG is as follows:

	EUR m	
	1.5.2013 - 30.4.2014	1.5.2012 - 30.4.2013
Revenues	13.4	12.5
Own work capitalized	0.1	0.2
Other income	1.4	1.3
Cost of materials	-4.7	-4.8
Personnel expenses	-0.2	-0.2
Depreciation and amortization	-3.6	-3.5
Other operating expenses	-4.3	-4.1
Financial expenses	-0.6	-0.7
<b>Profit from ordinary activities</b>	<b>1.6</b>	<b>0.8</b>
Taxes on income	-0.1	0.0
<b>Net income/loss</b>	<b>1.5</b>	<b>0.8</b>
Attributable to equity holders of parent	0.4	0.2

## (9) Discontinued operations

### 9.1. Carve-out of the Italian banking subsidiary (HBI)

In meeting the statutory requirements of the Federal Law on the Creation of a Wind-Down Unit (GSA) and the HBI-Bundesholdingengesetz, Heta had to transfer all shares it held in Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) to HBI-Bundesholding AG (HBI-BH). A total of 318,187,083 shares in HBI with 99.9% of the capital stock were therefore sold to HBI-BH with the share purchase agreement dated 8 September 2014 ("carve-out"). Heta also has liabilities vis-à-vis HBI-BH in the event of a negative outcome of the criminal proceedings which is pending for HBI in connection with the Italian joint liability law. Heta recognised provisions for possible future utilisation. (See note (130.4.3) Proceedings related to loans and participations). The closing of the transaction took place after receiving approval from Banca d'Italia on 30 October 2014, so that HBI was excluded from the Heta group on that day.

The share purchase agreement calls for Heta as the seller to pay HBI-BH as the buyer the negative enterprise value of HBI in the amount of EUR -2.4 million determined on 30 June 2014. It also foresees that the buyer, as at the closing of the agreement, is responsible for ensuring that the Tier 1 minimum capital ratio prescribed by Banca d'Italia is maintained.

To meet this obligation, HBI-BH needs sufficient external funds. At present the Executive Board of Heta cannot judge to what degree the owner of HBI-BH (Republic of Austria) will undertake capital measures to ensure that HBI-BH is capable of fulfilling this obligation.

The agreement also provides for the parties to engage an audit company as soon as possible following the closing; this audit company was required to evaluate HBI by 31 October 2014. Based on HBI's then valid business plans and not taking into account Heta's low-interest rate refinancing lines, the company was valued at EUR -12.3 million. The contractually agreed settlement was paid to HBI-BH on the basis of the expert opinion presented on 25 October 2014.

The existing refinancing lines of Heta to HBI as at 31 December 2014 are around EUR 1.6 billion (nominal value) as at 31 December 2014 and have a historically low interest rates, which remained unchanged following the sale to HBI-BH in the fourth quarter of 2014. Within the scope of the carve-out, Heta has undertaken to provide HBI with a so-called emergency liquidity facility of up to EUR 0.3 billion in the event of an outflow of deposits. The emergency liquidity line has been deferred by the moratorium since imposed by the Austrian Financial Market Authority (FMA) as the resolution authority and can therefore no longer be utilised by HBI. Due to the Federal Act on the Recovery and Resolution of Banks (BaSAG) moratorium Heta is no longer able to meet its contractual obligations which is leading to an ongoing deterioration in HBI's liquidity situation, which without external support is unable to offset the constant outflow of deposits.

HBI is required to repay or replace its refinancing lines within the scope of its wind-down procedure

In terms of the recoverability of these receivables a figure needed to be recognised in the financial statements by Heta for its valuation which would be realistic according to a regulatory wind-down procedure in Italy. In this context provisions for some EUR 0.8 billion were set aside – in addition to taking into account the effect resulting from the below market interest rate of EUR 0.4 billion.

Heta is currently in discussions with representatives of the Republic of Austria as to how to prevent such a procedure in Italy given the current restrictions of the Federal Act on the Recovery and Resolution of Banks (BaSAG) in order to ensure that Heta receives a higher repayment amount for funds tied up with HBI.

The result of discontinued operations includes, among other things, the result of HBI. The presentation of comparative figures from the previous year in the income statement was adjusted in accordance with IFRS 5. The 2014 financial year was characterised by falling interest income due to the discontinuation of new business as well as a continuing very high level of impairment losses.



The income statement of HBI for the first ten months of 2014, when it was still part of the group, is presented in the following table:

EUR m

	1.1. - 31.10.2014	1.1.-31.12.2013
Interest and similar income	64.6	87.5
Interest and similar expenses	-17.3	-32.3
<b>Net interest income</b>	<b>47.3</b>	<b>55.1</b>
Fee and commission income	7.2	13.5
Fee and commission expenses	-3.0	-6.4
<b>Net fee and commission income</b>	<b>4.2</b>	<b>7.2</b>
Gains/losses on financial instruments that are not measured at fair value	0.2	0.4
Result from trading	-0.5	-4.2
Result from hedge accounting	0.0	0.1
Result from fin. investments – designated at fair value through profit or loss	0.0	0.0
Operating income from investment properties	0.0	0.0
Other operating result	-0.9	-111.0
<b>Operating income</b>	<b>50.3</b>	<b>-52.5</b>
Impairment of financial assets	-50.9	-153.8
Impairment of non financial assets	0.0	-24.5
<b>Operating income after impairment</b>	<b>-0.6</b>	<b>-230.8</b>
Personnel expenses	-18.1	-22.7
Other administrative expenses	-15.7	-18.8
Depreciation and amortization on tangible and intangible assets	-2.4	-3.3
<b>Operating expenses</b>	<b>-36.2</b>	<b>-44.8</b>
<b>Operating result</b>	<b>-36.8</b>	<b>-275.6</b>
Reclassification available for sale	0.0	0.0
<b>Deconsolidation</b>	<b>-673.0</b>	<b>0.0</b>
<b>Result before tax from discontinued operation</b>	<b>-709.8</b>	<b>-275.6</b>
Taxes on income	0.0	43.2
thereof with respect to current income	10.5	43.2
thereof with respect to effects from the deconsolidation	-10.5	0.0
<b>Result after tax from discontinued operations</b>	<b>-709.8</b>	<b>-232.4</b>

The consolidated statement of comprehensive income includes HBI's annual profit after tax from discontinued operations of EUR -36.8 million as well as the deconsolidation result of EUR -673.0 million and related income taxes of EUR -10.5 million. The deconsolidation result comprises the effect from the below market interest payable on existing loans and advances to the former Italian subsidiary bank at EUR -416.0.

The assets of HBI at the moment of deconsolidation are as follows:

EUR m

	<b>31.10.2014</b>
<b>ASSETS</b>	
Cash and balances at central banks	4.8
Loans and advances to credit institutions	84.8
Risk provisions on loans and advances to credit institutions	0.0
Loans and advances to customers	2,357.5
Risk provisions on loans and advances to customers	-221.3
Trading and other financial investments	49.5
Investments in companies accounted for at equity	0.0
Investment properties	0.7
Intangible assets	0.1
Tangible assets	32.9
Tax assets	68.7
Other assets	106.1
Risk provisions on loans and advances on other assets	0.0
<b>Total assets</b>	<b>2,484.0</b>
<b>LIABILITIES</b>	
Liabilities to credit institutions	1,675.4
Liabilities to customers	335.4
Liabilities evidenced by certificates	131.3
Trading liabilities	0.0
Derivative financial instruments	0.0
Provisions	14.9
Tax liabilities	1.2
Other liabilities	70.3
Subordinated capital	0.0
Hybrid capital	0.0
<b>Total liabilities</b>	<b>2,228.5</b>

The statement of cash flows of HBI for the relevant periods is composed as follows:

EUR m

	<b>2014</b>	<b>2013</b>
<b>Cash and cash equivalents at end of previous period (1.1.)</b>	<b>6.1</b>	<b>8.7</b>
Cash flows from operating activities	-0.4	-186.0
Cash flows from investing activities	-0.9	-1.6
Cash flows from financing activities	0.0	185.0
<b>Cash and cash equivalents at end of period (31.10./31.12.)</b>	<b>4.8</b>	<b>6.1</b>

The development of the available-for-sale reserve of HBI is as follows:

EUR m

	<b>1.1. - 31.10.2014</b>	<b>1.1.-31.12.2013</b>
<b>Gains/losses from discontinued operation</b>	<b>-0.4</b>	<b>0.4</b>
Gains/losses on available-for sale evaluation	-0.1	0.7
Effects of deferred taxes	0.0	-0.2
Gains/losses on available-for sale disposal (reclassification)	-0.3	0.0
Effects of deferred taxes	0.0	0.0
Gains/losses on available-for sale impairment (reclassification)	0.0	0.0
Effects of deferred taxes	0.0	0.0

## 9.2. SEE network

### 9.2.1. CARVE-OUT OF THE SEE NETWORK AND THE SIGNING OF A PURCHASE AGREEMENT FOR THE REPRIVATISATION OF THE SEE NETWORK

In addition to the privatisation of the SEE network, the shares held in HGAA had to be transferred from the then Hypo Alpe Adria Group to a third party as a condition for the transformation of the then Hypo Alpe-Adria-Bank International AG into a wind-down unit pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA). The Federal Law on the Creation of a Wind-Down Unit (GSA) provides for the transfer of the shares to the Republic of Austria or another federal institution.

The signing and closing relating to the sale of HGAA were concluded on 30 October 2014 pursuant to the resolution of the general shareholders' meeting of then Hypo Alpe-Adria-International AG held on 16 October 2014. The share purchase agreement (also referred to as the SEE carve-out agreement) relating to all of the HGAA shares held by Heta was concluded with Finanzmarkteteiligung Aktiengesellschaft des Bundes (FIMBAG), which holds the shares in HGAA in trust for the Republic of Austria.

HGAA, including its subsidiary banks in South-East Europe, left the scope of consolidation of Heta following the conclusion of the share purchase agreement and the delivery of the global note to FIMBAG, meaning that all risks and opportunities relating to HGAA were transferred to the new owner from this date. Taking into account the supplementary agreements dated 18, 25 November 2014 (first supplement) and 22 December 2014 (second supplement), Heta was authorised within the scope of the carve-out (power of attorney) to sell the shares in HGAA AG to the highest bidder.

Following intensive negotiations, especially at the end of the fourth quarter of 2014, the consortium of bidders, consisting of Advent International Corporation and EBRD, came out as the winners from an open, transparent and unconditional disposal process.

The power of attorney was initially limited until 20 and 27 November 2014 (extension pursuant to the first supplementary agreement). The negotiations on the Republic of Austria's hedge between the Republic of Austria and the consortium of bidders, Advent/EBRD, were not successfully concluded by 27 November 2014. However, the offer authorised by the bidders at the end of October 2014 was not accepted due to this fact. Heta did not have a power of attorney after this date to sell the SEE network, which was then owned by FIMBAG. FIMBAG then continued the sales process.

In this case, the carve-out agreement provided that the wind-down scenario takes effect when determining the purchase price. This means that the value of the SEE network would be determined on the basis of the expected outflows from the winding-down of the SEE banks. Internal and external analyses indicated that Heta would likely have seen considerable losses in that case. Heta informed the public of this fact in an ad hoc announcement.

The general shareholders' meeting of Heta held on 22 December 2014 approved the conclusion of the second supplementary agreement on the share purchase price agreement dated 30 October 2014. The second supplementary agreement between Heta and FIMBAG again granted power of attorney and integrated Heta in the sale scenario once again. Heta then signed the Share Purchase Agreement (SPA) on that basis with Advent/EBRD regarding the sale of shares in HGAA.

Pursuant to contractual stipulations, the purchase price agreed with FIMBAG pursuant to the SEE carve-out agreement dated 30 October 2014 and FIMBAG's standard profit participation were determined by an independent auditor. With regard to the agreed purchase price it should be noted that this was determined on the basis of the expectations as at the date of the carve-out with regard to the possible risks arising from the SEE network. No adjustments are planned if the risks are not as extensive as initially planned. A draft of the expert opinion was presented on 3 June 2014; both parties have up to 14 days, that is until 17 June 2015, to state whether they agree with the results of the assessment. There is no evidence at present that the other party plans to exercise its contractually agreed veto. The commission to be paid to the Republic of Austria for the takeover of counter guarantees (hedging instrument) is also based on this expert opinion by the independent assessor and was calculated actuarially.

The SEE network must be wound down in the event that the sale falls through before the end of the deadline set by the European Commission (closing deadline: 31 December 2015); this would place high financial burdens on Heta. In this case, the purchase price mechanism of the carve-out agreement would be based on a negative wind-down scenario for Heta, rather than a sales scenario.

### 9.2.2. KEY ASPECTS OF THE SALES AGREEMENT FOR THE SEE NETWORK

The conclusion of the sales agreement with the consortium of bidders, consisting of Advent International Corporation and the European Bank for Reconstruction and Development (EBRD), was preceded by comprehensive internal deliberations at Heta. The Executive Board of Heta assessed the advantages of the sale of the SEE network compared to the wind-down of the SEE network on the basis of the opinions of internal and external experts and weighed this out together with Heta's Supervisory Board. The Executive Board came to the unequivocal conclusion that the sale of the SEE network was more advantageous than a winding-down. In a further step, Heta's Executive Board conducted commercial and legal analyses of the final offers received during the sales process and compared them. It was on this basis that Heta's general shareholders' meeting held on 22 December 2014 approved the sale to the consortium of bidders, consisting of Advent/EBRD.

The sales agreement regulates the sale and the transfer of all shares in HGAA to the consortium of bidders on the basis of FIMBAG's power of attorney. The conclusion of the sales agreement is 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, the extension of HGAA's banking license, the approval by key contractual partners, the provisions of a specified refinancing volume at the level of HGAA through Heta as well as the lack of a material adverse change event. These conditions precedent must be fulfilled by 30 June 2015. Heta expects the transaction to be completed in mid-2015.

The sales agreement provides for a basic purchase price subject to the following purchase price adjustment mechanisms: the first adjustment of the basic purchase price will be made on the basis of the consolidated equity of the SEE network pursuant to the consolidated financial statements as at 31 December 2014 compared to a fixed reference value (net asset value adjustment). The second adjustment will be made on the basis of a comparison of the actual retail provisions for the 2015 financial year compared to budgeted provisions (retail LLP adjustment). Upper and lower limits are in place for the final purchase price, i.e. the purchase price after adjustments.

The sales agreement provides for an additional comprehensive list of guarantees. Heta considers this list of guarantees to be acceptable given the history of Heta and the SEE network and the public discussion concerning these, as well as the business area in which the SEE network operates. Guarantee claims are subject to normal liability rules, particularly liability limitations. Heta's liability for breaches of warranties are generally limited to the purchase price (maximum guarantee amounts can only be increased under certain circumstances). The company can be held liable for breaches of warranty until 30 June 2016. The exemptions provided by Heta can be split into two categories: "category 1" mainly relates to risks attributable to Heta and its past and can generally be triggered out of the transaction. "Category 2" relates primarily to risks originating in or that arising from the SEE network. Exemption claims are subject to normal liability rules, particularly liability limitations. Heta's guarantee for exemption claims per category is limited; however, the maximum guarantee far exceeds the highest possible purchase price. The company can be held liable for exemption claims until 2022 (category 1) and 2020 (category 2).

Claims under the sales agreement, particularly claims relating to breaches of warranties or from exemptions, must generally be met by offsetting these against the outstanding purchase price tranches and then against the lines of credit in place between Heta and HGAA, even following the sale. The amounts can only be offset if Heta is found to have been liable (e.g., by means of a judgment, arbitration or acknowledgement). Claims are to be paid in cash in the event that the amounts cannot be offset (for example, if all purchase price tranches have already been paid or because the lines of credit have already been repaid in full).

Some of the bidder consortium's claims against Heta under the sales agreement, particularly claims relating to breaches of warranties or from exemptions, are hedged by means of a hedging instrument of the Republic of Austria. The hedging instrument is generally organised as a guarantee. Under certain conditions, the hedging instrument is transformed into the Republic of Austria being directly liable towards the buyer. Heta is required to pay an appropriate fee to the Republic of Austria for this hedging instrument on the basis of the stipulation included in the SEE network carve-out agreement. The buyer's claims against Heta under the sales agreement, particularly claims relating to breaches of warranties or from exemptions, are also hedged by means of a pledge of the lines of credit granted to HGAA for the benefit of the buyer.

The sales agreement grants the bidder consortium the right to transfer certain loans and advances and other assets and risk positions up to a value of EUR 800 million (net statement of financial position as at 31 December 2014) to Heta or one of its nominated subsidiaries ("buyer brush option"). Retransfers must be asserted by the end of October 2015 and implemented by no later than March 2016. The lines of credit granted to HGAA will be reduced as consideration for the retransfer of assets and the risk positions.

Pursuant to contractual provisions, Heta is obligated to continue to maintain the lines of credit in place as at 31 December 2014 (EUR 2.0 billion; expandable up to EUR 2.4 billion). The conditions will be raised gradually up to a normal banking financing level. The lines of credit, which are not offset against exemption or guarantees, must be repaid by no later than 2022, taking into account the returned assets and risk positions.

Corresponding provisions were made in the consolidated financial statements for 2014 for the bidder consortium's expected claims relating to guarantees and exemptions as well as for the shift in credit risks resulting from the retransfer of credit portfolios.

A forecasted repurchase volume was estimated and the portfolio was assessed within the scope of the AQR when determining the extent of these credit risks. Due account is taken of the fact that loans and advances to the SEE network bear low interest rates and therefore an impairment had to be recognised in the amount of the difference between the contractual interest rate premiums and the minimum interest rate discounts defined in the internal measurement guidelines. Furthermore, provisions were made for the profit participation which must be paid to FIMBAG for enabling deregulation as well as the commission fee to be transferred to the Republic of Austria for granting the hedging instrument.

There is uncertainty for the 2015 financial year as to whether the sales agreement will in fact be concluded. The SEE network must be wound down in the event that the sale falls through before the end of the deadline set by the European Commission (closing deadline: 31 December 2015); this would place additional high financial burdens on Heta. In this case, the purchase price mechanism of the carve-out agreement would be based on a negative wind-down scenario for Heta, rather than a sales scenario. In such a scenario, it is highly likely that the nominal value of the loans and advances to HGAA of EUR 2.0 billion as at 31 December 2014 will be completely irrecoverable, which means that additional losses of up to EUR -1.0 billion are to be expected depending on the loans and advances still to be paid at the time of this decision.

The presentation of comparative figures from the previous year in the income statement was adjusted in accordance with IFRS 5.

The income statement of the SEE network for the first ten months of 2014 is presented in the following table. The operating result was negative at EUR -72.6 million; the net interest result was down year on year due to the maturity of the existing interest-bearing business and the drop in new business. Risk provisions were also allocated again, although new allocations were down year on year.

EUR m

	1.1. - 31.10.2014	1.1.-31.12.2013
Interest and similar income	288.3	440.7
Interest and similar expenses	-133.8	-219.5
<b>Net interest income</b>	<b>154.5</b>	<b>221.2</b>
Fee and commission income	60.9	80.2
Fee and commission expenses	-10.7	-17.3
<b>Net fee and commission income</b>	<b>50.1</b>	<b>62.9</b>
Gains/losses on financial instruments that are not measured at fair value	5.4	1.9
Result from trading	14.1	14.5
Result from hedge accounting	0.0	0.0
Result from fin. investments – designated at fair value through profit or loss	0.0	0.0
Operating income from investment properties	-0.1	-0.2
Other operating result	-5.9	-28.3
<b>Operating income</b>	<b>218.1</b>	<b>272.0</b>
Impairment of financial assets	-132.4	-345.8
Impairment of non financial assets	1.0	-14.4
<b>Operating income after impairment</b>	<b>86.7</b>	<b>-88.3</b>
Personnel expenses	-72.5	-90.7
Other administrative expenses	-71.6	-93.9
Depreciation and amortization on tangible and intangible assets	-15.2	-19.0
<b>Operating expenses</b>	<b>-159.3</b>	<b>-203.6</b>
<b>Operating result</b>	<b>-72.6</b>	<b>-291.9</b>
<b>Result before tax from continued operation</b>	<b>-72.6</b>	<b>-291.9</b>
Reclassification available for sale	2.3	0.0
Reclassification foreign currency reserve	-145.5	0.0
<b>Deconsolidation</b>	<b>-2,313.5</b>	<b>0.0</b>
<b>Result before tax from discontinued operation</b>	<b>-2,529.3</b>	<b>-291.9</b>
Taxes on income	18.5	8.5
thereof with respect to current income	-3.7	8.5
thereof with respect to effects from the deconsolidation	22.2	0.0
<b>Result after tax from discontinued operations</b>	<b>-2,510.8</b>	<b>-283.5</b>

Next to the current profit before tax according to IFRS of EUR -72.6 million (2013: EUR -291.9 million), the consolidated statement of comprehensive income includes the disposal result of the SEE network in the amount of EUR -2,313.5 million in the item of annual profit after tax from discontinued operations. The effects of reclassifying the available-for-sale reserve of EUR 2.3 million, the currency reserve of EUR -145.5 million and income taxes of EUR 18.5 million were included in the item of annual result after tax from discontinued operations as well.

The assets of the SEE network are as follows:

EUR m

	31.10.2014
<b>ASSETS</b>	
Cash and balances at central banks	726.6
Loans and advances to credit institutions	679.0
Risk provisions on loans and advances to credit institutions	-0.1
Loans and advances to customers	5,922.3
Risk provisions on loans and advances to customers	-482.2
Trading and other financial investments	1,179.7
Investments in companies accounted for at equity	0.0
Investment properties	19.7
Intangible assets	22.9
Tangible assets	105.6
Tax assets	29.3
Other assets	116.8
Risk provisions on loans and advances on other assets	-1.4
<b>Total assets</b>	<b>8,318.2</b>
<b>LIABILITIES</b>	
Liabilities to credit institutions	857.1
Liabilities to customers	6,045.4
Liabilities evidenced by certificates	7.6
Trading liabilities	4.2
Derivative financial instruments	35.6
Provisions	38.3
Tax liabilities	0.7
Other liabilities	83.5
Subordinated capital	0.0
Hybrid capital	0.0
<b>Total liabilities</b>	<b>7,072.4</b>

The statement of cash flows of the SEE network was as follows:

EUR m

	2014	2013
<b>Cash and cash equivalents at end of previous period (1.1.)</b>	<b>737.5</b>	<b>707.4</b>
Cash flows from operating activities	157.1	216.8
Cash flows from investing activities	-52.8	110.1
Cash flows from financing activities	-115.3	-296.8
<b>Cash and cash equivalents at end of period (31.10./31.12.)</b>	<b>726.6</b>	<b>737.5</b>

The development of the available-for-sale reserve of the SEE network is as follows:

EUR m

	1.1. - 31.10.2014	1.1.-31.12.2013
<b>Gains/losses from discontinued operation</b>	<b>-0.6</b>	<b>0.4</b>
Gains/losses on available-for sale evaluation	4.9	-3.1
Effects of deferred taxes	0.2	-0.3
Gains/losses on available-for sale disposal (reclassification)	-6.8	-1.4
Effects of deferred taxes	0.0	0.1
Gains/losses on available-for sale impairment (reclassification)	1.1	5.1
Effects of deferred taxes	0.0	0.0

### 9.3. Winding down investment companies and portfolio sales

The systematic wind-down of the investment portfolio continued and therefore the complexity of Heta was further reduced in the 2014 financial year. The sale of the Ukrainian leasing company was concluded in the second quarter of 2014; this resulted in the end of Heta's business activities in Ukraine.

A spa hotel in Slovenia – Terme Spa Rogaska d.d. – was sold to the highest bidder in December 2014 (signing); the closing of this transaction was concluded following the transfer of all supplier agreements and employees as well as the registration of the transaction in the land registry in March 2015. The measurement and reporting requirements pursuant to IFRS 5 continue to apply for this hotel holding.

The criteria imposed by IFRS 5 for the available-for-sale investments Grand Hotel Lav d.o.o. and for the Croatian real estate project "Skiper" were met again as at 31 December 2014. As expected, the sales processes have not yet been concluded, although the exclusively phase proved positive. The assets and liabilities of these companies are reported separately in the 2014 consolidated financial statements pursuant to IFRS 5. An available-for-sale aircraft of HETA Luftfahrzeuge Leasing GmbH<sup>14</sup> as well as various other assets, including a production facility in Austria – whereby the criteria of IFRS 5 are also complied with – are also reported separately.

The assets of Serbian IT company, Zajednički Informacioni Sistem d.o.o. Beograd, which had attended to the core bank applications of the former subsidiary banks in Serbia, Bosnia and Herzegovina, and Montenegro, was largely sold in 2014. The remaining assets and liabilities of the company were accounted for pursuant to the provisions of IFRS 5 and reported separately in the consolidated financial statements as at 31 December 2014. For more detailed information, please refer to note (76) Assets held for sale.

A project team was established in early 2014 to deal with the structured processing of future portfolio sales, with the aim of compiling and marketing additional NPL portfolios. The first interregional prototype sales process to wind-down credit portfolios was conducted in autumn 2014. A non-performing retail portfolio with more than 20,000 individual agreements in the SEE region was sold within the scope of the "DINARA" project. This portfolio sale is crucial for the implementation of Heta Asset Resolution AG's wind-down activities.

## (10) Business combinations and acquisitions

Tridana d.o.o. is a project company headquartered in Ljubljana, whose business activities focus on the construction and sales of real estate, and that was established to construct a commercial and residential complex in Ljubljana.

The effects from the first-time consolidation on the consolidated financial statements of Heta are as follows:

EUR m

	TRIDANA d.o.o.
Date of acquisition	31.3.2014
Acquired share (direct in %)	100.0%
<b>Revalued assets</b>	<b>47.9</b>
<b>Revalued liabilities</b>	<b>47.9</b>
<b>Net assets</b>	<b>0.0</b>
Acquisition costs	0.0
<b>Remaining goodwill/badwill</b>	<b>0.0</b>

EUR m

	TRIDANA d.o.o.	Purchase Price Allocation Adjustments	TRIDANA d.o.o. after Purchase Price Allocation Adjustments
<b>Assets</b>			
Loans and advances to credit institutions	0.5	0.0	0.5
Investment properties	30.7	-13.0	17.7
Tangible assets	0.4	-0.1	0.3
Other assets	51.4	-22.0	29.4
<b>Total assets</b>	<b>83.0</b>	<b>-35.1</b>	<b>47.9</b>

<sup>14</sup> "Hypo Luftfahrzeuge Leasing GmbH" was renamed "Heta Luftfahrzeuge Leasing GmbH" effective 30 December 2014.



Other assets primarily include apartments, which are held for sale and were assessed at market value within the scope of the purchase price allocation.

EUR m

Liabilities	TRIDANA d.o.o.	Purchase Price Allocation Adjustments	TRIDANA d.o.o. after Purchase Price Allocation Adjustments
Liabilities to affiliated companies	81.5	-39.5	42.0
Liabilities to customers	9.5	-4.2	5.3
Other liabilities	0.6	0.0	0.6
Equity	-8.6	8.6	0.0
<b>Total equity and liabilities</b>	<b>83.0</b>	<b>-35.1</b>	<b>47.9</b>

The 2014 consolidated net income includes a loss of EUR -33.5 million generated by the company since it was included in the scope of consolidation. This loss mainly stems from impairments related to investment properties.

### (11) 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% 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.

### (12) Foreign currency translation

Heta applies IAS 21 to foreign currency translation. All foreign currency monetary assets and liabilities are translated applying closing rates. Resulting exchange differences are generally recognised in profit and loss in the item result from trading, unless they refer to net investment in a foreign entity.

Open forward transactions are translated at forward rates at the closing date.

Income and expense is translated at the average rates for the period, as long as these do not differ significantly from the actual exchange rates. The resulting exchange differences are reported in other comprehensive income (OCI) under foreign currency reserve. The entry for a foreign operation in other comprehensive income (OCI) is to be reclassified in the income statement in the event of the sale of the foreign operation.

Exchange differences attributable to non-controlling interest are shown under non-controlling interest.

The functional currency of the two leasing subsidiaries in Serbia and Blok 67 Associates d.o.o. Beograd, which was consolidated for the first time in 2013, is the euro rather than the local currency (RSD) and conversion of monetary items therefore takes into account exchange rate fluctuation between the euro and the respective currency. Non-monetary items are recognised as EUR assets. For all other companies, the local currency is the functional currency.

IAS 29 "Financial Reporting in Hyperinflationary Economies" is not relevant to Heta and has therefore not been applied.

The following rates published by the European Central Bank (ECB) and Oesterreichische Nationalbank (OeNB) were used for foreign currency translation of the foreign financial statements:

Foreign currency translation	closing date		closing date	
	31.12.2014	Average 2014	31.12.2013	Average 2013
<b>Rates in units per EUR</b>	<b>31.12.2014</b>	<b>Average 2014</b>	<b>31.12.2013</b>	<b>Average 2013</b>
Bosnian mark (BAM)	1.95580	1.95580	1.95580	1.95580
Croatian kuna (HRK)	7.65800	7.63420	7.62650	7.57690
Swiss franc (CHF)	1.20240	1.21390	1.22760	1.22740
Serbian dinar (RSD)	120.95830	117.15660	114.64210	113.12670
Hungarian forint (HUF)	315.54000	308.98690	297.04000	297.50000
Bulgarian lev (BGN)	1.95580	1.95580	1.95580	1.95580
Ukrainian hrywnja (UAH)	19.23290	15.63830	11.04150	10.63410
Macedonian denar (MKD)	61.48140	61.62310	61.51130	61.56090

### (13) Adjustment of previous year's figures

As at 31 December 2014, goodwill impairment, which had been reported in other comprehensive income in 2013 (EUR -1.3 million), was reclassified to the impairments of financial and non-financial assets item. Previous year's figures have been adjusted accordingly.

The previous year's income statement was adjusted accordingly based on the provisions of IFRS 5.

The changes to the consolidated financial statements for 2013 described above are shown in the following table. Corresponding to the income statement adjustments, the respective note disclosures have been adapted as well.

EUR m

	Published consolidated financial statements 1.1. - 31.12.2013	IFRS 5	Reclassified	Adjusted consolidated financial statements 1.1. - 31.12.2013
Interest and similar income	1,131.9	-423.9		707.9
Interest and similar expenses	-708.4	147.6		-560.8
<b>Net interest income</b>	<b>423.5</b>	<b>-276.3</b>		<b>147.2</b>
Fee and commission income	93.3	-83.5		9.8
Fee and commission expenses	-42.1	13.4		-28.7
<b>Net fee and commission income</b>	<b>51.2</b>	<b>-70.1</b>		<b>-18.9</b>
Gains/losses on fin. instr. that are not measured at fair value	3.0	-2.3		0.7
Result from trading	0.2	-10.3		-10.1
Result from hedge accounting	-2.9	-0.1		-3.0
Result from fin. investments – designated at fair value through profit or loss	55.1	0.0		55.1
Operating income from investment properties	21.4	0.2		21.6
Other operating result	-244.6	139.4	1.3	-103.9
<b>Operating income</b>	<b>307.0</b>	<b>-219.5</b>	<b>1.3</b>	<b>88.8</b>
Impairment of financial assets	-1,375.6	499.7		-875.9
thereof financial assets – at costs (risk provision)	-1,362.1	492.0		-870.1
thereof financial assets– available for sale	-10.9	5.0		-5.9
thereof financial assets – held to maturity	-2.6	2.6		0.0
Impairment of non financial assets	-288.6	38.9	-1.3	-251.0
<b>Operating income after impairment</b>	<b>-1,357.2</b>	<b>319.1</b>		<b>-1,038.2</b>
Personnel expenses	-211.6	113.4		-98.1
Other administrative expenses	-192.5	112.7		-79.7
Depreciation and amortization on tangible and intangible assets	-35.7	22.3		-13.4
<b>Operating expenses</b>	<b>-439.7</b>	<b>248.5</b>		<b>-191.3</b>
<b>Operating result</b>	<b>-1,796.9</b>	<b>567.5</b>		<b>-1,229.4</b>
Result from companies accounted for at equity	-1.4	0.0		-1.4
<b>Result before tax from continued operation</b>	<b>-1,798.3</b>	<b>567.5</b>		<b>-1,230.8</b>
Taxes on income	51.7	-51.6		0.1
<b>Result after tax from continued operation</b>	<b>-1,746.6</b>	<b>515.9</b>		<b>-1,230.7</b>
<b>Result after tax from discontinued operations</b>	<b>-96.8</b>	<b>-515.9</b>		<b>-612.7</b>
<b>Result after tax</b>	<b>-1,843.4</b>	<b>0.0</b>		<b>-1,843.4</b>

#### (14) 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.

## (15) Securitisation

Heta no longer has any securitisation transactions following the deconsolidation of Hypo Alpe-Adria S.p.A. (HBI) in October 2014.

## (16) 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
  - c) Held for trading
  - d) 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 (51) 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 on financial assets. The Heta group no longer holds any held to maturity investments following the disposal of the former SEE subsidiary bank in Slovenia, which was the only group company with held to maturity investments in 2014.

#### **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 (see note (65)) 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. The values of the lending and leasing receivables reported under these items were adjusted in line with the provisions of the Federal Law on the Creation of a Wind-Down Entity (GSA) within the scope of the AQR (short-term intention to sell). Please refer to note (5) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA for details on measurement. 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 gains and losses – 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 (excluding 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 on financial assets. Reversals of impairments of debt instruments are recognised in profit or loss in the item impairment on 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 from financial instruments 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 from financial instruments 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 income statement. Inseparable embedded derivatives are measured together with and in the same way as the host contract according to its category.

**(17) Financial instruments: Net gains and losses**

Net gains/losses include net interest income, fair value measurements with and without impact on profit or loss and risk provisions on loans and advances.

**(18) 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 as per 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 financing 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

## (19) 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% to 125%. 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% 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 (16) 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 as at 31 December 2014 as the hedge is no longer effective. The hedges for securities carried under assets and loans with a remaining term of more than five years were leased on the basis of the aims of the wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA), which is currently being prepared. The positive and negative fair values from derivative financial instruments continue to be reported on the statement of financial position; the adjustments previously made to the underlying transactions are recorded over the contractual remaining terms over subsequent periods. The underlying transactions are valued according to the respective valuation categories pursuant to IAS 39, taking into account the Asset Quality Review (see notes (3) Applicable significant accounting policies and (5) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA.

## **(20) 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 (63) Loans and advances to credit institutions and (64) 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 on 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 on non-financial assets.

## **(21) 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.

## **(22) 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.

## **(23) 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.

**(24) 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.

**(25) 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. 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 group subsidiaries by configuring or 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 on financial assets – at cost (risk provisions on loans and advances).

Section 3 (1) of the Federal Law on the Creation of a Wind-Down Unit (GSA) stipulates that the portfolio be wound-down as quickly as possible within the scope of the wind-down targets. As a result, Heta has developed new measurement guidelines and, on the basis of these, reviewed all portfolio wind-down-relevant assets within the group. The values as at 31 December 2014 now 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% by 2018. The increase in specific and general risk provisions resulted in a rise in risk provisioning on the statement of financial position. For more details, please refer to note (5) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA.

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 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 arrears 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% below the amortised cost.

**(26) Derivative financial instruments**

Positive and negative fair 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.

## **(27) 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.

## **(28) 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 premise, so-called market value under special assumptions were used as the comparable figure. For further information, please refer to note (5) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA.

Lease income less 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 on 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.

## **(29) 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.

Acquired goodwill is recognised at cost on the date of acquisition. The straight-line method of depreciation is not applied to goodwill, it is instead subject to annual impairment testing in accordance with IAS 36. More frequent testing is required if events and circumstances indicate that an impairment may have occurred. If and when such tests reveal impairment, impairment is applied on the basis of a discounted cash flow calculation taking into consideration the interest rate which is applied to the respective asset, whereby the asset's individual useful life in the group is also considered. A possible change in the amount of the referential interest rate used as a basis can have a significant effect on the impairment expense and therefore also on the carrying amount of the asset.

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. Scheduled depreciation is booked separately on the income statement and impairments and reversals are included in the position impairments on non-financial assets. Gains and losses from disposals are included in other operating result. The accounting policies used to calculate the recoverable amount at Heta were adjusted taking into account the “gone concern” assumption. For further information, please refer to note (5) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA.

Scheduled depreciation is booked separately on the income statement and impairments and reversals are included in the position impairments on non-financial assets. Gains and losses from disposals are included in other operating result.

### (30) 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 the group, there was no capitalisation of loss carry-forwards for the members of the Heta Asset Resolution AG 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 Asset Resolution AG 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.

### (31) 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 (76) Assets classified as held for sale.

### **(32) 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 depreciation. 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 reduction in value. The measurement result is shown in the statement of comprehensive income in impairments for non-financial assets. Please refer to note (5) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA.

### **(33) 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.

### **(34) Long-term employee provisions**

Heta has both defined contribution 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 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 2.15% (2013: 3.25%) as at 31 December 2014, as well as the consideration of wage and salary increases of the active employees at a rate of 2.3% p.a. (2013: 3%) and an increase in pay to already retired former employees

at a rate of 2.0% p.a. and a fluctuation deduction of 6% (2013: 6.0%). The basic biometric data are taken from the Generations Life Expectancy Tables of the AVO (Austrian Actuarial Society) 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 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 duration of the wind-down plan which is currently being prepared pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA).

### **(35) 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 impairments on financial assets – at cost (risk provisions on loans and advances); please refer to note (5) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA.

### **(36) Provisions for restructuring**

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 (53) Other operating result.

### **(37) Other provisions**

Other provisions are accrued if a past event is likely to translate into a present liability 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.

### **(38) Other liabilities**

This item includes deferred income. Accruals and deferrals are stated at nominal value, while liabilities are stated at amortised cost.

### **(39) 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 (132) Servicing of subordinated capital.

**(40) 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.

**(41) Equity (including non-controlling interests)**

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 reflects changes in fair values – 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 Law on the Creation of a Wind-Down Unit (GSA), section 67 of the Austrian Insolvency Law (IO, insolvency on account of over-indebtedness) does not apply to Heta. The Executive Board is of the view that uncertainties exist (particularly for the period outside the currently applicable moratorium) as to whether it is possible to wind-down Heta in an orderly manner outside of an insolvency.

## Notes to the income statement

### (42) Segment reporting

The basis for segment reporting is provided by IFRS 8 – Operating Segments. Segment reporting is based on the information provided regularly to the Executive Board in its capacity as primary decision-maker in accordance with IFRS 8.7 (so-called management approach). Segmentation may therefore differ from the structure presented in the income statement. The basis for segment reporting is Heta's business structure itself.

The components of the Heta Group changed significantly following the conversion of the company into a wind-down entity pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) and the resulting required sale of HGAA, as well as the sale of Italian subsidiary bank HBI to HBI-BH. One of the effects of this was the loss of individual group segments as well as the conversion of existing segments.

The "SEE network" group units consist of the bank and (the recently established and now former) leasing units in Slovenia, Croatia, Bosnia and Herzegovina, as well as the banks in Serbia and Montenegro, as well as a domestic management holding company. The "SEE network" business segment was sold to FIMBAG at the end of October 2014 within the scope of the carve-out; this segment has therefore been deconsolidated and has not been a component of the Heta Group since this date. The "Hypo Italy" segment represents (former) Italian banking subsidiary Hypo Alpe-Adria-Bank S.p.A. (HBI), which was transferred to external company HBI-Bundesholding AG (HBI-BH) in October 2014. Pursuant to the decision by the EU, HBI has been positioned as a wind-down company since mid-2013, meaning that no new loans may be granted to customers and that customer deposits have been severely restricted. These limitations remain in force, even now that this company is no longer part of Heta.

The "Holding" segment consists of Heta Asset Resolution AG, non-controlling companies HBInt Credit Management Ltd. (no longer included in the scope of consolidation) and Norica Investment Ltd., real estate company Centrice Real Estate GmbH, in which the "performing real estate portfolio" has been bundled, as well as participations, which are allocated to tourism and real estate and not to the banking or leasing business and are set to be sold.

The "Asset Resolution" segment combines all group leasing companies which are active in Croatia, Germany, Austria, Hungary, Macedonia, Montenegro, Bulgaria, Bosnia and Herzegovina, Serbia and Italy and are set to be wound down. Non-performing wind-down portfolios are also included in this segment. These were separated from the SEE bank network in Bosnia and Herzegovina, Montenegro, Slovenia, Serbia and Croatia and will be wound down.

The "Consolidation" division includes effects from the consolidation of various business segments.

The structure of the segment reporting now corresponds to the structure as presented internally to the Executive Board since the carve-out. The comparative figures for 2013 were adapted to this reporting format as well.

#### 42.1. SEE network

The signing and closing relating to the sale of HGAA were concluded on 30 October 2014 pursuant to the resolution of the general shareholders' meeting of then Hypo Alpe-Adria-International AG held on 16 October 2014. For further information, please refer to note (9.2.1) Carve-out of the SEE network and the signing of a purchase agreement for the reprivatization of the SEE network.

The income statement of the SEE network for the first ten months of 2014 shows a positive operating result of EUR 58.8 million; the net interest result was down year on year due to the maturity of the existing interest-bearing business and the drop in new business. Risk provisions were also allocated again, although new allocations were down year on year. Alongside current profit before taxes according to IFRS of EUR -72.6 million (2013: EUR -291.9 million), the consolidated statement of comprehensive income includes the deconsolidation result of the SEE network in the amount of EUR -2,313.5 million in the item of annual profit after taxes from discontinued operations. The effects of reclassifying the available-for-sale reserve of EUR 2.3 million and income taxes of EUR 18.5 million were included in the item of annual result after taxes from discontinued operations as well. Provisions for foreign currency translation also have to be released within the scope of the deconsolidation; this had a negative impact on the income statement (EUR -145.5 million).

At the time of the carve-out (31 October 2014), the SEE network reported assets of EUR 8.4 billion. The deconsolidation means that these assets will no longer be part of the Heta Group. The lines of credit granted to the SEE network by Heta Asset Resolution AG remain in place and are now reported as loans and advances to third parties. Loans and advances to HGAA from lines of credit amounted to EUR 2.0 billion as at 31 December 2014. See note (9.2) SEE network.



#### 42.2. Hypo Italy

Heta was required to transfer all of its shares in HBI to HBI-BH so as to comply with the statutory provisions of the Federal Law on the Creation of a Wind-Down Unit (GSA) and the Federal Law on the establishment of a state-owned holding company for HYPO ALPE-ADRIA-BANK S.P.A. (HBI-Bundesholdinggesetz). The closing was completed following approval by Banca d'Italia on 30 October 2014; HBI was excluded for the scope of consolidation of Heta on the same date. See note (9.1) Carve-out of the Italian subsidiary bank (HBI).

The first ten months of the abbreviated 2014 financial year were characterised by falling interest income due to the discontinuation of new business as well as a continuing very great need for risk provisioning. This resulted in a negative segment result after taxes of EUR -26.3 million for the first ten months of 2014.

In addition to an operating result of EUR -36.8 million, the consolidated statement of comprehensive income includes annual profit after taxes as well as deconsolidation result of HBI of EUR -673.0 million.

HBI's total assets as at 31 October 2014 amounted to EUR 2.5 billion; this amount was excluded from the Heta Group following the carve-out. The lines of credit remaining to this company following the deconsolidation of HBI are reported in the consolidated financial statements under loans and advances to credit institutions.

#### 42.3. Asset Resolution

The Asset Resolution segment reported a loss of EUR -2,730.4 million as at 31 December 2014 (2013: EUR -641.2 million). This loss is mainly due to the effects of the remeasurement within the scope of the Asset Quality Review, see note (5) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA, which sees loans and advances, bail-out purchases and investment properties, among others, being subject to remeasurements so as to reflect the provisions of the Federal Law on the Creation of a Wind-Down Unit (GSA). Risk provisions on loans and advances amount to EUR -2,233.2 million as at 31 December 2014, corresponding to a year-on-year increase of EUR -1,740.0 million. A need for impairment of EUR -492.4 million was also calculated for bail-out purchases and investment properties (2013: EUR -180.2 million).

Net interest income of EUR 85.7 million was generated as at 31 December 2014, down on the amount reported in the previous year (EUR 93.7 million). This is primarily due to the wind-down of the receivables volume and the associated drop in interest income, in spite of the expansion of the NPL portfolio resulting from the portfolio transfers (brush) conducted in 2014. The negative development in interest income is offset by lower interest costs, due in part to the flat interest rate curve. In other comprehensive income, losses mainly result from the sale of the NPL portfolio (Dinara project) and the sale of individual receivables.

The total assets of the Asset Resolution segment fell by EUR 3.6 billion year on year, from EUR 5.7 billion in 2013 to EUR 2.1 billion as at 31 December 2014. Most of this drop was due to the impairment of loans and advances as well as the impairment losses recognised on bail-out purchases and investment properties. Total assets also declined due to the transfer of real estate to Centrice, in which the performing real estate portfolios are bundled. Segment assets increased slightly in Bosnia and Herzegovina as a result of the brush III transfers.

#### 42.4. Holding

The Holding segment reported a loss of EUR -2,975.5 million as at 31 December 2014 (2013: EUR -486.4 million). The greatest effects resulted from high provisions for the credit portfolio and – to a limited extent – impairment losses on the less liquid securities portfolio of Heta Asset Resolution AG and on investment properties bundled in Centrice GmbH. These risk provisions and impairment losses amounted to EUR -2,572.7 million in full year 2014. The result was also negatively impacted by provisions related to the sale of the SEE network. This effect was recognised in the “result from discontinued operations” item (EUR -1,145.2 million). At EUR 771.8 million, the operating result of the Holding segment was up significantly in 2014 (2013: EUR -111.4 million), mainly due to the special effects of Heta Asset Resolution AG. Positive effects were recognised from the Hypo Alpe Adria Restructuring Act (HaaSanG) and the corresponding termination of liabilities of EUR 1,675.3 million as well as from the positive development of the fair value option of EUR +232.0 million.

The reduction in total assets in this segment in 2014 was mainly due to higher impairments as well as depreciation and amortisation and was partially offset by the deconsolidation of the SEE network and Hypo Alpe-Adria-Bank S.p.A. (HBI), as lines of credit granted to HGAA and HBI are now recognised as loans and advances to third parties and are no longer eliminated within the scope of consolidation. An additional increase in segment assets was due to the transfer of real estate (performing real estate portfolio) from other group companies to Centrice. This real estate is expected to be disposed of in the coming two years.

#### 42.5. Consolidation

The losses presented in the Consolidation segment mainly result from losses related to the sales of the SEE network and HBI; these losses are recognised at the level of the group and had a negative effect of EUR -1,973.0 million on the income statement.

## 42.6. Segment presentation

EUR m.

Period 1.1. - 31.12.2014	SEE- Network	Hypo Italy	Hypo Austria	Holding	Asset Resolution	IFRS 5 Re- classificati on	Consolidat ion	Heta Group
<b>Operating income</b>	<b>218.1</b>	<b>50.3</b>	<b>0.0</b>	<b>979.2</b>	<b>-2.7</b>	<b>-268.4</b>	<b>-14.9</b>	<b>961.6</b>
Net interest income	154.5	47.3	0.0	-43.9	85.7	-201.9	5.9	47.7
Net fee and commission income	50.1	4.2	0.0	-15.1	-3.6	-54.3	-0.2	-19.0
Other result	13.5	-1.3	0.0	1,038.3	-84.8	-12.2	-20.6	932.9
<b>Operating expense</b>	<b>-159.3</b>	<b>-36.2</b>	<b>0.0</b>	<b>-207.4</b>	<b>-67.0</b>	<b>195.5</b>	<b>11.7</b>	<b>-262.7</b>
Operating result – prior to risk provisions on loans and advances	58.8	14.1	0.0	771.8	-69.7	-72.9	-3.2	698.9
Impairment of financial assets	-132.4	-50.9	0.0	-2,358.0	-2,233.2	183.2	417.1	-4,174.1
Impairment of non financial assets	1.0	0.0	0.0	-214.7	-492.4	-1.0	-2.7	-709.8
<b>Result after tax from continued operation</b>	<b>-76.3</b>	<b>-26.3</b>	<b>0.0</b>	<b>-1,830.3</b>	<b>-2,730.4</b>	<b>102.6</b>	<b>363.5</b>	<b>-4,197.2</b>
<b>Result after tax from discontinued operations</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-1,145.2</b>	<b>0.0</b>	<b>-102.6</b>	<b>-1,973.0</b>	<b>-3,220.8</b>
<b>Result after tax</b>	<b>-76.3</b>	<b>-26.3</b>	<b>0.0</b>	<b>-2,975.5</b>	<b>-2,730.4</b>	<b>0.0</b>	<b>-1,609.5</b>	<b>-7,418.0</b>
<b>Segment assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,204</b>	<b>2,078</b>	<b>0</b>	<b>2,749</b>	<b>12,031</b>
loans and advances to customers	0	0	0	3,887	5,115	0	-263	8,739
liabilities to customers	0	0	0	2,005	4,667	0	-5,097	1,576
thereof intragroup liabilities	0	0	0	453	4,644	0	-5,097	0

EUR m.

Period 1.1. - 31.12.2013	SEE- Network	Hypo Italy	Hypo Austria	Holding	Asset Resolution	IFRS 5 Re- classificati on	Consolidat ion	Heta Group
<b>Operating income</b>	<b>316.8</b>	<b>-59.8</b>	<b>62.1</b>	<b>44.7</b>	<b>81.9</b>	<b>-319.1</b>	<b>-37.8</b>	<b>88.8</b>
Net interest income	270.5	55.2	37.7	52.7	93.7	-363.4	0.8	147.2
Net fee and commission income	68.5	7.2	14.7	-14.5	-4.2	-90.4	-0.1	-18.8
Other result	-22.2	-122.2	9.7	6.6	-7.6	134.7	-38.4	-39.4
<b>Operating expense</b>	<b>-254.1</b>	<b>-44.4</b>	<b>-50.3</b>	<b>-156.1</b>	<b>-69.2</b>	<b>348.8</b>	<b>34.1</b>	<b>-191.2</b>
Operating result – prior to risk provisions on loans and advances	62.7	-104.3	11.8	-111.4	12.7	29.8	-3.7	-102.4
Impairment of financial assets	-340.1	-153.8	-2.7	-342.1	-493.2	496.6	-40.7	-876.0
Impairment of non financial assets	-14.4	-25.1	0	-5.4	-180.2	39.5	-81.7	-267.3
<b>Result after tax from continued operation</b>	<b>-285.9</b>	<b>-237.7</b>	<b>8.9</b>	<b>-462.3</b>	<b>-641.2</b>	<b>514.7</b>	<b>-143.6</b>	<b>-1,247.1</b>
Result after tax from discontinued operations	0.0	0.0	0.0	-24.1	0.0	-514.7	-57.6	-596.4
<b>Result after tax</b>	<b>-285.9</b>	<b>-237.7</b>	<b>8.9</b>	<b>-486.4</b>	<b>-641.2</b>	<b>0.0</b>	<b>-201.2</b>	<b>-1,843.5</b>
<b>Segment assets</b>	<b>8,553</b>	<b>2,728</b>	<b>0</b>	<b>10,290</b>	<b>5,726</b>	<b>0</b>	<b>-1,079</b>	<b>26,218</b>
loans and advances to customers	6,370	2,632	0	4,456	6,046	0	-215	19,289
liabilities to customers	4,105	408	0	1,610	27	0	-29	6,121
thereof intragroup liabilities	87	23	0	0	0	0	-110	0

The “IFRS 5 Reclassification” column is used to reconcile the current result from discontinued operations (SEE network segment, Hypo Italy and, in figures for the previous year, Hypo Austria) from the current result in the result for the period after

tax from discontinued operations. The segment reporting presented to the group Executive Board does not report the current result of deconsolidated companies in the result from discontinued operations.

#### (43) Interest and similar income

EUR m

	1.1. - 31.12.2014	1.1. - 31.12.2013*
<b>Interest income</b>	<b>502.2</b>	<b>623.2</b>
from loans and advances to credit institutions	62.3	141.2
from loans and advances to customers	208.3	230.4
from bonds, treasury bills and other fixed-interest securities	23.6	36.6
from derivative financial instruments, net	203.2	210.1
from finance leasing	44.5	84.7
Other interest income	4.8	5.0
<b>Total</b>	<b>546.6</b>	<b>707.9</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

Loans and advances to customers also include the income from unwinding in the amount of EUR 120.2 million (2013 adjusted: EUR 116.3 million) as well as fees and commissions with similar interest characteristics.

Interest and similar income breaks down as follows in accordance with IAS 39 categories:

EUR m

	IAS 39 Measurement category	1.1. - 31.12.2014	1.1. - 31.12.2013*
<b>Interest income</b>		<b>546.6</b>	<b>707.9</b>
from loans and advances to credit institutions and customers	LAR	319.1	453.9
from trading assets	HFT	0.0	0.0
from derivative financial instruments, net	HFT (Fair Value Hedges)	203.2	210.1
from financial investments – designated at fair value through profit or loss	FVO	2.0	8.9
from financial investments – available for sale	AFS	21.9	35.0
from financial investments – held to maturity	HTM	0.0	0.0
Other	-	0.4	0.0
<b>Total</b>		<b>546.6</b>	<b>707.9</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

#### (44) Interest and similar expenses

EUR m

	1.1. - 31.12.2014	1.1. - 31.12.2013*
<b>Interest expenses</b>	<b>-445.7</b>	<b>-503.2</b>
for liabilities to credit institutions	-121.8	-115.5
for liabilities to customers	-60.6	-63.1
for debt securities in issue	-217.9	-272.6
for subordinated capital	-43.1	-52.1
from derivative financial instruments, net	0.0	0.0
for other liabilities	-2.3	0.1
<b>Similar expenses</b>	<b>-53.3</b>	<b>-57.5</b>
<b>Total</b>	<b>-498.9</b>	<b>-560.8</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

The interest-like expenses item includes the guarantee commission relating to the state-guaranteed subordinated bond issued at the end of 2012.

Interest and similar expenses break down as follows in accordance with IAS 39 categories:

EUR m

	IAS 39 Measurement category	1.1. - 31.12.2014	1.1. - 31.12.2013*
<b>Interest expenses</b>		<b>-445.6</b>	<b>-503.2</b>
for financial liabilities – designated at fair value through profit or loss	FVO	-27.1	-28.3
for financial liabilities – at cost	Fin. Liabilities At Cost	-418.6	-474.9
<b>Similar expenses</b>		<b>-53.3</b>	<b>-57.5</b>
<b>Total</b>		<b>-498.9</b>	<b>-560.8</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

#### (45) Fee and commission income

EUR m

	1.1. - 31.12.2014	1.1. - 31.12.2013*
Credit business	4.5	7.4
Securities and custodian business	0.0	0.0
Bank transfers including payment transactions	0.2	0.5
Other financial services	1.1	1.9
<b>Total</b>	<b>5.8</b>	<b>9.8</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

#### (46) Fee and commission expenses

EUR m

	1.1. - 31.12.2014	1.1. - 31.12.2013*
Credit business	-18.6	-26.9
Securities and custodian business	-0.6	-0.4
Bank transfers including payment transactions	-0.4	-0.6
Other financial services	-5.3	-1.1
<b>Total</b>	<b>-24.8</b>	<b>-28.7</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

Fee and commission expenses also include commission payable to the Republic of Austria for the assumption of guarantee in the amount of EUR -17.6 million (2013: EUR -18.2 million), see note (131) Guarantee agreements with the Republic of Austria.

#### (47) Gains and losses from financial instruments not measured at fair value through profit and loss

EUR m

	1.1. - 31.12.2014	1.1. - 31.12.2013*
Result from fin. investments – available for sale	20.9	0.7
Result from fin. investments – held to maturity	0.0	0.0
Result from fin. investments – at cost	-8.6	0.1
<b>Total</b>	<b>12.3</b>	<b>0.7</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

**(48) Result from the application of the Hypo Alpe Adria Restructuring Act (HaaSanG)**

EUR m

	<b>07.08.2014</b>
Derecognition subordinated liabilities	800.0
Derecognition EKEG prone liabilities	795.9
Derecognition non accrual	34.8
Resolution derivative transactions	44.5
<b>Total</b>	<b>1,675.3</b>

The result from the application of the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG) results from the application of the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG) as well as the FMA Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV) which is based on this. See also note (1.2.3) Austrian Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG).

**(49) Result from trading**

EUR m

	<b>1.1. - 31.12.2014</b>	<b>1.1. - 31.12.2013*</b>
Foreign exchange transactions	12.6	-10.2
<b>Total</b>	<b>12.6</b>	<b>-10.1</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

In addition to trading activities, the item result from trading also includes income from banking book derivatives as well as from currency valuation.

**(50) Hedge accounting**

This is the result from hedge accounting according IAS 39 due to the measurement of the hedging derivatives and the underlying transactions.

EUR m

	<b>1.1. - 31.12.2014</b>	<b>1.1. - 31.12.2013*</b>
Valuation result from secured underlying transactions	59.3	265.7
Valuation result from hedging derivatives	-62.3	-268.6
<b>Total</b>	<b>-3.0</b>	<b>-3.0</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

All active hedges with a residual maturity > 2020 as well as all passive Heta Asset Resolution AG hedges were released, with the corresponding assets being reallocated to their initial categories.

**(51) Result from financial investments – designated at fair value through profit or loss**

EUR m

	1.1. - 31.12.2014	1.1. - 31.12.2013*
<b>Result from financial assets and related derivatives</b>	<b>-13.1</b>	<b>15.6</b>
from loans and advances to customers and credit institutions	-16.4	3.9
from equity instruments	-0.7	-0.1
from debt instruments	4.6	12.2
from treasury bills	-0.6	-0.4
<b>Result from long-term financial liabilities and related derivatives</b>	<b>238.3</b>	<b>39.5</b>
from debt securities in issue	136.3	16.5
from subordinated capital	102.0	23.0
from other liabilities	0.0	0.0
<b>Current income from shares and other not fixed interest securities</b>	<b>0.1</b>	<b>0.0</b>
<b>Total</b>	<b>225.3</b>	<b>55.1</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

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 carried at fair value. In addition, this category is also used for the purpose of implementing a risk-reducing hedging strategy.

As at 31 December, the changes in the bank's own credit spreads or the widening of the liquidity spread of financial liabilities, which will be realized at fair value, resulted in an amount of EUR 374.6 million (2013: EUR 134.9 million) by which the carrying amount of the liability is down on the contractual repayment amount (nominal). The resulting effects were recognised in profit or loss and had a positive impact of EUR 239.7 million on the result for the 2014 financial year. The cumulative effect of EUR 374.6 million as at 31 December 2014 may lead to measurements being recognised as an expense in the IFRS consolidated financial statements in the coming years provided that the credit spread is reduced or a repayment is effected to the nominal amount. Of this amount, EUR 337.2 million (2013: EUR 98.4 million) pertains to issues underwritten by third parties, EUR 26.2 million (2013: 25.6 million) to the still outstanding hybrid capital instruments (nominal value: EUR 23.5 million) and EUR 11.2 million (2013: EUR 11.0 million) to supplementary capital issues.

**(52) Operating result from investment properties**

EUR m

	1.1. - 31.12.2014	1.1. - 31.12.2013*
Rental income	55.4	49.2
Depreciation	-24.1	-22.9
Other expenses	-8.6	-4.7
thereof direct operating expenses (rented IP)	-1.7	-2.1
thereof direct operating expenses (not rented IP)	-7.7	-5.0
<b>Total</b>	<b>22.7</b>	<b>21.6</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

Other expenses from investment properties include the disposal proceeds of EUR 0.8 million (2013: EUR 2.3 million).

**(53) Other operating result**

EUR m

	1.1. - 31.12.2014	1.1. - 31.12.2013*
Other income	132.1	89.2
other expenses	-1,144.5	-193.1
<b>Total</b>	<b>-1,012.4</b>	<b>-103.9</b>
Result from operate lease assets	1.2	-1.4
Other rental income	0.2	0.2
Net capital gains/losses from the sale of intangible and tangible assets	2.0	2.9
Result from emergency acquisitions and repossessed asset	-2.8	-1.5
Result from allocation/release of other provisions	17.4	4.9
Other tax expenses (incl. bank tax except income tax)	-1.7	-25.4
Expenses from complete or partial sale of fully consolidated companies	-0.8	-0.8
Restructuring expenses	-26.5	-10.7
Income from assets classified as held for sale and disposal groups	-35.5	-39.2
Other result	-965.9	-32.9
of which expenses for anticipated claims by creditors	-886.5	0.0
<b>Total</b>	<b>-1,012.4</b>	<b>-103.9</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

The result from operating lease assets is mainly composed of gains on disposal and ongoing lease payments less regular depreciation.

Other rental revenue is the result of renting buildings used for own activities, which are of minor importance.

Next to the proceeds of disposal, the result from emergency acquisitions and repossessed leasing assets also includes rental income and current operating expenses.

Other tax expenses include a refund of the bank levies imposed since 2013 of EUR +5.0 million (2013: EUR -21.1 million).

Detailed information on restructuring expenses can be found in note (119) Restructuring expenses.

The result from assets classified as held for sale and disposal groups is partly due to the valuation of the hotel projects GRAND HOTEL LAV d.o.o., and "Skipper", as well as from the measurement of the assets of ZAJEDNIËKI INFORMACIONI SISTEM DOO BEOGRAD.

**(54) Impairment of financial assets**

The impairment of financial assets is composed as follows:

EUR m

	1.1. - 31.12.2014	1.1. - 31.12.2013*
<b>Impairment financial assets – at cost</b>	<b>-4,168.5</b>	<b>-870.1</b>
Allocations	-4,312.8	-1,091.8
Releases	160.0	235.4
Receipts from loans and advances previously impaired	8.7	19.6
Directly recognised impairment losses	-24.3	-33.3
<b>Impairment financial assets – available for sale</b>	<b>-5.7</b>	<b>-5.9</b>
Expenses from impairment	-7.3	-12.2
Income from write-up	1.6	6.3
<b>Impairment financial assets – held to maturity</b>	<b>0.0</b>	<b>0.0</b>
Expenses from impairment	0.0	-0.4
Income from write-up	0.0	0.4
<b>Total</b>	<b>-4,174.1</b>	<b>-875.9</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

The impairment of financial assets valued at cost includes credit risk provisioning for on and off-balance-sheet transactions. Detailed information on risk provisions on loans and advances is given in note (65) Risk provision on loans and advances and

provisions for credit risks as well as note (5) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA.

## (55) Impairment of non financial assets

The impairment of non-financial assets is composed as follows:

	EUR m	
	1.1. - 31.12.2014	1.1. - 31.12.2013*
Land and buildings	-35.3	-16.2
Plant and equipment	-0.5	-25.1
Intangible assets	-15.7	-27.2
Goodwill	-0.3	-0.2
Investment properties	-510.5	-136.0
Operate-Leases	-25.5	-5.8
Emergency required assets and repossessed assets	-122.0	-40.4
<b>Total</b>	<b>-709.8</b>	<b>-251.0</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

The impairment of land and buildings comes mainly from the subsidiaries in Slovenia, Italy and Croatia.

Identifying a need for impairment on plant and equipment, intangible assets and investment properties was based on the "MV usa" (market value under special assumptions). See note (22) Investment properties.

The impairment of the real estate held as financial investments of EUR -510.5 million is mainly due to the leasing units in Italy and Slovenia.

A large portion of the impairment of emergency acquisitions originates with the Croatian subsidiaries (EUR -79.2 million), the values of which were reviewed comprehensively within the scope of the AQR. The leasing units in Bulgaria, Croatia and Slovenia also had to record write-downs.

## (56) Personnel expenses

	EUR m	
	1.1. - 31.12.2014	1.1. - 31.12.2013*
Wages and salaries	-73.0	-76.3
Social security	-14.0	-13.0
Long-term employee provisions	-6.1	-3.5
Other employee costs	-6.6	-5.3
<b>Total</b>	<b>-99.8</b>	<b>-98.1</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

The long-term employee provisions contain contributions to defined contribution plans totalling EUR -0.5 million (2013: EUR -0.5 million). In addition, payments totalling EUR -0.7 million (2013: EUR -0.6 million) were made into the employee severance and retirement fund for the employees in Austria.



**(57) Other administrative expenses**

EUR m

	1.1. - 31.12.2014	1.1. - 31.12.2013*
Infrastructure costs	-11.1	-11.5
IT- and telecommunications	-18.1	-15.6
Advertising costs	-1.6	-2.4
Legal and advisory costs	-43.0	-18.0
Expense for audit and audit-related services	-3.6	-3.0
Expenses related to reorganisation and restructuring	-11.4	-9.9
Investigation of the past	-46.0	-23.3
Staff training cost	-1.3	-1.2
Administration expenses related to HBInt. Credit Management	-3.4	-1.7
Other general administrative expenses	-16.0	6.8
<b>Total</b>	<b>-155.5</b>	<b>-79.7</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

The reorganisation and restructuring costs include EUR -1.8 million for the implementation of risk systems (2013: EUR -1.3 million).

The item audit and audit-related services includes costs of EUR -2.4 million for the audit firms EY and KPMG (2013 EY only: EUR -2.0 million), see note (120) Audit expenses.

The increase in legal and advisory costs is due to the advisory costs incurred in connection with the transformation of the company into a wind-down unit as well as provisions related to a large number of legal proceedings.

**(58) Depreciation and amortisation on tangible and intangible assets**

EUR m

	1.1. - 31.12.2014	1.1. - 31.12.2013*
Land and buildings	-2.8	-6.0
Plant and equipment	-1.9	-3.5
Intangible assets	-2.7	-3.9
<b>Total</b>	<b>-7.4</b>	<b>-13.4</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

**(59) Result from companies accounted for at equity**

EUR m

	1.1. - 31.12.2014	1.1. - 31.12.2013*
Share of profits	0.0	0.1
Share of losses	-4.9	-1.5
<b>Total</b>	<b>-4.9</b>	<b>-1.4</b>

**(60) Taxes on income****60.1. Income tax expenses**

EUR m

	1.1. - 31.12.2014	1.1. - 31.12.2013*
<b>Current tax</b>	<b>-4.4</b>	<b>-2.0</b>
from previous period	0.0	-3.2
<b>Deferred tax</b>	<b>-3.0</b>	<b>2.1</b>
from previous period	-26.5	8.5
<b>Total</b>	<b>-7.4</b>	<b>0.1</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

The theoretical tax expenses are translated into the effective tax burden as follows:

EUR m

	31.12.2014	31.12.2013*
Result before tax from continued operation	-4,189.9	-1,230.8
Result before tax from discontinued operation	-3,238.9	-662.6
<b>Result before tax</b>	<b>-7,428.8</b>	<b>-1,893.5</b>
Theoretical income tax expense based on Austrian corporate tax rate of 25 %	1,857.2	473.4
<b>Tax effects</b>		
from divergent foreign tax rates	-206.2	-30.4
from previous year	-26.5	8.5
from foreign income and other tax-exempt income	420.8	0.1
from investment related tax relief and other reducing the tax burden	0.0	2.3
from non-tax deductible expenses	-226.5	-16.1
from non-recognition of deferred taxes on loss carry-forwards and temporary differences	-1,807.4	-379.6
from the change of deferred taxes on risk provisions, on temporary differences and loss carry-forwards	0.9	-3.3
from non-recognition of deferred taxes because temporary differences	0.0	1.4
from other tax effects	-1.1	-6.1
<b>Actual income tax expenses (effective tax rate: 0.1 % (2013: 2.6%))</b>	<b>11.1</b>	<b>50.0</b>
Income tax expenses reported in profit or loss	-7.4	0.1
Income tax expenses attributable to discontinued operations	18.5	49.9

The effects from the non-recognition of deferred tax assets for 2014 relate to temporary differences and tax loss carry-forwards, especially those of Heta Asset Resolution AG as well as of Italian wind-down unit Heta Asset Resolution Italia S.r.l.<sup>15</sup>. 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 largely results from the derecognition of liabilities based on the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG). Most of the tax effects from non-tax deductible expenses relate to the forming of a provision for a payment to BayernLB. The previously disclosed loan liabilities were derecognised and the resulting corresponding income was exempted from tax on the basis of the provisions of the Federal Law on the

<sup>15</sup> "Hypo Alpe-Adria-Leasing S.r.l." was renamed "Heta Asset Resolution Italia S.r.l." effective 10 November 2014.

reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG), which is why the formation of the provision results in an expense that does not impact on taxes.

## 60.2. Deferred tax assets/liabilities

In the 2014 financial year, deferred tax assets and liabilities were offset as far as the specifications of IAS 12 permitted.

Legally valid tax assessment notices for Heta Asset Resolution AG have been issued for the years up to and including 2003. The assessment for corporation tax due in 2004 pursuant to section 200 (1) of the Federal Fiscal Code (BAO) is still of a provisional nature. The tax assessments for 2005 to 2011 are, by contrast, legally valid. The corporate income tax return for 2012 has not yet been requested by the tax authorities. The corporate income tax return for 2013 was submitted to the tax authorities on 13 April 2015. The official tax audit (audit period from 2005 to 2009) was largely concluded in March 2014. Assessment decisions have already been issued for all companies with the exception of the lead company (Heta Asset Resolution AG) and one group member (HAR GmbH). The corresponding results from the tax audit are fully included in Heta Asset Resolution AG's loss carry-forwards.

Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between carrying amounts for tax purposes and IFRS recognition, for the following positions:

EUR m

	2014			2013*		
	Deferred Tax (netted)	Income Statement	Other comprehensive income (OCI)	Deferred Tax (netted)	Income Statement	Other comprehensive income (OCI)
Provisions for loans and advances	25.8	-7.7	0.0	35.6	25.0	0.0
Accelerated depreciation for tax purposes /Accelerated capital allowances	0.8	-0.1	0.0	3.6	-1.0	0.0
Effects on AFS-investments	0.0	0.0	0.0	2.1	-0.1	1.5
Hedged Accounting – revaluation of a hedged financial asset/liability and of the related swap	0.0	0.0	0.0	-0.8	0.6	0.0
FVO – revaluation of a financial asset /liability and the related swap	0.0	0.1	0.0	5.5	1.7	0.0
Revaluation of leasing contracts	-5.3	0.0	0.0	-5.8	5.3	0.0
Termination benefits	0.0	0.2	0.0	0.4	0.0	0.0
Deferred revenue fee income	0.0	0.0	0.0	6.9	0.2	0.0
Other	-1.8	7.1	0.0	-8.9	-5.1	0.0
Utilizable tax losses carried forward	1.9	-2.6	0.0	23.0	-24.3	0.0
<b>from continued operations</b>	<b>21.3</b>	<b>-3.0</b>	<b>0.0</b>	<b>61.6</b>	<b>2.2</b>	<b>1.5</b>
<b>from discontinued operations</b>	<b>0.0</b>	<b>0.0</b>	<b>0.5</b>	<b>23.7</b>	<b>44.9</b>	<b>0.0</b>
<b>Total deferred Tax</b>	<b>21.3</b>	<b>-3.0</b>	<b>0.5</b>	<b>85.3</b>	<b>47.1</b>	<b>1.5</b>

\* Previous year's figures for 2012 were adjusted, see note (12) Adjustment of previous year's figures.

The total change in deferred taxes year-over-year in the consolidated financial statements is EUR -64.0 million. Of this an amount of EUR -3.0 million is reflected in the current income statement as deferred tax expense and a change in the amount of EUR -60.9 million amount from discontinued operations. The residual amount of EUR -0.2 million results from foreign exchange differences.

The 2014 effect of deferred taxes on profit or loss at EUR -3.0 million is due in part to deferred tax profits for the recognition and/or release of temporary differences in the amount of EUR -2.6 million. The change in impairment losses recognised in profit or loss at EUR -7.7 million results from the cancellation of part of the deferred taxes for the Italian subsidiary capitalised in the previous year as the deadline for the recovery at times goes beyond that stipulated in the wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA). The development of the other changes in the amount of EUR 7.1 million recognised in profit or loss is due in part to the reversal of deferred tax assets from the subsidiary in Germany.

The development of deferred taxes in net terms is as follows:

EUR m

	2014	2013*
<b>Balance at start of period (1.1.)</b>	<b>85.3</b>	<b>36.6</b>
Tax income/expense recognised in profit or loss	-3.0	2.2
Tax income/expense recognised in OCI	0.0	1.5
Fx-difference	-0.2	-0.1
Deferred taxes acquired in change of scope	-60.9	44.9
<b>Balance at end of period (31.12.)</b>	<b>21.3</b>	<b>85.3</b>

Deferred taxes are reported as follows in the statement of financial position:

EUR m

	2014	2013
Deferred tax assets	24.1	97.7
Deferred tax liabilities	2.8	12.4
<b>Deferred tax</b>	<b>21.3</b>	<b>85.3</b>

From deferred tax assets recognised, EUR 1.9 million (2013: EUR 5.8 million) were the result of recognising tax assets in respect of usable tax loss carry-forwards. Because they cannot be utilised in the respective group companies, deferred tax assets in the amount of EUR 1,937.2 million (2013: EUR 853.2 million) on unused tax losses of EUR 8,447.4 million (2013: EUR 3,689.5 million) and deferred tax assets in the amount of EUR 1,000.2 million (2013: EUR 116.9 million) on deductible temporary differences of EUR 4,335.0 million (2013: EUR 607.3 million) were not recognised. In addition, deferred tax assets of EUR 430.7 million (2013: EUR 103.0 million) for investments in subsidiaries for temporary differences of EUR 1,915.4 million (2013: EUR 439.2 million) were not recognised. Of the unused tax losses in the amount of EUR 8,447.4 million (2013: EUR 3,689.5 million), EUR 6,957.7 million (2013: EUR 3,047.0 million) is unrestricted and EUR 1,489.7 million (2013: EUR 642.6 million) can be carried forward for a maximum of five years subject to restrictions. These disclosures relate to existing restrictions for the usability of tax loss carry-forwards as stipulated by the respective tax regulations. Other statutory restrictions can also arise from other provisions, such as the wind-down plan. These were not taken into account here.

Deferred tax assets from tax loss carry-forwards are recorded when it is probable that future taxable profits will be made which will enable these tax losses to be offset. The basis for these estimates is the respective business plans.

For the members of the domestic tax group of Heta Asset Resolution AG and for the other wind-down companies abroad, loss carry-forwards were not capitalised due to the history of losses.

Deferred tax liabilities of EUR 1.7 million (2013: EUR 4.4 million) on temporary differences relating to investments in subsidiaries of EUR 6.8 million (EUR 18.3 million) were not recognised as they are not expected to be reversed in the foreseeable future.

**(61) Non-controlling interests**

In the income statement, non-controlling interests in the income statement of the relevant group companies are included as follows:

EUR m

	1.1. - 31.12.2014	1.1. - 31.12.2013
<b>HBInt. Credit Management Limited</b>	<b>-4.3</b>	<b>9.0</b>
Share in interest income	2.7	2.8
Share in measurement result	-6.9	6.2
<b>Norica Investments Limited</b>	<b>21.6</b>	<b>11.5</b>
Share in interest income	21.6	11.5
<b>Non-controlling interests of other co-owners</b>	<b>0.0</b>	<b>-0.2</b>
<b>Total</b>	<b>17.3</b>	<b>20.3</b>

At HBInt Credit Management Limited, Jersey, the total result stemming from the measurement and sale of securities amounted to EUR -7.2 million (2013: EUR +12.6 million) in 2014. In the consolidated financial statements, EUR -3.5 million (2013: EUR +6.2 million) thereof are assigned to the 49% non-controlling shareholder as a result covered by the equity contribution.

The share of interest income attributable to the non-controlling interest in Norica Investments Limited includes a special dividend and a pro rata share of profit and loss.

## Notes to the statement of financial position

### (62) Cash and balances at central bank

EUR m

	31.12.2014	31.12.2013
Cash on hand	1.1	124.2
Balances with central banks (due on demand)	2,364.2	2,188.5
<b>Total</b>	<b>2,365.3</b>	<b>2,312.7</b>

Balances with central banks only include those balances which are due on demand. Balances that are not due on demand are shown under loans and advances to credit institutions.

The previous year's value includes EUR 743.6 million from operations discontinued in 2014.

### (63) Loans and advances to credit institutions

#### 63.1. Loans and advances to credit institutions – by type of business

EUR m

	31.12.2014	31.12.2013
Minimum reserve (not due daily)	0.0	344.3
Giro- and clearing business	694.4	1,023.0
Money market placements	797.5	584.4
Loans	2,409.7	114.1
Finance lease receivables	29.6	18.7
Other loans and advances	7.3	3.0
<b>Total</b>	<b>3,938.5</b>	<b>2,087.4</b>

Loans and advances to HGAA (and its subsidiary banks) as well as loans and advances to the former subsidiary bank in Italy (HBI) were reported as loans and advances to third parties for the first time as at 31 December 2014

Corresponding provisions were made for the sales agreement relating to HGAA for the buyer's expected claims relating to guarantees and exemptions as well as for the shift in credit risks resulting from the retransfer of credit portfolios. Due account is taken of the fact that loans and advances bear low interest rates and therefore an impairment had to be recognised in the amount of the difference between the contractual interest rate premiums and the minimum interest rate discounts defined in the measurement guidelines. See note (9.2.2) Key aspects of the sales agreement for the SEE network. The existing – and largely very low – financing terms and conditions for Heta's refinancing lines to HBI remained unchanged following the carve-out of HBI. The effect from low interest rates of EUR -416.0 million was taken into account as a reduction in the carry amount within the scope of the initial recognition of the loans and advances in the consolidated financial statements. The value applied to the recoverability of the loans and advances in the consolidated financial statements is one that Heta believes to be relevant; this value is also considered to be realistic within the scope of an official bank wind-down process in Italy. Provisions of EUR 817.0 million were established in this respect.

The figures for the previous year include an amount of EUR 472.5 million from operations discontinued in 2014.

#### 63.2. Loans and advances to credit institutions – by region

EUR m

	31.12.2014	31.12.2013
Austria	1,374.5	421.1
Central and Eastern Europe (CEE)	93.8	411.3
Other countries	2,470.3	1,255.0
<b>Total</b>	<b>3,938.5</b>	<b>2,087.4</b>

The region "Central and Eastern Europe (CEE)" includes Southern Eastern European countries (SEE) as well as other Eastern European countries.

Of the loans and advances related to other countries, EUR 1,647.3 million is attributable to Italy, (2013: EUR 0.7 million).

**(64) Loans and advances to customers****64.1. Loans and advances to customers – by type of business**

EUR m

	31.12.2014	31.12.2013
Current account credit	124.5	458.1
Bank loans	4,152.8	8,252.5
Mortgage loans	665.8	3,331.0
Municipal loans	952.5	2,015.4
Finance lease receivables	1,472.3	4,018.7
Other loans and advances	1,371.1	1,213.3
<b>Total</b>	<b>8,739.1</b>	<b>19,289.0</b>

The figures for the previous year includes an amount of EUR 8,814.1 million from operations discontinued in 2014.

**64.2. Loans and advances to customers – by type of customer**

EUR m

	31.12.2014	31.12.2013
Public sector	1,144.5	2,008.8
Corporate clients	7,171.2	12,391.4
Retail clients	423.3	4,888.8
<b>Total</b>	<b>8,739.1</b>	<b>19,289.0</b>

**64.3. Loans and advances to customers – by region**

EUR m

	31.12.2014	31.12.2013
Austria	962.2	1,213.0
Central and Eastern Europe (CEE)	6,464.2	13,845.2
Other countries	1,312.7	4,230.7
<b>Total</b>	<b>8,739.1</b>	<b>19,289.0</b>

Of the loans and advances to customers relating to other countries, EUR 378.0 million is attributable to for Italy (2013: EUR 438.3 million) and EUR 401.4 million (2013: EUR 501.3 million) to Switzerland, Belgium and Germany.

**(65) Risk provisions on loans and advances and provisions for credit risk****65.1. Risk provisions on loans and advances and provisions for credit risk – development during the year**

EUR m

	As at 1.1.2014	Foreign- exchange- differences	Allocations	Releases	Use	Other	Changes IFRS 5	Unwinding	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>-83.4</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	-75.4
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>-6,852.0</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>719.4</b>	<b>144.3</b>	<b>-6,896.5</b>

The portfolio risk provisions to credit institutes include a risk provision for the former subsidiary bank HBI amounting to EUR 1.2 billion; please refer to note (9.1) Carve-out of the Italian subsidiary bank (HBI).

In addition, please refer to note (6) Use of estimates and assumptions/uncertainties in connection with estimates, note (54) Impairment of financial assets and notes (89) et seq Risk report.

Provisions for credit risk are stated in note (82) Provisions.

The figures for the previous year include an amount of EUR -645.9 million from operations discontinued in 2014.



Risk provisions on loans and advances and provisions for credit risk were as follows as at 31 December 2013:

EUR m

	As at 1.1.2013	Foreign- exchange- differences	Allocations	Releases	Use	Other	Changes IFRS 5	Unwinding	As at 31.12.2013
<b>Specific risk provisions</b>	<b>-2,930.3</b>	<b>7.1</b>	<b>-1,647.6</b>	<b>241.0</b>	<b>327.8</b>	<b>30.4</b>	<b>25.9</b>	<b>148.0</b>	<b>-3,797.7</b>
Loans and advances to credit institutions	-2.4	0.0	-5.3	0.1	0.0	0.0	0.0	0.0	-7.7
Loans and advances to customers	-2,917.9	7.2	-1,604.9	240.2	327.3	25.0	25.9	148.0	-3,749.2
Other financial assets	-10.0	0.0	-37.4	0.7	0.4	5.5	0.0	0.0	-40.9
<b>Portfolio-based risk provisions</b>	<b>-153.4</b>	<b>-3.9</b>	<b>-24.7</b>	<b>98.6</b>	<b>0.0</b>	<b>6.5</b>	<b>0.0</b>	<b>0.0</b>	<b>-76.9</b>
Loans and advances to credit institutions	-0.6	0.0	-0.4	0.4	0.0	0.0	0.0	0.0	-0.6
Loans and advances to customers	-152.3	-3.9	-24.3	98.0	0.0	6.5	0.0	0.0	-76.0
Other financial assets	-0.5	0.0	0.0	0.2	0.0	0.0	0.0	0.0	-0.3
<b>Subtotal risk provisions on loans and advances</b>	<b>-3,083.7</b>	<b>3.3</b>	<b>-1,672.4</b>	<b>339.5</b>	<b>327.8</b>	<b>36.9</b>	<b>25.9</b>	<b>148.0</b>	<b>-3,874.6</b>
<b>Provisions for credit commitments and guarantees</b>	<b>-26.0</b>	<b>0.0</b>	<b>-26.3</b>	<b>14.0</b>	<b>0.0</b>	<b>-3.8</b>	<b>0.0</b>	<b>0.0</b>	<b>-42.1</b>
Individual provisions	-8.7	0.0	-13.4	-0.6	0.0	-6.5	0.0	0.0	-29.2
Portfolio provisions	-17.3	0.0	-12.9	14.6	0.0	2.7	0.0	0.0	-13.0
<b>Total</b>	<b>-3,109.7</b>	<b>3.3</b>	<b>-1,698.7</b>	<b>353.6</b>	<b>327.8</b>	<b>33.1</b>	<b>25.9</b>	<b>148.0</b>	<b>-3,916.7</b>

## 65.2. Risk provisions on loans and advances – by region

EUR m

	31.12.2014	31.12.2013
Austria	-257.5	-192.4
Central and Eastern Europe (CEE)	-5,139.0	-3,099.0
Other countries	-1,455.6	-583.1
<b>Total</b>	<b>-6,852.1</b>	<b>-3,874.6</b>

Of the risk provisions on loans and advances related to other countries, EUR 1,233.0 million is attributable to Italy, EUR 75.8 million to Germany and EUR 67.2 million for Liechtenstein.

The figures for the previous year include an amount of EUR -645.9 million from operations discontinued in 2014.

## (66) Trading assets

EUR m

	31.12.2014	31.12.2013
Bonds and other fixed-interest securities	0.0	12.5
Shares and other non-fixed-interest securities	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>12.5</b>

The figures for the previous year include an amount of EUR 12.5 million from operations discontinued in 2014.

**(67) Derivative financial instruments**

EUR m

	31.12.2014	31.12.2013
Positive market value of derivative financial instruments – trading	16.6	14.2
Positive market value of derivative financial instruments – banking book	939.7	1,055.8
<b>Total</b>	<b>956.3</b>	<b>1,070.1</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 positively due to the steep drop in interest rates compared with 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 so-called hedge adjusted value instead (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 the wind-down period, meaning > 2020, and all passive hedges in the group were released as at 31 December 2014. See note (19) Hedge accounting.

The figures for the previous year include an amount of EUR 4.6 million from operations discontinued in 2014.

**(68) Financial investments – designated at fair value through profit or loss**

EUR m

	31.12.2014	31.12.2013
Loans and advances to customers and credit institutions	288.6	289.6
Bonds and other fixed-interest securities	192.3	197.1
Shares and other non-fixed-interest securities	8.4	18.4
<b>Total</b>	<b>489.2</b>	<b>505.2</b>

The figures for the previous year include an amount of EUR 0.0 million from operations discontinued in 2014.

**(69) Financial assets – available for sale**

EUR m

	31.12.2014	31.12.2013
Bonds and other fixed-interest securities	1,068.9	2,338.9
Shares and other non-fixed-interest securities	19.8	31.3
Participations without intention for sale (< 20 %)	0.0	1.6
Other participations (associated companies 20 % –50 %)	0.0	1.3
Shares in affiliated, non-consolidated companies (> 50 %)	9.3	26.4
Loans and advances to customers/credit institutions	8.1	22.0
<b>Total</b>	<b>1,106.1</b>	<b>2,421.5</b>

The figures for the previous year include an amount of EUR 663.9 million from operations discontinued in 2014.

**(70) Financial investments – held to maturity**

EUR m

	31.12.2014	31.12.2013
Bonds and other fixed-interest securities	0.0	83.7
<b>Total</b>	<b>0.0</b>	<b>83.7</b>

The figures for the previous year include an amount of EUR 83.7 million from operations discontinued in 2014.

**(71) Investments in companies accounted for at equity**

EUR m

	31.12.2014	31.12.2013
Shares in other associated companies	2.0	5.9
<b>Total</b>	<b>2.0</b>	<b>5.9</b>

The list of associated companies accounted for at equity is shown in note (140) Scope of consolidation.

**(72) Investment properties**

EUR m

	31.12.2014	31.12.2013
<b>Investment properties</b>	<b>789.6</b>	<b>1,115.3</b>
davon vermiete Investment Properties	454.0	671.9
davon leer stehende Investment Properties	330.8	431.9
davon Anzahlungen / Anlagen im Bau	4.8	11.4
<b>Total</b>	<b>789.6</b>	<b>1,115.3</b>

The majority of investment properties include real estate let under operating lease agreements; see note (75) Development of fixed assets for more details.

The figures for the previous year include an amount of EUR 18.5 million from operations discontinued in 2014.

**(73) Intangible assets**

EUR m

	31.12.2014	31.12.2013
Purchased software	0.0	0.0
Self generated software	0.0	0.0
Other intangible assets	0.0	16.3
Prepayments for intangible assets	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>16.3</b>

The intangible assets were impaired to a value of EUR 0.

**(74) Tangible assets**

EUR m

	31.12.2014	31.12.2013
Land and buildings	37.6	244.2
Plant and equipment	5.2	16.6
<b>Total</b>	<b>42.8</b>	<b>260.8</b>

The figures for the previous year include an amount of EUR 133.2 million from operations discontinued in 2014.

**(75) Development of fixed assets****75.1. Development of acquisition costs and carrying amounts**

31.12.2014	Acquisition costs 1.1.2014	Foreigntax-exchange-differences	Additions	Disposals
<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>
<b>Land and buildings</b>	<b>383.3</b>	<b>-0.9</b>	<b>5.5</b>	<b>-3.2</b>
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
<b>Plant and equipment</b>	<b>165.9</b>	<b>-1.1</b>	<b>6.3</b>	<b>-6.2</b>
<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>

Additions to the investment properties include an amount of EUR 131.9 million (2013: EUR 85.7 million) from the transfer of inventories.

31.12.2013	Acquisition costs 1.1.2013	Foreigntax-exchange-differences	Additions	Disposals
<b>INTANGIBLE ASSETS</b>	<b>151.1</b>	<b>-0.5</b>	<b>21.1</b>	<b>-26.6</b>
<b>Goodwill</b>	<b>1.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Software</b>	<b>120.7</b>	<b>-0.3</b>	<b>8.7</b>	<b>-25.5</b>
purchased	75.2	-0.4	8.0	-0.8
self generated	45.5	0.1	0.7	-24.8
<b>Other intangible assets</b>	<b>24.0</b>	<b>0.0</b>	<b>3.7</b>	<b>-0.3</b>
<b>Prepayments for intangible assets</b>	<b>5.3</b>	<b>-0.1</b>	<b>8.6</b>	<b>-0.8</b>
<b>TANGIBLE ASSETS</b>	<b>651.2</b>	<b>-2.3</b>	<b>59.9</b>	<b>-42.2</b>
<b>Land and buildings</b>	<b>470.4</b>	<b>-1.5</b>	<b>47.7</b>	<b>-27.4</b>
Land	31.6	-0.1	2.0	-1.6
Buildings	433.0	-1.3	41.5	-23.7
Assets under construction	5.8	-0.1	4.2	-2.1
<b>Plant and equipment</b>	<b>180.7</b>	<b>-0.8</b>	<b>12.2</b>	<b>-14.8</b>
<b>INVESTMENT PROPERTIES</b>	<b>1,435.6</b>	<b>-1.6</b>	<b>122.9</b>	<b>-17.0</b>
Investment properties leased out/rented	1,137.9	-1.4	52.0	-11.9
Vacant investment properties	262.2	0.2	68.8	-4.5
Assets under construction (future investment properties)	35.6	-0.4	2.1	-0.5
<b>Total</b>	<b>2,237.9</b>	<b>-4.4</b>	<b>203.9</b>	<b>-85.8</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>

EUR m

Changes due to IFRS 5 (assets held for sale)	Other changes	Acquisition costs 31.12.2013	Cumulative depreciation 31.12.2013	Carrying amount 31.12.2013	Carrying amount 31.12.2012
-0.1	-3.6	141.6	-125.3	16.3	44.6
0.0	0.0	1.1	-1.1	0.0	0.0
-0.1	-0.9	102.6	-102.6	0.0	25.0
-0.1	-2.2	79.9	-79.9	0.0	17.5
0.0	1.3	22.8	-22.8	0.0	7.5
0.0	-0.8	26.7	-10.4	16.3	15.1
0.0	-1.9	11.2	-11.2	0.0	4.5
-71.6	-45.8	549.2	-288.4	260.8	392.0
-69.1	-36.9	383.3	-139.1	244.2	342.8
-1.3	-3.8	26.8	-3.5	23.3	31.4
-67.8	-28.9	352.9	-134.6	218.3	307.4
0.0	-4.2	3.7	-1.0	2.7	4.0
-2.5	-8.9	165.9	-149.3	16.6	49.3
-2.1	-146.8	1,391.0	-275.7	1,115.3	1,279.2
0.0	-352.0	824.5	-152.6	671.9	1,035.9
-2.1	225.1	549.6	-117.6	431.9	216.7
0.0	-19.8	16.9	-5.5	11.4	26.5
<b>-73.7</b>	<b>-196.2</b>	<b>2,081.7</b>	<b>-689.3</b>	<b>1,392.4</b>	<b>1,715.8</b>

## 75.2. Development of depreciation

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>
<b>Goodwill</b>	<b>-1.1</b>	<b>0.0</b>	<b>1.1</b>
<b>Software</b>	<b>-102.6</b>	<b>0.1</b>	<b>15.3</b>
purchased	-79.9	0.1	8.4
self generated	-22.8	0.0	6.9
<b>Other intangible assets</b>	<b>-10.4</b>	<b>0.0</b>	<b>0.3</b>
<b>Prepayments for intangible assets</b>	<b>-11.2</b>	<b>0.0</b>	<b>0.0</b>
<b>TANGIBLE ASSETS</b>	<b>-288.4</b>	<b>0.4</b>	<b>6.8</b>
<b>Land and buildings</b>	<b>-139.1</b>	<b>0.2</b>	<b>1.6</b>
Land	-3.5	0.0	0.0
Buildings	-134.6	0.2	1.6
Assets under construction	-1.0	0.0	0.0
<b>Plant and equipment</b>	<b>-149.3</b>	<b>0.2</b>	<b>5.2</b>
<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>

31.12.2013	Cumulative depreciation 1.1.2013	Foreign exchange differences	Disposals
<b>INTANGIBLE ASSETS</b>	<b>-106.5</b>	<b>0.3</b>	<b>23.7</b>
<b>Goodwill</b>	<b>-1.1</b>	<b>0.0</b>	<b>0.0</b>
<b>Software</b>	<b>-95.7</b>	<b>0.3</b>	<b>22.8</b>
purchased	-57.7	0.3	0.5
self generated	-38.0	0.0	22.3
Other intangible assets	-8.9	0.0	0.3
Prepayments for intangible assets	-0.8	0.0	0.7
<b>TANGIBLE ASSETS</b>	<b>-259.1</b>	<b>1.0</b>	<b>19.3</b>
<b>Land and buildings</b>	<b>-127.7</b>	<b>0.4</b>	<b>6.1</b>
Land	-0.2	0.0	0.0
Buildings	-125.6	0.4	5.0
Assets under construction	-1.9	0.0	1.1
<b>Plant and equipment</b>	<b>-131.4</b>	<b>0.6</b>	<b>13.1</b>
<b>INVESTMENT PROPERTIES</b>	<b>-156.5</b>	<b>0.4</b>	<b>1.3</b>
Investment properties leased out/rented	-102.0	0.3	1.2
Vacant investment properties	-45.4	0.1	0.1
Assets under construction (future investment properties)	-9.0	0.0	0.0
<b>Total</b>	<b>-522.0</b>	<b>1.7</b>	<b>44.3</b>

EUR m

Depreciation charge for the year	Impairment	Changes due to IFRS 5 (assets held for sale)	Other changes	Write-ups	Cumulative depreciation 31.12.2014
-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
<b>-31.6</b>	<b>-562.5</b>	<b>225.8</b>	<b>51.0</b>	<b>0.5</b>	<b>-972.3</b>

EUR m

Depreciation charge for the year	Impairment	Changes due to IFRS 5 (assets held for sale)	Other changes	Write-ups	Cumulative depreciation 31.12.2013
-11.3	-34.0	0.0	1.9	0.6	-125.3
0.0	0.0	0.0	0.0	0.0	-1.1
-10.0	-22.6	0.0	1.9	0.6	-102.6
-6.8	-19.5	0.0	3.3	0.0	-79.9
-3.2	-3.1	0.0	-1.4	0.6	-22.8
-1.3	-0.4	0.0	0.0	0.0	-10.4
0.0	-11.0	0.0	0.0	0.0	-11.2
-26.1	-61.6	15.3	19.9	3.0	-288.4
-10.3	-36.1	14.5	11.0	3.0	-139.1
0.0	-3.3	0.0	0.0	0.0	-3.5
-10.3	-32.6	14.5	10.9	3.0	-134.6
0.0	-0.2	0.0	0.0	0.0	-1.0
-15.7	-25.5	0.7	8.9	0.0	-149.3
-23.3	-138.0	1.1	39.2	0.1	-275.7
-17.4	-44.4	0.0	9.6	0.1	-152.6
-5.9	-93.2	1.1	25.6	0.0	-117.6
0.0	-0.5	0.0	4.0	0.0	-5.5
<b>-60.7</b>	<b>-233.6</b>	<b>16.3</b>	<b>61.0</b>	<b>3.7</b>	<b>-689.3</b>



**(76) Assets classified as held for sale**

On 31 December 2014, the item labelled assets held for sale, which is to be reported separately under IFRS 5, includes the assets of the shares in GRAND HOTEL LAV d.o.o. and the Croatian real estate project "Skiper" which are available for sale; a sale of these assets is regarded as very probable in the coming twelve months.

This item also includes the assets of TERME SPA ROGASKA D.D., where the signing was concluded with the highest bidder in December 2014, as well as an aircraft of HETA Luftfahrzeuge Leasing GmbH. The remaining assets and liabilities of Serbian IT company ZAJEDNIËKI INFORMACIONI SISTEM DOO BEOGRAD as well as various other assets, including a production facility in Austria, are also held for sale. In the segment report, the assets in question are displayed under the holding segment.

EUR m

	31.12.2014	31.12.2013
Loans and advances to credit institutions	9.0	1.2
Loans and advances to customers	0.6	29.7
Impairment on financial instruments – at cost (risk provision)	-0.6	-25.9
Other financial investments (investment properties)	1.3	1.0
Intangible assets	0.2	0.0
Tangible assets	59.1	46.9
Tax assets	0.0	0.3
Other assets	30.3	44.2
<b>Total</b>	<b>99.8</b>	<b>97.5</b>

For more detailed information, please refer to note (9) Discontinued operations.

**(77) Other assets**

EUR m

	31.12.2014	31.12.2013
<b>Deferred income</b>	<b>8.2</b>	<b>38.1</b>
<b>Other assets</b>	<b>301.2</b>	<b>650.5</b>
Assets used for operate lease	13.3	82.0
Real Estate (under construction, held for sale, emergency acquisition, repossessed assets)	118.7	308.8
Movables (leases to go and repossessed assets)	15.1	100.7
Prepayments	0.9	1.6
Value added taxes and other tax assets	13.4	30.0
Remaining not bank specific receivables	47.4	75.5
Other assets	92.4	51.8
<b>Total</b>	<b>309.3</b>	<b>688.6</b>

Please refer to note (5) Asset Quality Review (AQR)/adjustment of measurement parameters based on GSA for more details on other assets.

The figures for the previous year include an amount of EUR 216.3 million from operations discontinued in 2014.

**(78) Liabilities to credit institutions****78.1. Liabilities to credit institutions – by type of business**

EUR m

	31.12.2014	31.12.2013
<b>To central banks</b>	<b>0.0</b>	<b>278.4</b>
<b>To other credit institutions</b>	<b>2,845.3</b>	<b>4,386.9</b>
Due on demand	1,649.5	2,411.3
Time deposits	263.7	339.3
Loans from banks	15.8	654.8
Money market securities	886.3	951.2
Other liabilities	30.0	30.3
<b>Total</b>	<b>2,845.3</b>	<b>4,665.3</b>

The loans from banks item for the previous year includes an amount of EUR 624.2 million from operations discontinued in 2014.

The termination and deferment of the liabilities of EUR 1,675.3 million of the then Hypo Alpe-Adria-Bank International AG listed in the regulation took effect by act of law with the announcement of the FMA Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV) on 7 August 2014.

The figures for the previous year include an amount of EUR 924.5 million from operations discontinued in 2014.

**78.2. Liabilities to credit institutions – by region**

EUR m

	31.12.2014	31.12.2013
Austria	152.4	74.2
Central and Eastern Europe (CEE)	15.2	493.1
Other countries	2,677.7	4,098.0
<b>Total</b>	<b>2,845.3</b>	<b>4,665.3</b>

Liabilities to credit institutions include liabilities designated at fair value through profit or loss in the amount of EUR 198.0 million (2013: EUR 289.8 million) – see note (122) Assets designated at fair value and financial liabilities.

Of the liabilities to other countries, EUR 1,900 million is attributable to Germany (2013: EUR 2,935.1 million) and EUR 479.2 million (2013: EUR 557.7 million) to the United Kingdom.

The figures of liabilities to CEE countries for the previous year includes an amount of EUR 474.6 million from operations discontinued in 2014.

**(79) Liabilities to customers****79.1. Liabilities to customers – by type of customer**

EUR m

	31.12.2014	31.12.2013
<b>Saving deposits</b>	<b>0.0</b>	<b>537.0</b>
<b>Demand and time deposits</b>	<b>1,575.5</b>	<b>5,583.9</b>
from public sector	84.5	348.2
from corporate clients	1,489.0	2,706.6
from retail clients	2.0	2,529.2
<b>Total</b>	<b>1,575.5</b>	<b>6,120.9</b>

The figures for the previous year include an amount of EUR 4,098.8 million (HGAA) as well as EUR 384.9 million (the former Italian subsidiary bank) from operations discontinued in 2014.

**79.2. Liabilities to customers – by region**

EUR m

	31.12.2014	31.12.2013
Austria	53.7	63.7
Central and Eastern Europe (CEE)	14.9	3,997.3
Other countries	1,507.0	2,059.9
<b>Total</b>	<b>1,575.5</b>	<b>6,120.9</b>

Liabilities to customers include liabilities designated at fair value through profit or loss in the amount of EUR 3.0 million (2013: EUR 9.2 million) – see note (122) Assets designated at fair value and financial liabilities.

Of the liabilities to other countries, EUR 1,349.5 million is attributable to Germany (2013: EUR 1,383.0 million).

The figures of liabilities to CEE countries for the previous year includes an amount of EUR 3,977,6 million from operations discontinued in 2014.

**(80) Liabilities evidenced by certificates**

EUR m

	31.12.2014	31.12.2013
Issued bonds	7,575.1	9,183.0
Liabilities issued by the "Pfandbriefstelle"	1,175.7	1,196.2
Other liabilities evidenced by certificates	0.0	16.6
<b>Total</b>	<b>8,750.8</b>	<b>10,395.8</b>

Liabilities evidenced by certificates include liabilities designated at fair value through profit or loss in the amount of EUR 226.1 million (2013: EUR 371.9 million) – see note (122) Assets designated at fair value and financial liabilities.

The figures for the previous year include an amount of EUR 255.7 million from operations discontinued in 2014.

**(81) Derivative financial instruments**

EUR m

	31.12.2014	31.12.2013
Negative market value of derivative financial instruments – trading	17.7	11.2
Negative market value of derivative financial instruments – banking book	772.1	766.0
<b>Total</b>	<b>789.8</b>	<b>777.3</b>

The figures for the previous year include an amount of EUR 8.1 million from operations discontinued in 2014.

**(82) Provisions****82.1. Provisions – detail**

EUR m

	31.12.2014	31.12.2013
Pensions	5.8	7.0
Severance payments	8.9	8.6
Provisions for anniversary payments	0.9	1.0
Provisions for credit commitments and guarantees	44.5	42.1
Restructuring provisions as per IAS 37.70	29.1	14.2
Other provisions	1,356.7	118.6
of which provision for anticipated claims by creditors	886.5	0.0
<b>Total</b>	<b>1,445.9</b>	<b>191.5</b>

The development of risk provisions for credit commitments and guarantees is reported under note (65) Risk provisions on loans and advances and provisions for credit risk.

In the 2014 financial year, restructuring provisions were formed by those companies legally obliged to pay severance due to staff reductions. The bulk of the restructuring reserves is expected to be utilised by 2018.

The item other provisions shows provisions of EUR 886.5 million for a pending utilisation by BayernLB relating to the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG) as well as EUR 311.0 million relating to the SEE carve-out and selling agreement. This item also includes provisions for consulting and legal costs, tax proceedings, expenses relating to working through the past as well as external wind-down costs.

The provisions are, in the main, short-term in character.

## 82.2. Provisions – developments in the present value of pension and severance provisions and plan assets

The development of the present value of pension and other benefit obligations are displayed below. The data was summarised on the grounds of materiality.

	EUR m	
	2014	2013
<b>Barwert der Personalverpflichtungen zum 1.1.</b>	<b>15.8</b>	<b>30.3</b>
+ Current service costs	2.8	0.7
+ Interest expense	0.3	0.4
+/- Actuarial gains/losses	-0.4	-0.1
+/- actuarial gains/losses arising from changes in demographic assumptions	0.0	-0.1
+/- actuarial gains/losses arising from changes in financial assumptions	0.2	-0.3
+/- actuarial gains/losses arising from changes from experience assumptions	-0.6	0.3
+ contributions to the plan (employer)	2.6	0.1
- payments from the plan	-0.3	-2.2
thereof the amount paid in respect of any settlements	-0.1	0.1
+/- Other changes	-4.9	-13.4
<b>Barwert der Personalverpflichtung zum 31.12.</b>	<b>15.8</b>	<b>15.8</b>

The change in pension and severance obligations due to the sale of the SEE network and HBI is contained in other changes.

The development of plan assets as at 31 December 2014 is as follows:

	EUR m	
	2014	2013
<b>Fair Value of plan assets as at 1.1.</b>	<b>0.2</b>	<b>0.0</b>
+ Interest income on plan assets	0.0	0.0
+/- Other changes	0.0	0.2
<b>Fair Value of plan assets as at 31.12.</b>	<b>0.2</b>	<b>0.2</b>

For the most important parameters, a sensitivity analysis is displayed in the following table:

Assumptions	EUR m							
	Discount rate		Salary increases		Benefit increases		31.12.2014 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	5.7	6.4	0.0	0.0	5.7	6.4	5.8	6.3
Severance payment	4.9	-0.1	4.2	4.6	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
- provision for severance payments: discount rate + / - 0.5%, salary increase + / - 0.5%

The sensitivity analysis of life expectancy was facilitated by a shift in the average life expectancy for all components of each plan.

The defined benefit obligation is expected to result in the following payments in the upcoming years:

EUR m

	2014	2013
Within the next 12 months	0.9	1.3
From 2 to 5	4.9	3.5
From 5 to 10	4.8	3.9
Over 10 years	0.0	4.2
<b>Total expected benefit payment</b>	<b>10.6</b>	<b>12.8</b>

The average maturity of the defined benefit obligation for Heta Asset Resolution AG amounts to five years as at 31 December 2014 (2013: nine years).

### 82.3. Provisions – development of other provisions

The development of other provisions in the year under review was as follows:

EUR m

	Carrying amount 1.1.2014	Foreign-exchange-differences	Allocations	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
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>

Other provisions largely pertain to obligations in connection with the sale of HGAA – see note (82.1) Provisions – in detail. Furthermore, the other remaining reserves contain provisions for litigation and advisory costs.

EUR m

	Carrying amount 1.1.2013	Foreign-exchange-differences	Allocations	Use	Releases	Changes IFRS 5	Other changes	Carrying amount 31.12.2013
Provisions for anniversary payments	2.1	0.0	0.1	0.0	-0.1	0.0	-1.1	1.0
Restructuring provisions (IAS 37.72)	10.3	0.0	14.0	-9.3	-0.4	0.0	-0.4	14.2
Other provisions	59.5	-0.1	177.7	-100.4	-6.4	-6.0	-5.6	118.6
<b>Total</b>	<b>71.8</b>	<b>-0.2</b>	<b>191.9</b>	<b>-109.7</b>	<b>-6.8</b>	<b>-6.0</b>	<b>-7.1</b>	<b>133.8</b>

**(83) Liabilities included in disposal groups classified as held for sale**

EUR m

	31.12.2014	31.12.2013
Liabilities to credit institutions	1.2	2.2
Provisions	0.2	0.2
Tax liabilities	0.1	0.2
Other liabilities	2.7	3.0
<b>Total</b>	<b>4.1</b>	<b>5.6</b>

**(84) Other liabilities**

EUR m

	31.12.2014	31.12.2013
Deferred expenses	23.2	60.7
Accruals und other obligations	107.1	212.0
<b>Total</b>	<b>130.4</b>	<b>272.7</b>

The figures for the previous year include an amount of EUR 134.1 million from operations discontinued in 2014.

**(85) Subordinated capital**

EUR m

	31.12.2014	31.12.2013
Subordinated liabilities	1,155.2	1,914.4
Supplementary capital	0.2	0.4
<b>Total</b>	<b>1,155.4</b>	<b>1,914.8</b>

Among the subordinated liabilities or in supplementary capital, are liabilities designated at fair value through profit or loss in the amount of EUR 3.3 million (2013: EUR 28.2 million) – see also note (122) Assets designated at fair value and financial liabilities. The servicing of subordinated capital is described in note (132) Servicing of subordinated capital.

**(86) Hybrid capital**

EUR m

	31.12.2014	31.12.2013
Hybrid capital	0.4	1.2
<b>Total</b>	<b>0.4</b>	<b>1.2</b>

Hybrid capital includes liabilities designated at fair value through profit or loss in the amount of EUR 0.4 million (2013: EUR 1.2 million) – see also note (122) Assets designated at fair value and financial liabilities.

**(87) Equity**

EUR m

	31.12.2014	31.12.2013
<b>Attributable to equity holder of the parent</b>	<b>-5,221.1</b>	<b>1,341.1</b>
Issued capital	2,419.1	1,669.1
Participation capital	1,075.1	1,139.5
Additional paid-in capital	0.0	250.0
Available for sale reserves	-18.3	-27.3
Foreign currency translation	9.9	-104.2
Retained earnings (including net consolidated income)	-8,706.8	-1,586.0
<b>Non-controlling interest</b>	<b>521.0</b>	<b>517.7</b>
<b>Total</b>	<b>-4,700.1</b>	<b>1,858.8</b>

Issued capital corresponds to the share capital of Heta Asset Resolution AG which has been split up into 989,231,060 (2013: 682,536,752) voting bearer shares. The development of the share capital is as follows:

in EUR

	Subscribed capital	Number of shares
<b>Stand 31.12.2013</b>	<b>1,669,097,046.64</b>	<b>682,536,752</b>
Ordentliche Kapitalerhöhung, wirksam mit 9.4.2014	749,999,999.57	306,694,308
<b>Stand 31.12.2014</b>	<b>2,419,097,046.21</b>	<b>989,231,060</b>

The extraordinary shareholders' meeting on 9 April 2014 resolved to increase the company's share capital by issuing new no-par bearer shares. The resolution also intends 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) has the subscription right for newly issued shares.

With the resolution of the general shareholders' meeting of 23 May 2014, the Executive Board is authorised according to section 103q (14) of the Austrian Banking Act (BWG) in conjunction with 26b (2) second sentence of the Austrian Banking Act (BWG) to withdraw participation capital issued by the company. The Executive Board resolved on 7 July 2014 to exercise its authority and to withdraw participation capital issued by the company in part, meaning to withdraw the total participation capital of 2009 – which was not subscribed to in accordance with the Law on Financial Market Stability (FinStaG) – with a nominal value of EUR 64,428,867.95 (after reduction by resolution of the general shareholders' meeting of 30 May 2011), for cash consideration of zero with approval from the Supervisory Board. The Supervisory Board approved the redemption with its resolution of 8 July 2014. The withdrawal required the approval from the Austrian Financial Markets Authority (FMA), which was issued on 18 September 2014.

**(88) 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. Changes in trading assets and liabilities are also included. Changes in trading assets and liabilities are also included as are cash flow from received dividends and income taxes.

The cash flow from investing activities is recorded for payments for and receipts from securities and participations, intangible and tangible assets and receipts from selling/payments made for the acquisition of subsidiaries.

The cash flow from financing activities shows payments made and received for equity and subordinated capital. Capital increases, dividend payments and changes in subordinated capital are covered by this item.

The cash and cash equivalents include the statement of financial position item cash and balances at central banks, 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 management is considered low.

The receipts from selling and payments made for sale of subsidiaries of EUR 734.1 million reported in the statement of cash flows results from the cash and balances of operations discontinued in 2014 and a payment to HBI-BH made within the scope of HBI's disposal transaction.

## Risk report

Heta (formerly Hypo Alpe-Adria) has been a deregulated wind-down unit since the end of October 2014 and is subject to the Federal Law on the Creation of a Wind-Down Unit (GSA). Its goal is to ensure the orderly, active exploitation to the best possible advantage (portfolio wind-down) of its assets. Only transactions that serve to fulfil the wind-down objectives are conducted. According to the Federal Law on the Creation of a Wind-Down Unit (GSA), "proprietary transactions involving financial instruments are permitted at the wind-down unit for the purposes of controlling interest risk, currency risk, credit risk and liquidity risk within the scope of wind-down activities". Furthermore, the wind-down required under the Federal Law on the Creation of a Wind-Down Unit (GSA) must include "details on risk management that takes the wind-down objectives into account".

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 any resulting risks. Heta (formerly Hypo Alpe-Adria-Bank International AG) was a regulated financial institution until the end of October 2014. In this period, Hypo Alpe-Adria-Bank International AG had to fulfil the regulatory requirements applicable to a bank. This risk report specifically concerns the re-alignment of the wind-down unit and the resulting risks.

A comparison with risk data from the previous year is no longer relevant due to the circumstances detailed in note (2) Gone concern assumptions. The risk data therefore refers exclusively to 2014. This is due to the carve-out of HGAA and HBI in October 2014; the Federal Law on the Creation of a Wind-Down Unit (GSA); the resulting discontinuation of deposit and new credit business; the expiry of certain subordinate liabilities and shareholder liabilities of the former Hypo Alpe-Adria-Bank International AG in accordance with the Austrian Hypo Alpe Adria Restructuring Act (HaaSanG); the deregulation in October 2014; the Federal Act on the Recovery and Resolution of Banks (BaSAG), which came into force during the period in which the balance sheet was prepared; the debt moratorium imposed by the wind-down authorities; the switch from the going concern to the gone concern accounting principle; and the measurement of assets relevant to the portfolio wind down under gone concern assumptions carried out during the AQR.

Within the scope of its holding function, group parent company, Heta Asset Resolution AG, primarily performs group controlling tasks. For this reason, most of the measures initiated at holding level are cascaded down into responsibilities or projects within the Heta Group. The measures are to a large extent also centrally managed and monitored directly by Heta Asset Resolution AG.

Due to the wind-down strategy, the focus of risk management is on risk measurement and risk limitation. Active risk management is only possible to a limited extent due to restricted access to the market as a wind-down unit and the restrictions imposed under the Federal Law on the Creation of a Wind-Down Unit (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG).

### (89) Risk strategy, control and monitoring

Heta controls and monitors its risks across all business segments with the aim of ensuring an orderly, active exploitation to the best possible advantage (portfolio wind-down). In this vein, it influences the business and risk policies of its investment companies through its involvement in shareholder and supervisory committees. In the case of investment companies, compatible risk control processes, strategies and methods are implemented.

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

- Clearly defined processes and organisational structures are in place for all risk types, according to which all tasks, competencies and responsibilities of participants are aligned.
- Front and back office as well as trading and settlement/monitoring units are functionally separated to prevent conflicts of interest.



- The group determines and implements appropriate, mutually compatible procedures for the purpose of identifying, analysing, measuring, combining, directing and monitoring the different risk types.

Primary risk types are controlled by limits and reduced through active measures to wind-down assets.

## (90) Risk organisation and Group Audit

Ensuring adequate risk management and controlling structures and processes is the responsibility of the group's Chief Risk Officer (CRO), who is a member of the Heta Executive Board. The CRO acts independently of market and trading units, with a focus on the minimum standards of credit business as well as appropriate internal controls.

The core task of risk management is to ensure the "orderly, active and best possible exploitation of its assets (portfolio wind-down)". Core tasks also include supporting 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 the Group Risk Governance Rules of Heta, risk management consists of three pillars. This concept is cascaded – in other words the three-pillar principle is implemented consistently – both at group and country level. The respective Country CROs must ensure compliance with the risk principles among all subsidiaries situated in the country. The following overview shows the three-pillar management of Heta's risk management:

The Group Risk Control pillar includes the following main functions:

- Identifying risks
- Determining risk policy guidelines and limits
- Providing risk methods and models
- Performing risk analysis, limitation, monitoring and risk reporting.

The Single Case Risk Management pillar includes the following main functions:

- Retaining the principle of dual control in the portfolio wind-down process, as well as in restructuring and termination measures
- Back office for performing loans
- Balance sheet analysis and implementing ratings
- Credit monitoring
- Credit support
- Country risk portfolio management
- Controlling and reporting retail risks
- Loan loss provision calculation.

The Case Operations pillar includes the following main functions:

- Loan and collateral administration
- Justifying, monitoring and managing collaterals
- Carrying out back office activities
- Compiling a group of borrowers.

The Credit Processing pillar includes the following main functions:

- Loan and collateral administration
- Justifying, monitoring and managing collaterals
- Carrying out back office activities
- Compiling a group of borrowers pursuant to BWG.

Since the termination of the banking license, the monitoring of compliance with regulatory capital requirements is no longer required.

The Group Audit division is a permanent function that audits the business activities of the Heta Group. In terms of organisation, it is dedicated to the Chairman of the Executive Board and reports in detail to the Executive Board and the Supervisory Board. Auditing activities are based on a risk-oriented audit approach, and cover all activities and processes of the Heta Group. Group Audit carries out its work independent of the tasks, processes and functions to be audited, and in consideration of the applicable statutory and regulatory requirements.

## **(91) Internal policies and guidelines for risk management**

The Heta Group 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. This ensures that the actual and documented processes coincide at all times.

The Heta Group has clearly defined responsibilities for all of these risk guidelines, ranging from preparation, review and update to subsidiary roll-out. 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.

## **(92) Projects**

### **92.1. Transformation from a retail bank to a wind-down unit – Heta Implementation Program project**

In order to ensure “orderly, active exploitation to the best possible advantage (portfolio wind-down) the former banking structures must be adapted to the new legal frameworks and there must be a stronger focus on the establishment of a tailor-made organisational structure (TOM – Target Operating Model). The aim of the Heta Implementation Program (HIP) project is to establish a stable, functional and flexible controlling structure and infrastructure and adapt the wind-down unit’s business model in such a manner that the anticipated constant portfolio reduction does not lead to any operating problems, rather the wind-down can continue to be guaranteed in a professional and flawless manner. Organisational structure and workflow management are therefore to be optimised and coordinated with the relevant senior executives and the existing wind-down responsibilities must be tightened. Implementing the TOM during the course of 2015 guarantees that risks are wound down responsibly and also offers the chance to ensure that the wind-down process preserves the value of the assets. The preliminary work for the project began in late 2014, while the official project start took place in February 2015. The wind-down plan defines the direction of the TOM and is being developed promptly. The corresponding requirements are covered in the TOM and implemented on a step-by-step basis, resulting in prompt operational fulfilment in Heta.

### **92.2. Performing the Asset Quality Review (AQR)**

#### **Starting point**

Heta is currently working on a draft wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) with the aim of “ensuring an orderly and active exploitation to the best possible advantage (portfolio wind-down)”. In this respect, an asset review (Asset Quality Review AQR) was performed with the aim of assessing all of the company’s assets and collateral items that are relevant to the portfolio wind-down under standardised criteria in consideration of an orderly, active exploitation to the best possible advantage (portfolio wind-down). See note (5) Asset Quality Review/adjustment of measurement parameters based on GSA for more information. The AQR was carried out on the basis of the consolidated financial statements as at 31 December 2014. In order to guarantee the result of this assessment, the process was professionally accompanied by a number of independent external appraisers to ensure objective measurement.

#### **Application**

The AQR is based on the selection of material portfolios (such as non-performing loans, performing loans and physical assets from emergency acquisitions) and the determining of a lower threshold based on which the assets were subject to an individual analysis (net group exposure larger than EUR 3 million for commitments recognised at Heta or rather for commitments recognised at subsidiaries with a net group exposure greater than EUR 1 million). Commitments lower than this in size were valued on the basis of portfolio approaches.

In order to perform the AQR, Heta assigned acclaimed external experts with sufficient knowledge and experience. They provided support in process management and method development and provided expert appraisals in the valuation of collateral items.

### Methods

The applied methods essentially reflect Heta's mission to liquidate assets as best and as quick as possible. The result provided by the AQR is a value (realisable sales value) at which it is possible to sell the asset to a third party (investor) within a certain period of time. The process takes into consideration the current conditions of the individual commitments, the expected cash flows (sorted by amount and date), the enforceability of collateral items, general market circumstances, particular legal risks and yield entitlements from investors.

As part of the AQR process, realisable sale values of loans, assets and real estate are determined on the basis of these measurement approaches.

### Result

All results of the AQR were validated via the responsible committees on a case by case basis and approved in accordance with relevant competencies. On balance, risk provisions have risen considerably compared to the previous year's financial statements, which were prepared according to going concern assumptions. It should be noted that, since the disposal of the regulated bank subsidiaries (Austrian Anadi Bank AG, HGAA and HBI) in the Corporates and Retail segments, 90% of the primary wind-down portfolio of Heta consists of non-performing loans, some of which have not been serviced for over three years. There is no prospect of recovery both in terms of the economic situation of the creditors and the nature of the collaterals (e.g. non-performing real estate at second-class locations) in the foreseeable future. In fact, there are fears that waiting even longer to liquidate collaterals will result in the loss in value observed over the past few years due to the recession accelerating. For this reason, Heta has decided to set the liquidation timeframe for the non-performing portfolio as short as possible to meet the objective of best possible liquidation in the sense of the Federal Law on the Creation of a Wind-Down Unit (GSA). The increased risk provisions for non-performing loans resulting from the AQR, as well as impairments on real estate and liquidity premiums for illiquid securities, are taken into account in the consolidated financial statements. The difference between the carrying amounts and the realisable sales values for loans and receivables recognised at amortised costs determined in the AQR are not taken into account in the consolidated financial statements and are recognised in the notes (124.2 Fair value of finance instruments not recognised at fair value).

### (93) Ongoing evaluation of real estate and other collaterals

The management of all collateral at Heta Group is defined in the "Collateral Policy". The regulations of this policy are binding for all subsidiaries; country-specific adjustments are to be made in the local policies, although deviations from the minimum standards and maximum lending values are only permitted in the sense of stricter application. All policies are updated once a year.

The foundations of collateral management, which are implemented by a separate department within "Group Credit Processing", are built on the data collection of all collaterals by allocating a reference number to each collateral. This reference number is alphanumerical and is called "GSI" (Group Collateral ID) and "DSI" (Detailed Collateral ID). All "GSI/DSI" numbers are checked once a month.

The appraisals underlying the market values are updated throughout the group every three years and once a year for residential real estate and commercial real estate respectively. All commercial real estate with a market value above EUR 1.0 million is assessed individually, and all real estate is evaluated with the help of a valuation tool using statistical methods. A "collateral workflow" for commercial real estate worth more than EUR 1.0 million has been implemented. It ensures that the required process is maintained, which, in turn ensures that all data is up to date. All evaluations are requested on the part of the market three months before revaluations are due. The specifically assigned evaluation unit Corporate Real Estate Management / International Valuation ("CREM/IV") as well as Real Estate Asset Management at a local level ("REAM") re-evaluates all real estate and forwards the results to the employees that maintain collateral in the collateral systems. The CREM/REAMs have well-trained, predominantly internationally certified employees, who have all completed the internal "Valuation Academy".

As part of the AQR, the "REV Standard Group Policy" (Real Estate Valuation Standard) was updated specifically for Heta to serve as the basis of the international real estate valuation standards. In this policy, two standardised risk premiums for countries and asset classes are taken into consideration on the basis of a market value calculated in accordance with international standards. These special assumptions, as well as a "gone concern" assessment, have resulted in an "MV usa" (market value under special assumptions) since 31 December 2014, reflecting the wind-down strategy. The risk premiums each contain real

estate risk and Heta-specific risks with regard to the market and sale strategy, in order to determine a realistic sales value required for the wind-down of the portfolio and the asset.

All real estate valued according to the new group policy are also subject to a property and market rating (“TEGoVA”) during the valuation process in order to obtain qualitative statements on the individual real estate. These results are to be taken into account in wind-down planning in the future. The various property rating results are allocated to individual liquidation strategies.

The manuals mentioned above, especially the “Collateral Policy”, also stipulate the haircuts of market values underlying the securitisation values (Internal Collateral Value – “ICV”). The reductions are binding for all recognised collateral. These reductions are only applied when no “market value under special assumption” (MVusa) has been determined by the appraiser. If an MVusa is available, this is maintained in the collateral system as the current ICV without the application of further reductions.

#### **(94) Risk reporting**

Timely, independent and risk-adequate reporting for decision makers is guaranteed for all risk types. Requests for ad hoc reports are honoured at all times.

The risk report was adjusted to the new situation of Heta Group in 2014. The report consists of the management summary and credit risk, market risk, liquidity risk and operational risk components. The migration report was also reviewed and now shows the migration to the Watch and Non-Performing Loan areas.

Uniform guidelines on liquidity risk and market risk reporting have been introduced; these include standardised daily, weekly and monthly reporting.

In cases of stress, the frequency of reporting on market risk and liquidity risk is increased.

#### **(95) Credit risk (counterparty default risk)**

Material credit risk (net exposure) has been significantly reduced on account of the risk provisions formed during the course of the AQR and the measurement of assets and loan collateral. In the course of its business activities, which is now the value-preserving wind-down of assets, Heta Group is systematically reducing the remaining credit risk.

The “purchaser brush” option agreed as part of the agreement to sell HGAA represents an additional measurement risk. The relevant HGAA brush portfolio, which is measured under going concern principles and can be transferred back to Heta under certain conditions, conceals the risk of further rating migrations. Heta has formed corresponding provisions for risks from the brush portfolio on the basis of the new valuation guidelines.

##### **95.1. Definition**

In terms of volume, credit risk is the most significant risk at Heta. Risks mainly arise from the lending business. Credit risk (or counterparty risk) occurs when transactions result in claims against debtors, issuers of collateral 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 of unsecured portions. This definition includes default and surety risks from credit transactions as well as issuer, replacement and fulfilment risks from trading transactions.

Other risk types that are also included under credit risk, such as country and equity risk.

##### **95.2. 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 risk control methods, and is supplemented by further policies as well as specific directives.

In line with a group-wide 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 risk management’s analysis units.

The Credit Committee is a permanent institution of Heta Group and the highest ranking body for making credit decisions, second only to the Executive Board.

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

### 95.3. Risk measurement

The Heta Group uses its own rating procedures to analyse and review 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.

In terms of the part of the portfolio in default, risk provisions are measured and monitored on a monthly basis in relation to the associated exposure. The risk provisions significantly mitigated the structural credit risk for the wind-down period as a result of the measurement of the credit portfolio from a purely wind-down perspective within the scope of the Asset Quality Review.

### 95.4. 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 set and monitored independently by Risk Controlling. Limit breaches are immediately reported to the CRO 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 Group is the collection and crediting of generally accepted collaterals. The processing and measurement takes place in line with the collateral policy, which defines in particular the valuation procedures as well as valuation discounts and frequencies of individual collateral types. Framework contracts for netting out mutual risks (close-out netting) are usually agreed on for derivatives business. There are collateral agreements in place for certain business partners, which limit the default risk with individual counterparts to an agreed maximum amount and provide an entitlement to request additional collateral if the amount is exceeded.

### 95.5. Portfolio overview – credit risk

The figures presented in the credit risk report reflect gross exposure, which comprises on-balance-sheet and off-balance-sheet components and does not take hedges and netting agreements into consideration.

#### Distribution of gross exposure within the group

In the year under review exposure within the group fell by EUR 9.2 billion. This was primarily due to the deconsolidating HGAA and Hypo Alpe-Adria Bank S.p.A. which made a year-to-year comparison impossible. The decline was also due to the consistent wind-down of non-performing loans and the stricter implementation of the wind-down strategy.

The share of off-balance exposure fell substantially in 2014, as the current business model only allows for new loan commitments in exceptional cases. Since the deregulation, only business transactions that serve to achieve wind-down targets may be conducted. The off-balance exposure at Heta Group amounting to EUR 0.4 billion was almost exclusively the result of loans and advances to credit institutions (loan commitments to former subsidiaries), while just under a quarter was attributed to guarantees to companies.

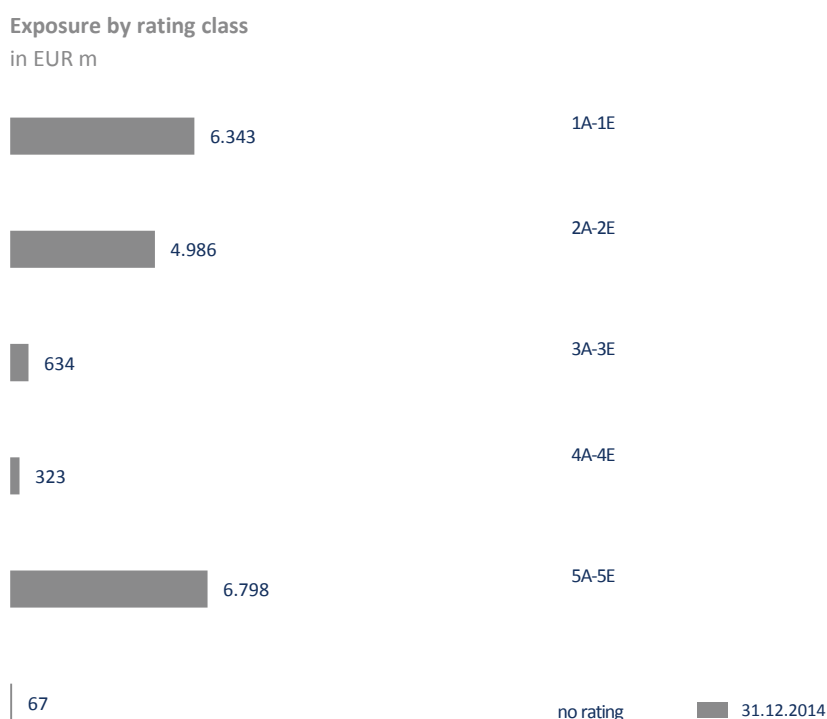
Gross exposure is distributed as follows within the group (gross exposures of deconsolidated subsidiaries of Heta Group are listed under "Other Heta-Institutes"):

**Exposure**  
in EUR m

13.143	Heta Asset Resolution AG
767	Heta Austria
607	Heta Bosnia and Herzegovina
1.410	Heta Croatia
411	Heta Italy
318	Heta Montenegro
390	Heta Serbia
843	Heta Slovenia
1.262	Other Heta-Institutes
31.12.2014	

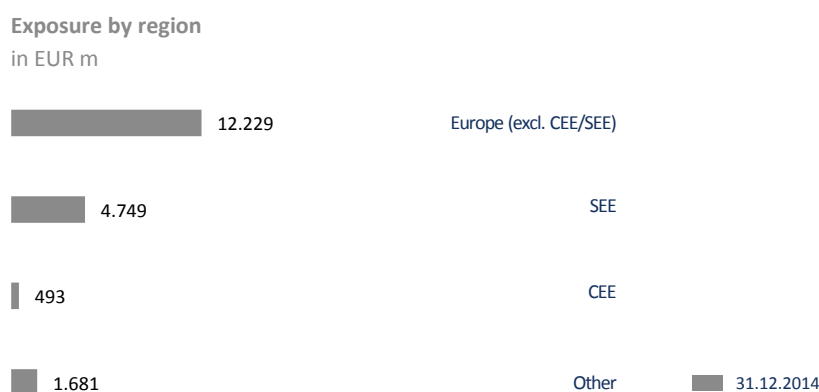
### Gross exposure by rating class within the group

Roughly 60% of gross exposure has a rating between 1A and 2E (best to moderate creditworthiness). This exposure relates mainly to loans to credit institutions and public institutions. All other rating classes recorded a significant decline in exposure as a result of the deconsolidation of HGAA and Hypo Alpe-Adria-Bank S.p.A., including classes 5A to 5E (non-performing loans).



### Gross exposure by region within the group

The country portfolio of the Heta Group is concentrated in the EU and SEE regions. There was essentially a decline in gross exposure in each country/region. The Austrian exposure rose due to the deconsolidation of Hypo Group Alpe Adria AG and the remaining lines of credit.

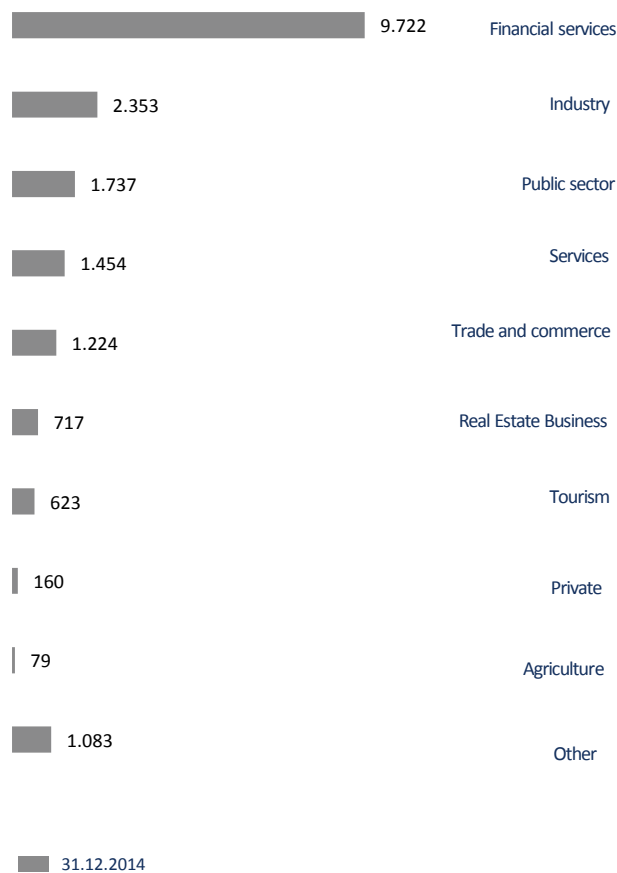


### Gross exposure by business sector

The Heta Group uses a 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 lower-risk industry groups – credit institutions and the public sector – account for a 59.1% share.

#### Exposure by business sector

in EUR m





**Gross exposure by size category of the transactions**

The Heta Group portfolio contains an increased concentration risk, which is also reflected in the breakdown of exposure by size category. In specific terms, 78.9% of exposure is contained in size categories greater than EUR 10 million.

The largest share of the EUR 15.2 billion exposure contained in the range >EUR 10 million is due to banks or the public sector. These transactions are necessary for securing liquidity, long-term investments and hedge transactions. Furthermore the transactions also result from refinancing obligations of former subsidiaries Hypo Group Alpe Adria AG and Hypo Alpe-Adria-Bank S.p.A.

The presentation is based on the group of affiliated clients.

Ticket Size	EUR m	
	31.12.2014	
< 500.000		679
500.000-1.000.000		449
1.000.000-2.500.00		817
2.500.000-5.000.000		863
5.000.000-10.000.000		1.242
10.000.000-25.000.000		1.618
25.000.000-50.000.000		1.609
50.000.000-100.000.000		1.395
100.000.000-500.000.000		3.530
> 500.000.000		6.951
<b>Total</b>		<b>19.152</b>

**95.6. Financial assets by degree of impairment**

Financial assets which are neither overdue nor impaired:

Rating class	EUR m	
	Exposure	Collateral
1A-1E	6.343	763
2A-2E	2.901	328
3A-3E	624	438
4A-4B	262	132
5A-5E	55	25
No rating	51	11
<b>Total</b>	<b>10.237</b>	<b>1.698</b>

Financial assets which are overdue, but not impaired:

Classes of loans and advances	EUR m	
	Exposure	31.12.2014 Collateral
<b>Financial investments</b>	<b>0</b>	<b>0</b>
– due to 30 days	0	0
<b>Loans and advances to credit institutions</b>	<b>176</b>	<b>0</b>
– due to 30 days	175	0
– due 31 to 60 days	0	0
– due 61 to 90 days	0	0
– due 91 to 180 days	0	0
– due 181 to 365 days	0	0
– due over 1 year	1	0
<b>Loans and advances to customers</b>	<b>16</b>	<b>26</b>
– due to 30 days	3	13
– due 31 to 60 days	0	4
– due 61 to 90 days	1	2
– due 91 to 180 days	2	6
– due 181 to 365 days	1	1
– due over 1 year	9	2
<b>Total</b>	<b>192</b>	<b>26</b>

Impaired financial assets:

	EUR m		
	Exposure	Collateral	31.12.2014 Provisions
Financial investments	0	0	0
Loans and advances to credit institutions	1.910	674	1.236
Loans and advances to customers	6.813	925	5.887
<b>Total</b>	<b>8.723</b>	<b>1.599</b>	<b>7.123</b>

Note: During the course of the AQR, the assessment parameters for calculating and evaluating collateral values and the "realisable sales value" were adjusted in line with the new "Real Estate Valuation Standard" policy and "Loan Valuation Guidelines".

#### 95.6.1. FORBEARANCE

In the 2014 financial year, Heta Group continued its monitoring activities relating to customer agreements, which are considered "Forbearance Measures" according to the definition of the European Securities and Markets Authority (ESMA). This procedure is accompanied by reporting to the independent monitoring trustee, who is familiar with the monitoring of criteria from the EU restructuring plan ("behavioural measures").

All customers who found themselves having financial difficulties (and therefore belong to the asset classifications "non-performing" or "watch") were included in the calculation for 2014; they were reviewed with respect to the following criteria:

- Modification of original contractual conditions due to financial difficulties (this also includes prolonging existing loans, restructuring, partial write-offs, the reduction in the interest rate margin, breaches of contract tolerated by the bank, etc.)
- Complete or partial refinancing approved on the basis of the customer suffering financial difficulties.

#### (96) 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, liability risks (e.g. letters of comfort) or profit/loss transfer agreements (loss absorption).

Prior to 2009, Heta Group (or a subsidiary) had invested in companies that either served to expand its business spectrum, provide services for the bank or function as purely financial holdings to achieve its business objectives. The year 2014 was characterised by the ongoing restructuring measures at Heta Group leading to portfolio rationalisation and to disposals in individual cases.

The handling of equity risks is regulated by the group participation policy. Heta Group influences the business and risk policy of associated companies through its representation on shareholder and supervisory committees. In addition, all equity investments are monitored for results and risk on a continuous basis. In the course of its business activities, which now consist of the value-preserving wind-down of assets, Heta Group is systematically reducing any existing participation risks.

### **(97) 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 framework 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.

### **(98) Concentration risk**

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

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

- Counterparty default concentrations
- Industry sector concentrations
- Geographic concentrations
- Collateral concentrations.

### **(99) Market price risk**

Market price risks at Heta originate from the wind down securities portfolio; the credit and securities portfolios in different currencies; which is also to be wound down; the derivative portfolio 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.

Due to the results of the AQR, the Executive Board and the resolution authority Austrian Financial Market Authority (FMA) believes that there are specific objective indications that the company will no longer be in the position to meet due debts and liabilities in the near future. The resolution authority Austrian Financial Market Authority (FMA) issued a resolution on the wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) in the period in which the balance sheet was prepared (see note (1.2) Important events). As part of this decision, a moratorium was placed on all "eligible liabilities" of Heta until 31 May 2016 in preparation for the application of the instrument involving the participation of creditors.

Due to this measure, liability swap hedges were no longer effective and therefore the respective hedge relations were terminated on 31 December 2014. Furthermore, all asset swap hedges based on transactions with a longer term than the wind-down plan were terminated. The negative market values of the stand-alone derivatives are taken into account in the consolidated financial statements with a provision for impending losses.

#### **99.1. Definition**

Market price risks consist of potential losses arising from a change in market prices. Heta Group classifies market price risks according to the risk factors in changes to interest rates, credit spread, currency and share price risks, as well as risks from

alternative investments. The Heta Group pays particular attention to identifying, measuring, analysing and managing the market risk; the organisational division Group Risk Control is responsible for all market risks at group level.

Market liquidity risks result from the illiquidity of securities and shares held in the portfolio.

## 99.2. General requirements

The general requirements for the Heta Group market risk strategy comprise the draft wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG).

## 99.3. Risk measurement

Heta Group calculates its market risk as part of daily monitoring 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 market context (correlations). In the year under review, the calculation of specific interest risk was further refined, also taking into account the increased significance of credit spread risks in the current market situation.

While the VaR that is determined for monitoring requirements is used to forecast potential losses under normal market conditions, forecast analyses using extreme assumptions are also carried out. Market positions are subjected to exceptional market price changes, crisis situations and worst-case scenarios as part of so-called "stress tests", and analysed for hazardous risk potentials using the simulated results. The stress scenarios are monitored for appropriateness and adjusted if required. Back-testing will be performed on the methods and models for defined market risk factors and portfolios at group level and the results presented in Heta Group's monthly market risk report.

## 99.4. Risk limitation

At Heta Group, market risk limits are closely aligned with the risks contained in the portfolio, ensuring that these limits correspond with the company's purpose as a wind-down bank and no new business can be conducted. Furthermore, target volume limits are also defined that allow a comparison between actual figures. They also allow you to monitor, control and document the wind-down progress at Heta Group.

## 99.5. Risk controlling and monitoring

Daily and monthly reports are prepared within the scope of risk controlling.

The daily reports contain value at risk and performance figures for the trading book, the banking book and the market risk steering figures.

The monthly report contains disclosures on the current market risk situation across all Heta Group risks, as well as information on the results of back-testing and stress tests with details of any particularly important developments.

The Asset Liability Committee – which consists of the group's Executive Board as well as key staff in Treasury, Risk Management, Financial Controlling and Accounting – meets on a regular basis to analyse and decide on measures related to financial position structures and liquidity controlling based on risk reports. In addition to group-level monitoring and steering, all subsidiaries and subsidiary portfolios are also monitored and steered.

Limits are set to monitor risks. Should limits be exceeded, escalation processes are defined up to the level of the Executive Board.

## 99.6. Overview – market risk

Material market risks are interest risk, foreign currency risk and credit spread risk.

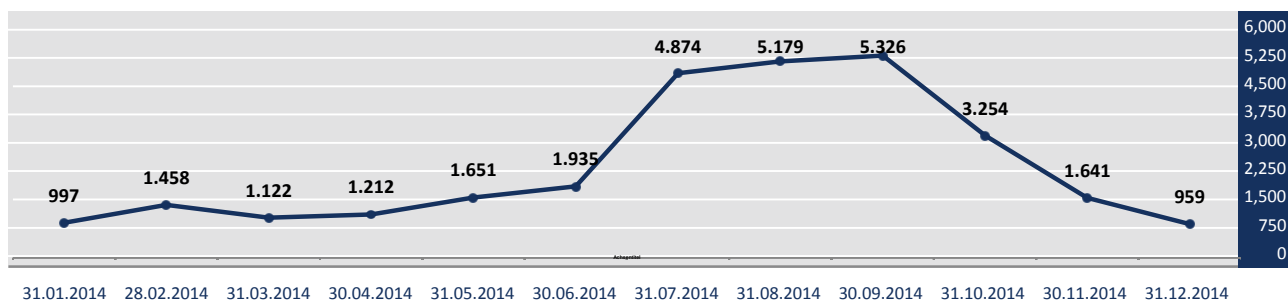
### 99.6.1. INTEREST RATE RISK

The interest rate risk from the Heta 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. The stochastic cash flows are modelled with uniform group standards, while country-specific transactions (UFN) are presented on the basis of local models. All interest gap balances from local leasing companies, brush companies and banks (until September 2014) are consolidated at group level and consolidated in the group interest rate gap balance. Value at risk (VaR) serves as a basis for calculating interest rate risk and thus for limiting risks. The interest rate risk from the trading book is calculated on the basis of a daily VaR. Interest rate risk is controlled by means of interest derivatives available on the market. The primary interest rate risk is the lack of interest derivative partners on the market.

The following chart shows the progression of interest rate risk (banking book & trading book) on a value at risk basis at Hypo Alpe Adria (until September 2014) and at Heta Group (from October 2014) for the year 2014.

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

EUR thousand



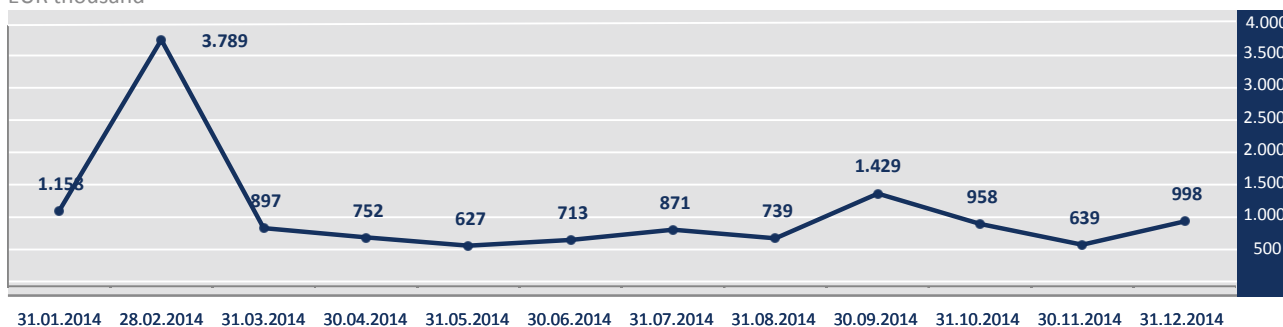
#### 99.6.2. FOREIGN CURRENCY RISK

The database for determining value at risk for foreign currency risk at Heta Group is consolidated group-wide. Foreign currency risk thereby covers the entire FX risk of Heta Group. The primary risk drivers in terms of foreign currency risk are the CHF, RSD, HRK and USD currencies. The value at risk for this foreign currency risk was approximately EUR 1 million per day as at 31 December 2014, at a confidence level of 99%. Foreign currency risk is controlled by means of FX derivatives available on the market. The primary foreign currency risk is the lack of FX derivative partners on the market.

The following chart shows the changes in the foreign currency risk of Heta (Hypo Alpe-Adria-Bank International AG until September 2014) in 2014:

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

EUR thousand



#### 99.6.3. CREDIT SPREAD RISK

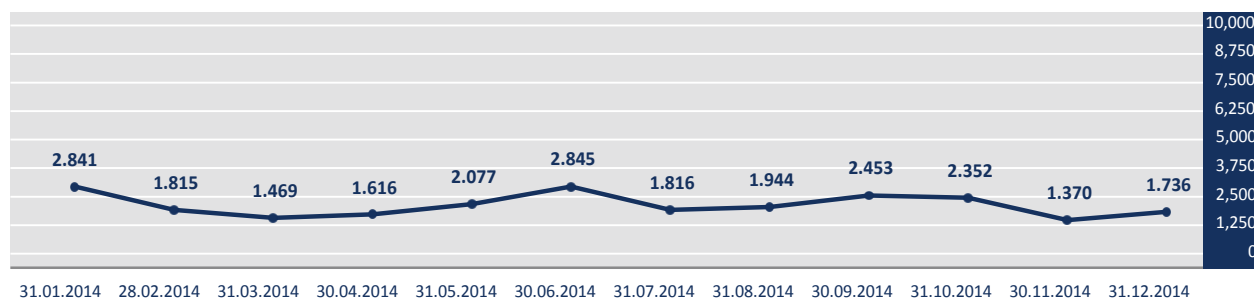
Credit spread risk at Heta originates from the securities portfolio. The securities portfolio comprises transactions from previous investing activities and liquid bonds with extremely good creditworthiness held as liquidity reserves. The securities portfolio from investment transactions is wound down swiftly and in a value-preserving manner. The liquidity reserve consists of highly liquid and marketable funds.

The liquid credit spread risk within Heta Group was EUR 1.74 million at year-end 2014 with a one-day value at risk at a confidence level of 99%. The illiquid credit spread risk as at year-end 2014 was EUR 0.22 million.

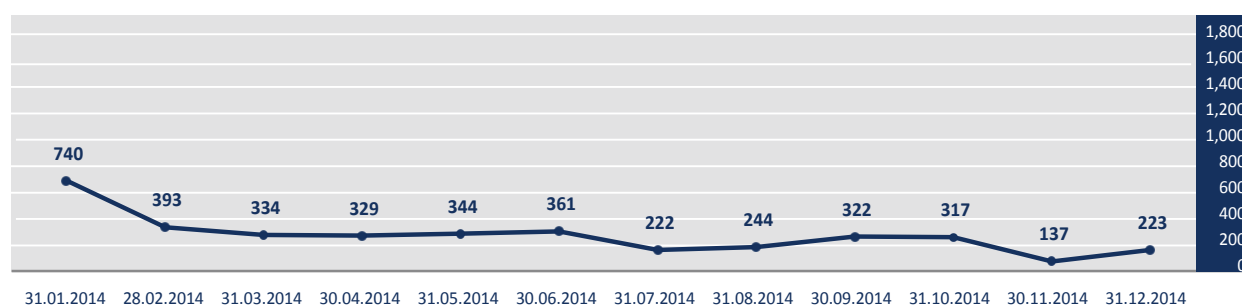
The following chart shows the changes in the credit spread risk at Heta Group (until September 2014: Hypo Alpe Adria) in 2014:

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

EUR thousand

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

EUR thousand

**(100) Liquidity risk**

Heta is exposed to a significant structural liquidity risk and, in the view of the Executive Board, there are specific objective indications that the company will no longer be in the position to meet due debts and liabilities in the near future. In the period in which the balance sheet was prepared, the wind-down authorities issued a resolution on the arrangement of wind-down measures in accordance with the Federal Act on the Recovery and Resolution of Banks (BaSAG) (see note (1.2) Important events). Under this resolution, a moratorium was imposed until 31 May 2016 on all “eligible liabilities” of Heta in preparation of the application of the creditor participation instrument.

The regulations that came into force in the time up until mid-2015, such as the Hypo Alpe Adria Restructuring Act (HaaSanG), the Directive on the Expiry of Certain Subordinate Liabilities and Shareholder Liabilities of the Former Hypo Alpe-Adria-Bank International AG, the Federal Act on the Recovery and Resolution of Banks (BaSAG) and the Austrian Financial Markets Authority (FMA) Mandate over the Imposition of a Debt Moratorium had a short-term stabilising effect on the liquidity situation of the Heta Group. The following report is based on liquidity risk management after deregulation. Since deregulation, independent refinancing opportunities no longer exist. Available liquidity reserves are managed in accordance with the requirements of the draft wind-down plan pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA). Various legal proceedings against Heta Asset Resolution AG and its subsidiaries can significantly impair existing liquidity reserves if not found in favour of Heta (GSA) (see note (130) Important proceedings).

**100.1. Definition**

The Heta Group 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 of market prices.

**100.2. General requirements**

The strategic principles of handling liquidity risks at the Heta Group are defined in the risk strategy. The overriding objective of liquidity risk management and controlling is to ensure that the bank measures its capacity to make payments and undertake refinancing activities at any time and determines in advance any possible liquidity risks in the future and escalates cases

and reports to the Executive Board, the Supervisory Board, the Austrian National Bank (OeNB), the Austrian Financial Market Authority (FMA) and the wind-down authority.

Liquidity steering and management at group level are in the responsibility of the Group Balance Sheet Management & Treasury division of the Heta Group. The steering of situational and structural liquidity has been managed by this division. Group Risk Control is responsible for liquidity risk controlling at the Heta Group. Risk measurement and the timely and consistent reporting are in the responsibility of Group Risk Control.

In accordance with the Federal Act on the Recovery and Resolution of Banks (BaSAG), the wind-down authority has powers and instruments that are applicable to Heta. Instruments include the participation of holders of relevant capital instruments. Reports are submitted on an ongoing basis to the wind-down authority.

### 100.3. Risk measurement

The main methodological tool for measuring, analysing, monitoring and reporting of liquidity risk within the Heta Group 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 potential quantifies the capacity of the wind-down unit – in terms of amounts and dates – to procure liquid funds at the earliest possible opportunity. It highlights options regarding the coverage of liquidity gaps, and hence all liquidity risks related to payment flows. The most important components of liquidity potential are as follows:

- Highly liquid, available securities
- Central bank funds

Aside from the normal scenario, other scenario analysis such as pending lawsuits are added to the spectrum of risk measurement.

On the basis of the liquidity overview, key indicators are determined for the different scenarios, which allow a compact assessment of the liquidity situation.

### 100.4. Risk controlling

Heta holds liquidity reserves for any payment obligations.

In addition, a separate liquidity buffer is also maintained for defined stress scenarios, which comprises highly liquid securities and balances at the Austrian National Bank (OeNB)

Liquidity controlling at Heta Group is performed centrally. The basis of liquidity risk controlling is a cash flow statement which contains deterministic and stochastic cash flows. Any occurring gaps are compared to the liquidity potential. When possible, liquidity reserves are subjected to a regular review and to stress situations.

Total short-term liquidity potential as at 31 December 2014 stood at EUR 3,061 million. The short- and medium-term liquidity risk, which mainly results from the maturity of own issues in 2016 and 2017, can no longer be borne through own funds.

TEUR

Liquidity Buffer	Heta countable
High Quality Securities (incl. Credit Claims)	614.560
Central Bank Reserves	2.358.727
Cash	0
Counterbalancing Measures	Heta countable
Other liquefiable Assets (short-, medium term)	87.988
Intragroup Liquidity Support	0
Committed/Required Credit Lines	0
New Issuance	0
Securitization	0
Covered Pool Potential	0
<b>Total Counterbalancing Capacity</b>	<b>3.061.275</b>

### 100.5. Risk monitoring

Short-term liquidity risks are monitored on the basis of an internal "Liquidity Coverage Ratio" and also through the integration of structural liquidity gap balance for Heta Holding and its subsidiaries.

Corresponding limits are defined for short-term liquidity; these limits are monitored constantly. Long-term structural liquidity is continuously monitored with the help of the capital commitment statement.

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 Austrian National Bank (OeNB), the Austrian Financial Market Authority (FMA) and the wind-down authority.

### 100.6. Overview – Liquidity situation

All in all, the liquidity situation at the Heta Group in 2014 was characterized by over-liquidity. Liquidity generation at the wind-down unit takes place primarily through the liquidation of loan, real estate and security portfolios alongside ongoing interest and redemption income. In 2014 the liquidity reserve had not been used. No capital market activities were carried out in 2014.

In 2014, capital measures of EUR 750 million were performed by the owner, the Republic of Austria. As a result of payments from refinancing lines from subsidiaries and capital measures, the liquidity as at the end of 2014 stood at roughly EUR 2.3 billion. Due to the debt moratorium that has been imposed and on the basis of the expected in- and out-flows, the liquidity position is expected to be sufficient in 2015. The mid- to long-term liquidity does not exist.

Below is a listing of due dates for the financial liabilities of Heta, based on the following conservative assumptions:

- Current accounts, call money and cash collaterals are due on the next working day;
- Dead stock cash flows (primary funds, in accordance with the Federal Law on the Creation of a Wind-Down Entity (GSA)) are excluded (only legal due date is decisive) and are also set due on the next working day;
- Equity components, accruals, impairment write-downs and positions not relevant to liquidity are not represented.

m EUR

At 31 December 2014	1 Y -2015	2 Y -2016	3 Y -2017	4 Y -2018	5 Y -2019	> 5 Y (> 2019)	Total
Financial liabilities*							
Liabilities to credit institutions	2.270	76	2	1	1	3	2.353
Liabilities to customers**	13	0	0	0	0	0	13
Liabilities evidenced by certificates	2.398	1.768	3.548	0	363	0	8.077
Other liabilities	381	384	932	44	152	0	1.893
Subordinated capital and hybrid capital	0	0	0	0	0	1.084	1.084
<b>Summe</b>	<b>5.062</b>	<b>2.228</b>	<b>4.482</b>	<b>45</b>	<b>516</b>	<b>1.088</b>	<b>13.420</b>

\*relevant to liquidity

\*\*in accordance with GSA

As the table shows, the main due dates for issues and refinancing instruments stretch out to 2017 in addition to the conservative modelling of liabilities in the first maturity band. The due date analysis for derivatives covers interest rate swaps, cross currency swaps and FX swaps, which are divided into portfolios, which are relevant for steering:

m EUR

At 31 December 2014	1 Y -2015	2 Y -2016	3 Y -2017	4 Y -2018	5 Y -2019	> 5 Y (> 2019)	Total
Net cashflow from derivatives							
Banking Book	-20	-18	-14	-11	-10	-49	-122
Market Risk Steering ALM	193	171	110	16	5	-4	491
Market Risk Steering B2B	1	0	0	0	0	0	1
Market Risk Steering FVO	12	10	10	-2	-4	-32	-6
Market Risk Steering FX	-133	4	-34	-37	0	0	-200
Market Risk Steering HA	5	4	1	1	1	4	16
<b>Total</b>	<b>58</b>	<b>171</b>	<b>73</b>	<b>-33</b>	<b>-8</b>	<b>-81</b>	<b>180</b>



## (101) Operational risk

The Heta Group 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 reputational risks, but does not contain strategic risks.

The aim of operational risk management at the Heta Group is the use of a “proactive approach” (risk management) instead of a “reactive approach” (managing losses).

Operational risks are identified and evaluated, in order to have suitable measures for the prevention, reduction, transfer or acceptance of risks, including priorities for the implementation of safety and protection measures, can be defined.

For this reason, all subsidiaries are taken into account of every aspect of the operational risk management.

In order to ensure that synergy effects are achieved, arrangements have been made with Group Legal Services. The operational risk management software (“SAS”) will include legal cases, including those which are not associated with OpRisk. The advantage of this approach is that it enables the creation of a common platform for the exchange of information between the different areas.

The operational risk strategy is supported by different instruments and methods which are used to identify and evaluate risks. Measures to limit damages must be planned on the basis of the results.

The following methods are used to support the strategy:

- Loss database for the systematic data collection of operational risks throughout the organisation
- Qualitative instruments such as scenario analyses to determine and evaluate the risks within business processes
- Regular reports as an instrument for communicating significant operational risks to the Executive Board

The current threshold for the reporting of losses within the Heta Group has been set at EUR 5,000.

This process is designed to ensure that all losses from operational risks are reported to Group Risk Control and documented in the database. Detailed analyses are conducted for significant losses.

Measures are to be defined on the basis of the losses incurred and taking into account the results of the risk analysis (such as operational risks) so as to minimise risks. The effectiveness of these measures needs to be assessed on a regular basis.

Operational risks arise for the Heta Group on account of the many heterogeneous processes and the decentralised group landscape. Organisation changes in the wind-down units are required to be monitored constantly to recognise new risks at an early stage. An adequate network consisting of control mechanisms, fraud prevention, process analyses and optimisation needs to be implemented to prevent risks.

### OpRisk 2014 milestones and results

The focus of OpRisk in 2014 was the analysis of activities carried out in previous years concerning the precise development of risk avoidance measures and the capture of operational risks. In cooperation with the Legal, Compliance and Process Management departments, weaknesses and potential for improvement are identified and processes are adapted.

Priority was given in 2014 to the implementation of an OpRisk framework designed specifically for wind-down units. New OpRisk policies and manuals were rolled out through the group.

A new “Target Operating Model” was implemented in the “HETA Implementation Program” (HIP) project with the realignment of the Heta Group with regard to its wind-down targets. This results in a significant change in the process landscape within Heta.

A new internal control system for the new processes of the wind-down unit is expected to be drawn up in 2015, thereby ensuring that wind-down targets are met. The efforts of the operational risk framework are consistently pursued, improved and adjusted in line with the new organisational structure and the processes.

## (102) Object risk

Real estate is remeasured in the course of the Asset Quality Review. The resulting impairments are taken into consideration in the consolidated financial statement. Please refer to note (5) Asset Quality Review (AQR) / adjustment of measurement parameters based on GSA for further details. Heta Group considers object risk to comprise all potential losses caused by fluctuations in the market value of movable assets and real estates in the possession of Heta Group and which could endanger the planned sale. Real estate risks offset by collateral for real estate loans (residual risks) do arise, but are not accounted for here as they are already covered through credit risk.

The Heta Group aims to reduce object risk exposures by pro-actively selling the assets in question in a timely manner. The market and/or carrying amounts of the assets in question serve as the basis for the measurement of object risk.

### **(103) Other risks**

The Heta Group classes the following risk types as “Other risks”:

- Strategic risk
- Reputation risk
- Business risk.

### **(104) Legal risks**

Please refer to note (130) Important proceedings for comments by Heta and its subsidiaries on pending proceedings. Potential losses from these proceedings can have a significantly negative impact on the overall Heta liquidity situation.

### **(105) Tax risks relating to tax audits**

The tax audits carried out by the respective tax authorities in Austria and other group countries in the last few years have been completed for the most part. Provisions have already been booked in the consolidated financial statements as at 31 December 2014 for quantifiable audit results that have already been communicated to the Heta Group and where the Heta Group generally agrees with the tax opinion of tax authority. In the case of findings with divergent opinions, the Heta Group has filed an appeal and, depending on its assessment of how successful the appeal may be, has also formed provisions.

Furthermore, the Heta Group has assumed arm's-length tax guarantees in relation to the sale of the Austrian subsidiary Hypo Group Alpe Adria AG (HGAA AG; formerly Hypo SEE Holding AG). The resulting amount of anticipated utilisation was determined by an appraiser and corresponding provisions were formed in the consolidated financial statements per 31 December 2014.

## Supplementary information

### (106) Remaining maturity

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 investments – designated at fair value through profit or loss	4.7	0.0
Financial investments – available for sale	23.6	265.1
Financial investments – 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>

The remaining term of maturity is the period between the end of the reporting period and the expected payment date for a loan or the contractual date of the repayment of a liability. Where loans or liabilities fall due in partial amounts, the remaining maturity is reported separately for each partial amount. The maturity analysis is made according to the carrying amount.

The liabilities to financial institutions that are due daily and the liabilities evidenced by certificates include financing granted by BayernLB in a nominal amount of EUR 1,553.7 million that in the opinion of Heta falls under the Equity Substitution Act (EKEG).

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	<b>2,365.3</b>	0.0	0.0	<b>0.0</b>	<b>2,365.3</b>
	655.5	<b>2,720.1</b>	953.1	265.3	<b>1,218.4</b>	<b>3,938.5</b>
	-1,234.1	<b>-824.4</b>	-12.8	0.0	<b>-12.8</b>	<b>-837.2</b>
	575.4	<b>4,408.7</b>	1,901.4	2,429.0	<b>4,330.4</b>	<b>8,739.1</b>
	-359.1	<b>-3,764.6</b>	-1,365.6	-854.0	<b>-2,219.6</b>	<b>-5,984.3</b>
	0.0	<b>0.0</b>	0.0	0.0	<b>0.0</b>	<b>0.0</b>
	21.8	<b>24.2</b>	537.5	394.7	<b>932.1</b>	<b>956.3</b>
	195.9	<b>200.6</b>	58.6	230.0	<b>288.6</b>	<b>489.2</b>
	377.1	<b>665.8</b>	351.5	88.8	<b>440.3</b>	<b>1,106.1</b>
	0.0	<b>0.0</b>	0.0	0.0	<b>0.0</b>	<b>0.0</b>
	1.4	<b>1.4</b>	0.7	0.0	<b>0.7</b>	<b>2.0</b>
	38.0	<b>38.9</b>	221.2	529.5	<b>750.7</b>	<b>789.6</b>
	0.2	<b>0.3</b>	-0.9	0.5	<b>-0.3</b>	<b>0.0</b>
	12.9	<b>13.2</b>	18.3	11.3	<b>29.5</b>	<b>42.8</b>
	9.3	<b>9.4</b>	35.4	0.0	<b>35.4</b>	<b>44.8</b>
	1.8	<b>1.9</b>	18.8	0.0	<b>18.8</b>	<b>20.7</b>
	7.5	<b>7.5</b>	16.6	0.0	<b>16.6</b>	<b>24.1</b>
	79.2	<b>99.8</b>	0.0	0.0	<b>0.0</b>	<b>99.8</b>
	56.0	<b>176.4</b>	118.3	14.6	<b>133.0</b>	<b>309.3</b>
	-0.3	<b>-27.1</b>	-3.5	0.0	<b>-3.5</b>	<b>-30.6</b>
	<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	<b>2,491.5</b>	274.2	79.7	<b>353.8</b>	<b>2,845.3</b>
	146.9	<b>218.2</b>	1,262.1	95.2	<b>1,357.3</b>	<b>1,575.5</b>
	1,466.1	<b>2,416.2</b>	5,989.1	345.5	<b>6,334.6</b>	<b>8,750.8</b>
	132.7	<b>138.5</b>	124.2	527.1	<b>651.3</b>	<b>789.8</b>
	985.6	<b>997.9</b>	447.1	0.9	<b>448.0</b>	<b>1,445.9</b>
	29.9	<b>30.9</b>	1.7	0.7	<b>2.4</b>	<b>33.3</b>
	29.9	<b>30.7</b>	-0.2	0.0	<b>-0.2</b>	<b>30.4</b>
	0.0	<b>0.2</b>	2.0	0.7	<b>2.6</b>	<b>2.8</b>
	2.8	<b>4.1</b>	0.0	0.0	<b>0.0</b>	<b>4.1</b>
	33.1	<b>75.2</b>	23.3	31.9	<b>55.2</b>	<b>130.4</b>
	0.1	<b>0.1</b>	0.0	1,155.2	<b>1,155.3</b>	<b>1,155.4</b>
	0.0	<b>0.0</b>	0.0	0.4	<b>0.4</b>	<b>0.4</b>
	<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>

Analysis of remaining maturity as of 31.12.2013	thereof : due on demand	up to 3 months
Cash and balances at central banks	2,312.7	0.0
Loans and advances to credit institutions	1,475.8	173.9
Risk provisions on loans and advances to credit institutions	-8.2	0.0
Loans and advances to customers	5,885.1	1,365.4
Risk provisions on loans and advances to customers	-2,329.3	-148.0
Trading assets	12.5	0.0
Derivative financial instruments	3.7	21.2
Financial investments – designated at fair value through profit or loss	0.0	0.0
Financial investments – available for sale	0.0	347.4
Financial investments – held to maturity	0.0	2.6
Investments in companies accounted for at equity	0.0	0.0
Investment properties	0.0	0.0
Intangible assets	0.0	0.0
Tangible assets	0.0	0.0
Tax assets	0.0	7.2
thereof current tax assets	0.0	7.2
thereof deferred tax assets	0.0	0.0
Assets classified as held for sale	0.0	1.5
Remaining other assets	130.0	92.2
Risk provisions on loans and advances on other assets	-35.3	-0.3
<b>Total</b>	<b>7,446.9</b>	<b>1,863.2</b>
Liabilities to credit institutions	3,231.9	229.0
Liabilities to customers	1,276.4	1,208.4
Liabilities evidenced by certificates	249.6	852.7
Derivative financial instruments	0.1	6.6
Provisions	0.0	18.3
Tax liabilities	0.0	0.5
thereof current tax liabilities	0.0	0.5
thereof deferred tax liabilities	0.0	0.0
Liabilities included in disposal groups classified as held for sale	0.0	0.0
Remaining other liabilities	25.6	96.3
Subordinated capital	0.0	240.8
Hybrid capital	0.0	0.0
<b>Total</b>	<b>4,783.7</b>	<b>2,652.7</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	2,312.7	0.0	0.0	0.0	2,312.7
	61.5	1,711.3	330.9	45.3	376.1	2,087.4
	0.0	-8.2	-0.1	0.0	-0.1	-8.3
	2,538.2	9,788.7	5,707.5	3,792.7	9,500.2	19,289.0
	-253.1	-2,730.4	-630.4	-464.3	-1,094.7	-3,825.1
	0.0	12.5	0.0	0.0	0.0	12.5
	11.5	36.4	762.3	271.3	1,033.6	1,070.1
	0.0	0.0	189.9	315.3	505.2	505.2
	687.9	1,035.3	1,129.4	256.8	1,386.2	2,421.5
	0.1	2.7	41.8	39.3	81.1	83.7
	1.4	1.4	4.5	0.0	4.5	5.9
	0.0	0.0	241.9	873.4	1,115.3	1,115.3
	0.2	0.2	2.2	13.9	16.1	16.3
	0.0	0.0	63.2	197.6	260.8	260.8
	33.5	40.7	83.9	2.1	86.0	126.7
	33.5	40.7	-12.6	0.9	-11.7	29.0
	0.0	0.0	96.5	1.2	97.7	97.7
	96.0	97.5	0.0	0.0	0.0	97.5
	130.2	352.4	114.0	222.2	336.2	688.6
	-1.2	-36.8	-4.4	0.0	-4.4	-41.2
	<b>3,306.3</b>	<b>12,616.4</b>	<b>8,036.7</b>	<b>5,565.5</b>	<b>13,602.2</b>	<b>26,218.6</b>
	55.9	3,516.8	873.6	274.9	1,148.5	4,665.3
	1,518.0	4,002.8	1,960.8	157.3	2,118.2	6,120.9
	455.2	1,557.5	8,820.7	17.5	8,838.2	10,395.7
	4.3	11.1	326.6	439.6	766.2	777.3
	118.9	137.3	49.1	5.1	54.3	191.5
	1.8	2.3	5.8	6.6	12.4	14.8
	1.8	2.3	0.0	0.0	0.0	2.3
	0.0	0.0	5.8	6.6	12.4	12.4
	5.6	5.6	0.0	0.0	0.0	5.6
	59.3	181.2	14.3	77.2	91.4	272.7
	0.2	241.0	271.4	1,402.5	1,673.8	1,914.8
	0.0	0.0	0.0	1.2	1.2	1.2
	<b>2,219.2</b>	<b>9,655.6</b>	<b>12,322.3</b>	<b>2,381.9</b>	<b>14,704.2</b>	<b>24,359.8</b>

**(107) Finance leases**

Receivables under finance lease are included in loans and advances to credit institutions and to customers; they break down as follows:

EUR m

	31.12.2014*	31.12.2013
<b>Minimum lease payments (agreed instalments + guaranteed residual value)</b>	<b>1,666.1</b>	<b>4,325.9</b>
<b>non guaranteed residual value (+)</b>	<b>11.5</b>	<b>436.5</b>
<b>Gross investment value (=)</b>	<b>1,677.7</b>	<b>4,762.4</b>
up to 1 year	573.7	1,031.6
from 1 year to 5 years	637.0	1,772.1
over 5 years	467.0	1,958.7
<b>Unrealized financial income (interest) (-)</b>	<b>-175.8</b>	<b>-725.0</b>
up to 1 year	-39.0	-126.1
from 1 year to 5 years	-88.3	-333.5
over 5 years	-48.5	-265.4
<b>Net investment value (=)</b>	<b>1,501.9</b>	<b>4,037.4</b>

The cumulated risk provision on uncollectible outstanding minimum leasing payments from finance lease for 2014 amounts to EUR -477.0 million (2013: EUR -454.3 million, of which EUR -27.7 million from discontinued operations).

The total amount of contingent payment of rents from finance lease contracts recognised as income in the reporting period was EUR 7.0 million (2013: EUR 9.0 million).

The previous year's minimum lease payments include EUR 1,912.9 million from operations discontinued in 2014.

EUR m

	31.12.2014*	31.12.2013
<b>Present value of non guaranteed residual values</b>	<b>11.5</b>	<b>436.5</b>
up to 1 year	0.5	30.8
from 1 year to 5 years	3.5	69.1
over 5 years	7.5	336.6
<b>Present value of minimum lease payments</b>	<b>1,490.3</b>	<b>3,600.9</b>
up to 1 year	534.3	874.6
from 1 year to 5 years	545.2	1,369.6
over 5 years	410.9	1,356.8

The present value of the non - guaranteed residual value for the previous year includes an amount of EUR 421.8 million from operations discontinued in 2014. The present value of minimum lease payments for the previous year includes an amount of EUR 1,454.8 million from operations discontinued in 2014.

The net investments from finance leases also include the present value of the non - guaranteed residual value.

Leased assets corresponding to finance leases break down as follows:

EUR m

	31.12.2014*	31.12.2013
Real-estate leases	1,095.4	2,986.4
Vehicle leases	113.1	458.1
Boat leases	28.1	107.2
Other movables	265.3	485.6
<b>Total</b>	<b>1,501.9</b>	<b>4,037.4</b>

The real estate leases item for the previous year includes an amount of EUR 1,617.6 million from operations discontinued in 2014.

**(108) Operating leases**

The future minimum lease payments from non-terminable operating leases are as follows for the past two financial years:

EUR m

	31.12.2014	31.12.2013
up to 1 year	83.4	81.2
from 1 to 5 years	172.6	219.3
over 5 years	112.8	94.3
<b>Total</b>	<b>368.8</b>	<b>394.8</b>

The breakdown of minimum lease payments from non-terminable operating leases, by leased assets, is as follows:

EUR m

	31.12.2014	31.12.2013
Real-estate leases	340.4	340.6
Vehicle leases	7.5	21.3
Boat leases	0.0	3.4
Other movables	20.9	29.4
<b>Total</b>	<b>368.8</b>	<b>394.8</b>

Contingent lease payments from operating leases recorded as income in the reporting period totalled EUR 0.0 million (2013: EUR 4.0 million).

**(109) Borrowing costs**

Borrowing costs arising in relation to qualified assets as per IAS 23 are capitalised together with manufacturing costs. In the 2014 financial year, no borrowing costs were capitalised (2013: EUR 0.0 million).

**(110) Development costs**

In the 2014 financial year, Heta did not capitalise any development costs (2013: EUR 0.7 million) for self-generated software as defined in IAS 38 "Intangible assets".

**(111) Assets/liabilities in foreign currencies**

The following statement of financial position amounts is in foreign currency denominations:

EUR m

	31.12.2014	31.12.2013
Assets	2,352.2	8,929.0
Liabilities	985.2	5,433.6

The majority of the difference between the respective sums is hedged through foreign exchange swaps and foreign exchange forwards (currency swaps and cross-currency swaps). The impairments made within the scope of the AQR, which were taken into account in the 2014 consolidated financial statements also relate to loans and liabilities denominated in a foreign currency (CHF). The retrospective initial recognition of these impairments as at 31 December 2014 within the scope of the consolidated financial statements and the increase in the CHF/EUR exchange rate in January 2015 resulted in an open currency position as at 31 December 2014, which only led to foreign currency losses in 2015. The resulting losses that arose cannot be recognised in the 2014 consolidated financial statements.



**(112) Fiduciary transactions**

The sum of fiduciary transactions at the end of the reporting period which are not shown in the statement of financial position was as follows:

EUR m

	31.12.2014	31.12.2013
Loans and advances to customers	45.4	54.1
<b>Fiduciary assets</b>	<b>45.4</b>	<b>54.1</b>
Liabilities to credit institutions	33.1	35.9
Liabilities to customers	12.3	18.1
<b>Fiduciary liabilities</b>	<b>45.4</b>	<b>54.1</b>

**(113) Repurchase agreements**

At the end of the year, the following repurchase and reverse repurchase commitments from repurchase agreements existed:

EUR m

	31.12.2014	31.12.2013
Liabilities to credit institutions	0.0	230.4
Liabilities to customers	0.0	0.0
<b>Repurchase agreements</b>	<b>0.0</b>	<b>230.4</b>

The figures for the previous year include an amount of EUR 230.4 million from operations discontinued in 2014.

EUR m

	31.12.2014	31.12.2013
Loans and advances to credit institutions	0.0	0.0
Loans and advances to customers	0.0	12.9
<b>Reverse repurchase agreements</b>	<b>0.0</b>	<b>12.9</b>

The figures for the previous year include an amount of EUR 12.9 million from operations discontinued in 2014.

**(114) Assets given as collateral**

Assets with a value of EUR 520.6 million (2013 adjusted: EUR 470.6 million) were provided to third parties as collateral for own debts. These are mainly cash collaterals given as security related to derivatives. Further, securities of EUR 116.7 million (2013: EUR 1,175.2 million) were deposited with the Oesterreichische Nationalbank (OeNB) and the European Investment Bank (EIB) for possible refinancing. The corresponding assets continue to be recognised in Heta's statement of financial position.

EUR m

	31.12.2014	31.12.2013
Liabilities to credit institutions	520.6	470.6
Liabilities to customers	0.0	0.0
<b>Total</b>	<b>520.6</b>	<b>470.6</b>

Securities in the amount of EUR 84.7 million (2013: EUR 126.2 million) were loaned through securities transactions.

**(115) Subordinated assets**

The following assets shown in the statement of financial position are subordinated assets:

EUR m

	31.12.2014	31.12.2013
Loans and advances to customers	0.2	2.5
Financial investments – available for sale	22.8	45.1
<b>Total</b>	<b>23.1</b>	<b>47.6</b>

### (116) Contingent liabilities and other off-balance-sheet liabilities

The following off-balance-sheet liabilities existed on the reporting date:

EUR m

	31.12.2014	31.12.2013
<b>Contingent liabilities</b>	<b>220.5</b>	<b>508.5</b>
from bills of exchange transferred for settlement	0.0	0.2
from credit guarantees	180.0	260.7
from letters of credit	18.5	31.2
from other guarantees	5.8	200.8
from other contingent liabilities	16.2	15.6
<b>Other liabilities</b>	<b>303.3</b>	<b>482.4</b>
from irrevocable credit commitments	290.3	472.8
from other liabilities	13.0	9.6
<b>Total</b>	<b>523.8</b>	<b>990.9</b>

Other liabilities include liabilities due to the purchase or construction of investment properties and tangible assets totalling EUR 0.0 million (2013: EUR 6.2 million).

The figures for other guarantees for the previous year include an amount of EUR 200.8 million and credit guarantees of EUR 59.0 million from operations discontinued in 2014.

### (117) Liability for commitments issued through the “Pfandbriefstelle”

As a member of the Mortgage Bond Division of the Austrian State Mortgage Banks (Pfandbriefstelle), Heta Asset Resolution AG in accordance with section 2 (1) of the Austrian Pfandbriefstelle Act (PfBrStG) is jointly liable with the other members for all the Pfandbriefstelle’s liabilities. This liability applies equally for all other member institutions and their legal successors as listed in section 1 (2) of the articles of association of the Pfandbriefstelle. For liabilities of the Pfandbriefstelle which arose before 2 April 2003, or after 2 April 2003 with a term not beyond 30 September 2017, the guarantors (the State of Carinthia) of the member institutions are according to section 2 (2) of the PfBrStG equally jointly liable. In the audit report for the Pfandbriefstelle setting out the legal obligations on liabilities, the value of the liabilities to be covered by the guarantors was put at approximately EUR 5.5 billion as at the reporting date 31 December 2014 (2013: EUR 6.2 billion). This equates to almost the entire sum of the Pfandbriefstelle’s liabilities as at 31 December 2014. After taking account of the funds taken up by the Pfandbriefstelle and forwarded to Heta Asset Resolution AG, in the amount of EUR 1.2 billion (2013: EUR 1.2 billion), the resulting amount which must be reported in accordance with section 237 (8a) of the Austrian Commercial Code (UGB) comes to EUR 4.3 billion (2013: EUR 4.9 billion).

According to the Austrian Financial Market Authority (FMA) decision of 1 March 2015, the liabilities of Heta towards Pfandbriefbank (Österreich) AG and the Pfandbriefstelle were deferred. The member institutions and guarantors have already paid the due liabilities based on the joint surety and, in turn, have received a claim for recourse against Heta, which comes under the deferral effect of the decision.

**(118) Breakdown of securities admitted to stock exchange trading**

EUR m

	31.12.2014	31.12.2013
<b>Trading assets</b>		
Bonds and other fixed-interest securities	0.0	6.1
thereof listed	0.0	6.1
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 investments – designated at fair value through profit or loss</b>		
Bonds and other fixed-interest securities	192.3	197.1
thereof listed	63.1	70.0
thereof unlisted	129.2	127.1
Shares and other non-fixed-interest securities	8.4	18.4
thereof listed	1.8	1.9
thereof unlisted	6.6	16.6
<b>Financial investments – available for sale</b>		
AFS-shares in affiliated, non-consolidated companies (>50%)	9.3	26.4
thereof listed	0.0	0.0
thereof unlisted	9.3	26.4
Other participations (associated companies 20% –50%)	0.0	1.3
thereof listed	0.0	0.0
thereof unlisted	0.0	1.3
Participations without intension for sale (under 20%)	0.0	1.6
thereof listed	0.0	0.0
thereof unlisted	0.0	1.6
Bonds and other fixed-interest securities	833.7	1,420.4
thereof listed	619.6	1,288.6
thereof unlisted	214.1	131.8
Shares and other non-fixed-interest securities	19.8	31.3
thereof listed	14.8	19.3
thereof unlisted	5.0	12.0
Treasury bills, eligible for refinancing with central banks	235.2	916.4
thereof listed	235.2	542.6
thereof unlisted	0.0	373.9
<b>Financial investments – held to maturity</b>		
Bonds and other fixed-interest securities	0.0	83.7
thereof listed	0.0	83.7
thereof unlisted	0.0	0.0

**(119) Restructuring expenses**

The restructuring expenses comprise the following elements:

EUR m

	1.1. - 31.12.2014	1.1. - 31.12.2013*
Restructuring provisions	-25.5	-10.6
Other restructuring costs	-1.0	-0.4
Release of not fully used restructuring provisions	0.0	0.4
<b>Total</b>	<b>-26.5</b>	<b>-10.7</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

In the 2014 financial year, Heta again set aside restructuring provisions, particularly at parent company level. This provision was established for future payments as part of a social plan agreed in an arbitration process together with the Works Council.

**(120) Audit expenses**

The following fees were incurred by audit companies Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (EY) as well as KPMG Austria GmbH (KPMG) in the period under review:

EUR m

	31.12.2014	31.12.2013*
<b>Audit fees for the annual financial statements</b>	<b>-2.2</b>	<b>-2.0</b>
Expenses for the current year	-2.2	-2.0
thereof EY	-1.4	-2.0
thereof KPMG	-0.7	0.0
Expenses relating to the previous year	0.0	0.0
<b>Fees for other services</b>	<b>-2.9</b>	<b>-0.2</b>
Other assurance services	0.0	0.0
Tax consultancy	-0.2	0.0
thereof EY	0.0	0.0
thereof KPMG	-0.2	0.0
Other services	-2.7	-0.2
thereof EY	-0.2	-0.2
thereof KPMG	-2.6	0.0
<b>Total services</b>	<b>-5.1</b>	<b>-2.2</b>

\*) Previous year's figures were adjusted, see note (13) Adjustment of previous year's figures.

The audit expenses incurred in the 2014 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 Asset Resolution AG or to its subsidiaries have been included in the total sum.

The costs of the audit of the consolidated financial statements relate to costs for auditing the (local) annual financial statements, the group reporting packages of the subsidiaries audited by EY and KPMG, as well as the costs of the consolidated financial statement itself. The comparative figures for 2013 were adjusted for the expenses relating to discontinued operations (EUR -0.4 million).

**(121) Measurement categories in accordance with IAS 39**

The financial assets and liabilities as at 31 December 2014 is 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		895.6	60.7			0.0	956.3
Financial investments – afvtpl			489.2				489.2
Financial investments – afs				1,106.1			1,106.1
Financial investments – htm					0.0		0.0
Other assets*	60.8						60.8
<b>Total financial assets</b>	<b>8,250.5</b>	<b>895.7</b>	<b>549.9</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		699.7	72.0			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>699.7</b>	<b>502.9</b>	<b>0.0</b>	<b>0.0</b>	<b>18.1</b>	<b>15,133.0</b>

\*Other assets/other liabilities show accruals and financial instruments

## Abbreviations:

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

The financial assets and liabilities as at 31 December 2013 was broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR / LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2013
Cash and balances at central banks	2,188.5			124.2			2,312.7
Loans and advances to credit institutions	2,087.4						2,087.4
Loans and advances to customers	19,289.0						19,289.0
Impairment on financial instruments – at cost (risk provision)	-3,874.6						-3,874.6
Trading assets		12.5					12.5
Derivative financial instruments		249.8	103.8			716.5	1,070.1
Financial investments – afvtpl			505.2				505.2
Financial investments – afs				2,421.5			2,421.5
Financial investments – htm					83.7		83.7
Other assets*	105.5						105.5
<b>Total financial assets</b>	<b>19,795.8</b>	<b>262.3</b>	<b>609.0</b>	<b>2,545.7</b>	<b>83.7</b>	<b>716.5</b>	<b>24,013.0</b>
Liabilities to credit institutions	4,375.5		289.8				4,665.3
Liabilities to customers	6,406.8		9.2				6,415.9
Liabilities evidenced by certificates	10,047.0		371.9				10,419.0
Derivative financial instruments		498.3	45.2			233.7	777.3
Subordinated capital	1,886.6		28.2				1,914.8
Hybrid capital			1.2				1.2
Other liabilities*	95.9		0.0				95.9
<b>Total financial liabilities</b>	<b>22,811.8</b>	<b>498.3</b>	<b>745.5</b>	<b>0.0</b>	<b>0.0</b>	<b>233.7</b>	<b>24,289.3</b>

\*Other assets/other liabilities show accruals and financial instruments

Abbreviations:

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

**(122) 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 which are hedged with interest rate derivatives.

This applies equally for long-term bonds issued with fixed interest rates. Based on the management strategy, the interest sums are switched from fixed to variable-rate using interest rate swaps. Over and above this, the fair value option is used for financial instruments with embedded derivatives.

The following values for individual items included in statement of financial position have resulted from applying the fair value option:

EUR m

	31.12.2014	31.12.2013
Loans and advances to customers and credit institutions	288.6	289.6
Bonds and other fixed-interest securities	192.3	197.1
Shares and other non-fixed-interest securities	8.4	18.4
<b>Total</b>	<b>489.2</b>	<b>505.2</b>
Liabilities to credit institutions	198.0	289.8
Liabilities to customers	3.0	9.2
Liabilities evidenced by certificates	226.1	371.9
Subordinated capital	3.3	28.2
Hybrid capital	0.4	1.2
<b>Total</b>	<b>430.9</b>	<b>700.3</b>

The valuation result from the application of the fair value option recognised in the income statement comes to a total of EUR 225.3 million (2013: EUR 55.1 million) (see note (51) Result from financial investments – designated at fair value through profit or loss).

As at 31 December 2014, the maximum default risk for loans and advances designated at fair value recognised in profit or loss was EUR 238.7 million (2013: EUR 241.7 million). The change in the fair value that is attributable to changes in the credit rating was EUR -22.5 million in the 2014 financial year (2013: EUR 7.1 million); since the designation, the cumulated change amounts to EUR -18.3 million (2013: EUR 4.2 million). The fair value changes attributable to changes in the credit rating were determined by calculating differences, comparing the fair value based on the credit rating spreads at the end of the reporting period to that at the beginning of the reporting period.

The fair value of the issued financial liabilities takes into account the credit risk of the group, with the exception of the liabilities evidenced by certificates in the amount of EUR 226.1 million (2013: EUR 371.9 million) and the subordinated capital of EUR 3.1 million (2013: EUR 27.8 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 valuation method. One such method takes account of the credit risk through 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 as at the end of the reporting period.

For the financial liabilities designated at fair value, the total change in fair value due to own credit risk in the 2014 financial year is EUR 239.7 million (2013: EUR 36.1 million); the cumulative fair value change as at 31 December 2014 due to changes in own credit risk is EUR 374.6 million (2013: EUR 134.9 million).

EUR m

	31.12.2014	31.12.2013
Cumulative changes in fair value	374.6	134.9
Fair-value-change in reporting year	239.7	36.1

The repayment sum as at 31 December 2014 is EUR 691.1 million (2013: EUR 716.0 million), and therefore EUR 260.6 million higher than the amount shown in the statement of financial position as at 31 December 2014 (2013: EUR 16.9 million above the amount shown in the statement of financial position).

The repayment sum as at 31 December 2014 compared to the amount shown in the statement of financial position is as follows:

EUR m

31.12.2014	Rückzahlungsbetrag	Bilanzwert	Differenz
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 difference as at 31 December 2013 was as follows:

EUR m

31.12.2013	Rückzahlungsbetrag	Bilanzwert	Differenz
Liabilities to credit institutions	300.0	289.8	10.2
Liabilities to customers	10.0	9.2	0.8
Liabilities evidenced by certificates	378.1	371.9	6.2
Subordinated capital	27.8	28.2	-0.3
<b>Total</b>	<b>716.0</b>	<b>699.1</b>	<b>16.9</b>

The repayment sum equates to the sum that the group must repay at the earliest possible due date set down in the contracts. If the amount due to be repaid has not been determined (as is the case, for example, with perpetuals), the amounts for these financial instruments will not be recognised.

### (123) Net gains or losses on financial instruments

The net gains and losses on financial instruments by category are as follows:

EUR m

1.1. - 31.12.2014	Net interest income	Valuation and Sale	Risk provisions for 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 investments – designated at fair value through profit or loss	2.0	-13.1	0.0	0.0
Financial investments – available for sale	21.9	14.8	0.0	21.1
Financial investments – held to maturity	0.0	0.0	0.0	0.0
Financial liabilities measured at amortized cost	-418.6	-1.6	0.0	0.0
Financial liabilities measured 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>



The net gains and losses on financial instruments by category for 2013 are as follows:

EUR m

1.1.-31.12.2013*	Net interest income	Valuation and Sale	Risk provisions for loans and advances	Other comprehensive income (OCI)
Loans and receivables	453.9	0.1	-870.1	0.0
Trading assets	210.1	-30.2	0.0	0.0
Financial investments – designated at fair value through profit or loss	8.9	15.6	0.0	0.0
Financial investments – available for sale	35.0	-5.3	0.0	13.4
Financial investments – held to maturity	0.0	0.0	0.0	0.0
Financial liabilities measured at amortized cost	-474.9	0.0	0.0	0.0
Financial liabilities measured at fair value through profit or loss	-28.3	39.5	0.0	0.0
<b>Total</b>	<b>204.7</b>	<b>19.6</b>	<b>-870.1</b>	<b>13.4</b>

\* Previous year's figures for 2013 were adjusted, see note (13) Adjustment of previous year's figures.

## (124) 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 derivative contracts 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 considered the time 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 then 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 whether 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 on the basis of the relevant market value are reported in Level I. Fair value is determined on the basis of risk premium curves in the event that there is no active market. 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 in the event that a significant, non-observable risk premium is used. 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. Loans and advances 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 loan. The hedge serves above all to minimise the market value risk caused by interest rate changes.

With regard to hedging risks arising from interest rate changes, no separate calculation of the fair value was carried out.

As the carrying amount of unhedged fixed interest loans and advances according to IAS 39 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.

The end of the period under review is considered the time of reclassification between various levels of the fair value hierarchy.

In view of Heta's capital over-indebtedness as at 31 December 2014 and the announcement of the owner of the company that it would not provide any more funds, it is apparent that the company will not be able to meet its liabilities as they mature. Given the Austrian Financial Market Authority (FMA) decision of 1 March 2015, whereby all maturing liabilities under the Federal Act on the Recovery and Resolution of Banks (BaSAG) are deferred to 31 May 2016, it can no longer be assumed that the hedging relationships of all liabilities in a hedging relationship are of an efficient nature in accordance with 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 relationships is primarily the basis adjustments carried out until the reporting date which are 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 timeframe stipulated by the Executive Board for the complete wind-down of the portfolio by 2020. Such derivatives are recognised as stand-alone derivatives at the respective market value in the statement of financial position.

## 124.1. Fair value of financial instruments carried at fair value

### 124.1.1. VALUATION METHODS USED TO DETERMINE 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. It primarily includes present value models and also option price models used for the valuation of financial instruments or cash flows with the nature of options. 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 with low frequency or from only one source. Where possible, the values are verified against third-party valuations on a recurring basis. With regard to the adjustments to input parameters made in connection with the Asset Quality Review (AQR), please refer to the disclosures in Note (124.1.2) Non-observable input factors for level III items.

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.

#### **124.1.2. 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 country and sector. This applies to the risk premium of Heta.

Heta's wind-down targets were taken into account within the scope of the Asset Quality Review (AQR) by adjusting the risk premium for IFRS Level III items. A synthetic curve, comprised of country risks, internal ratings and a liquidity discount, was used.

##### **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**

A liquidity discount is applied to the discount curve for illiquid markets in order to take into account Heta's wind-down goals.

##### **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 2014.

Finanzinstrument	Inputparameter	Bandbreite
Derivate	LGD	40%
	PD	0,15 % -100 %
Wertpapiere und Darlehen	Credit Spread	0 bp -3.815 bp
	Credit Spread	0 bp -394 bp
Länderrisiko	Credit Spread	0 bp -394 bp
Internes Rating	PD	0,00 % -25,00 %
Liquiditätsabschlag	Credit Spread	150 bp -250 bp
Verlustschwere	LGD	24 % -45 %
Derivate und Wertpapiere	Volatilität (kalibrierte prozentuelle Volatilitäten)	15 % -156 %

### 124.1.3. FAIR VALUE ADJUSTMENTS

#### 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 relative 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. This approach calculates the CVA 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 under consideration of base 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 base spread is taken into account for foreign currency swaps, where the collateral and cash flows are in a different currency.

## 124.1.4. 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 of these non-observable factors can be derived from a range of alternatives and are subject to management assumptions and estimates. As at 31 December 2014, 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 fair values regarding the change of non-observable input factors, the factors were placed at the end of both ranges. Credit spread was identified as a material, unobservable input factor in the valuation of Level III items.

The following effects on the result arose from the rise and fall of input parameters:

EUR m

31.12.2014	Fair value - drawn all unobservable input parameters to the lowest end of the range	Fair value - drawn all unobservable input parameters to the lowest end of the range
<b>Assets</b>		
Financial investments – designated at fair value through profit or loss	-20.2	18.0
<b>Total</b>	<b>-20.2</b>	<b>18.0</b>
<b>Liabilities</b>		
Liabilities to credit institutions	-3.4	3.4
Liabilities to customers	-0.1	0.1
Liabilities evidenced by certificates	-3.3	3.2
Subordinated capital	-0.8	0.1
<b>Total</b>	<b>-7.6</b>	<b>6.8</b>

## 124.1.5. 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 2014 (see note (124) Fair value disclosures)

EUR m

31.12.2014	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
<b>Assets</b>				
Trading assets	0.0	0.0	0.0	0.0
Derivative financial instruments	0.0	876.7	79.6	956.3
Financial investments – designated at fair value through profit or loss	0.0	1.8	487.4	489.2
Financial investments – 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 distribution of fair value by level was as follows as at 31 December 2013:

EUR m

31.12.2013	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions	Total
<b>Assets</b>				
Trading assets	6.1	6.4	0.0	12.5
Derivative financial instruments	0.0	944.1	126.0	1,070.1
Financial investments – designated at fair value through profit or loss	0.0	1.9	503.3	505.2
Financial investments – available for sale	1,856.4	397.8	167.3	2,421.5
<b>Total</b>	<b>1,862.5</b>	<b>1,350.1</b>	<b>796.6</b>	<b>4,009.2</b>
<b>Liabilities</b>				
Liabilities to credit institutions	0.0	0.0	289.8	289.8
Liabilities to customers	0.0	0.0	9.2	9.2
Liabilities evidenced by certificates	0.0	111.7	260.3	371.9
Derivative financial instruments	0.0	740.9	36.4	777.3
Subordinated capital	0.0	0.0	28.2	28.2
Hybrid capital	1.2	0.0	0.0	1.2
<b>Total</b>	<b>1.2</b>	<b>852.6</b>	<b>623.8</b>	<b>1,477.6</b>

The reconciliation of the financial instruments in Level III is shown in the table below:

EUR m

31.12.2014	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>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 investments – 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 investments – 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>

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 2014, as well as from financial instruments which were no longer part of the portfolio in the 2014 financial year. Gains and losses for derivative financial instruments are reported in the result from financial investments designated at fair value through profit or loss, result from accounting, as well as in result from trading; de-

pending on their categories, the remaining items are reported either in the income statement or in equity. A loss of EUR 204.4 million (2013 adjusted: EUR 3.7 million) was incurred on the financial instruments held as at 31 December 2014. This is reported in the result of financial assets designated at fair value through profit and loss, the result of hedge accounting and the trading result.

Due to the restricted availability of external market values, a total of EUR 3.0 million was reclassified from Level I to Level III in 2014 (31 December 2013: EUR 8.1 million).

The disposal of the assets and liabilities held by the SEE network, which was sold on 31 October 2014, is reported in the "Other" column.

The reconciliation of the assets reported in Level III as at 31 December 2013 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>31.12.2013</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	171.3	-48.2	0.0	0.0	0.0	0.0	0.0	2.8	126.0
Financial investments – designated at fair value through profit or loss	781.7	-34.3	0.0	0.0	-5.0	0.0	0.0	-239.0	503.3
Financial investments – available for sale	94.6	6.0	1.3	79.4	-8.9	8.1	-9.6	-3.5	167.3
<b>Total</b>	<b>1,047.6</b>	<b>-76.5</b>	<b>1.3</b>	<b>79.4</b>	<b>-13.9</b>	<b>8.1</b>	<b>-9.6</b>	<b>-239.7</b>	<b>796.6</b>
<b>Liabilities</b>									
Liabilities to credit institutions	318.2	-28.4	0.0	0.0	0.0	0.0	0.0	0.0	289.8
Liabilities to customers	139.3	-70.5	0.0	0.0	-60.0	0.0	0.0	0.4	9.2
Liabilities evidenced by certificates	308.5	-52.6	0.0	0.0	-4.5	0.0	0.0	9.0	260.3
Derivative financial instruments	42.0	0.6	0.0	0.0	0.0	0.0	0.0	-6.3	36.4
Subordinated capital	27.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	28.2
<b>Total</b>	<b>835.1</b>	<b>-149.8</b>	<b>0.0</b>	<b>0.0</b>	<b>-64.5</b>	<b>0.0</b>	<b>0.0</b>	<b>3.0</b>	<b>623.8</b>

#### 124.2. Fair value of financial instruments not recognised at fair value

The carrying amounts of recognised financial instruments and assets not reported at fair value are compared to the respective fair values below:

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>

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 edict decree of the wind-down authority dated 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 taken into account with adjustment factors as well.

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 by market-based estimates that are generally calculated by full-time appraisers. If market-based estimates are not available, fair value is estimated on the basis of the income approach.

For assets 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 their respective fair values were as follows as at 31 December 2013:



EUR m

31.12.2013	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	2,079.1	2,079.6	-0.4	0.0	0.7	2,078.9
Loans and advances to customers	15,463.8	15,388.9	75.0	0.0	39.7	15,349.2
Financial investments – held to maturity	83.7	86.9	-3.2	84.3	0.0	2.7
Other financial investments – investment properties	1,106.7	1,074.4	32.3	0.0	0.0	1,074.4
Assets classified as held for sale	97.5	106.2	-8.7	0.0	0.0	106.2
Other receivables	105.5	105.5	0.0	0.0	0.0	105.5
<b>Total</b>	<b>18,936.4</b>	<b>18,841.4</b>	<b>95.0</b>	<b>84.3</b>	<b>40.4</b>	<b>18,716.8</b>
<b>Liabilities</b>						
Liabilities to credit institutions	4,375.5	4,366.3	9.2	0.0	201.9	4,164.5
Liabilities to customers	6,111.8	5,983.8	128.0	0.0	52.7	5,931.2
Liabilities evidenced by certificates	10,023.8	9,257.8	766.0	0.0	8.5	9,249.3
Subordinated capital	1,886.6	1,710.2	176.4	0.0	0.0	1,710.2
Other liabilities	95.8	95.5	0.3	0.0	0.0	95.4
<b>Total</b>	<b>22,493.5</b>	<b>21,413.6</b>	<b>1,079.8</b>	<b>0.0</b>	<b>263.1</b>	<b>21,150.6</b>

**(125) Offsetting**

The following table shows 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 agreements but have not been offset in the financial statements are disclosed as well.

EUR m

	31.12.2014	31.12.2013
<b>ASSETS</b>	<b>Derivative financial instruments</b>	
Gross amounts of recognised financial instruments	956.3	1,065.8
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>956.3</b>	<b>1,065.8</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>956.3</b>	<b>1,065.8</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)	670.7	368.1
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>285.6</b>	<b>697.6</b>

\* Financial instruments I: financial assets and liabilities that are already offset on the statement of financial position.

Financial instruments II: financial instruments that are subject to a netting agreement but are not offset on the statement of financial position.

EUR m

	31.12.2014	31.12.2013
<b>LIABILITIES</b>	<b>Derivative financial instruments</b>	
Gross amounts of recognised financial instruments	789.8	776.7
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>789.8</b>	<b>776.7</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>789.8</b>	<b>776.7</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)	670.7	368.1
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>119.1</b>	<b>408.5</b>

\* Financial instruments I: financial assets and liabilities that are already offset on the statement of financial position.

Financial instruments II: financial instruments that are subject to a netting agreement but are not offset on 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 on the statement of financial position.

## (126) Derivative financial instruments

The following transactions had not yet been transacted at the reporting date:

EUR m

	31.12.2014			31.12.2013		
	Nominal amounts	Fair values		Nominal amounts	Fair values	
		Positive	Negative		Positive	Negative
<b>a) Interest-related transactions</b>						
<b>OTC-products</b>	<b>11,441.6</b>	<b>949.3</b>	<b>549.6</b>	<b>14,328.8</b>	<b>1,060.8</b>	<b>486.0</b>
- interest rate swaps	11,362.6	949.2	549.5	14,234.5	1,060.2	485.2
- forward rate agreements	0.0	0.0	0.0	0.0	0.0	0.0
- interest options	0.0	0.0	0.0	2.2	0.0	0.0
- caps, floors	79.0	0.1	0.1	85.6	0.4	0.8
- other interest derivatives	0.0	0.0	0.0	6.5	0.3	0.0
<b>b) Currency-related transactions</b>						
<b>OTC-products</b>	<b>5,148.6</b>	<b>7.0</b>	<b>240.2</b>	<b>4,865.9</b>	<b>9.3</b>	<b>291.3</b>
- currency swaps	848.2	4.5	236.4	1,043.9	6.1	287.1
- Devisenswaps	4,296.4	2.4	3.7	3,734.0	2.8	3.9
- forward exchange contracts - purchases	2.0	0.0	0.0	43.7	0.2	0.0
- forward exchange contracts - sales	2.0	0.0	0.0	43.7	0.2	0.3
- currency swaptions	0.0	0.0	0.0	0.6	0.1	0.0

The majority of derivative transactions serve the purpose of hedging fluctuations related to interest rates, foreign currency rates or market values. In most cases, micro-hedges are used to directly hedge individual transactions under assets and liabilities. All active hedge relationships with a remaining term, which are outside the period of the wind-down (therefore >2020), as well as all passive hedge relationships in the group were terminated in 2014. With regard to the disclosure and measurement of the derivatives, see notes (16) Financial instruments: Recognition and Measurement (IAS 39) and (19) Hedge accounting.

**(127) Related party disclosures**

Business relations with related parties on the respective reporting dates were as follows:

EUR m

As at 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
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
Subordinated capital	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

Loans and advances to credit institutions to HGAA include a nominal amount of EUR 1,987.6 million, less effects from low interest rates as well as provisions for liability risks from the sale.

EUR m

as at 31.12.2013	Parent	Affiliated companies	Joint Ventures	Key management personnel	Hypo Alpe-Adria-Bank S.p.A., Udine	HYPO GROUP ALPE ADRIA
<b>Assets</b>	<b>108.3</b>	<b>120.1</b>	<b>47.3</b>	<b>0.7</b>	<b>n.a.</b>	<b>n.a.</b>
Loans and advances to customers	108.3	137.2	47.3	0.7	n.a.	n.a.
Risk provisions on loans and advances	0.0	-54.1	0.0	0.0	n.a.	n.a.
Other assets	0.0	37.0	0.0	0.0	n.a.	n.a.
<b>Liabilities</b>	<b>27.4</b>	<b>14.0</b>	<b>0.8</b>	<b>1.4</b>	<b>n.a.</b>	<b>n.a.</b>
Liabilities to customers	0.0	13.7	0.8	1.1	n.a.	n.a.
Provisions	21.3	0.0	0.0	0.3	n.a.	n.a.
Other financial liabilities	6.1	0.0	0.0	0.0	n.a.	n.a.
Subordinated capital	0.0	0.3	0.0	0.0	n.a.	n.a.
<b>Liabilities arising from guarantees</b>	<b>0.0</b>	<b>1.8</b>	<b>0.0</b>	<b>0.0</b>	<b>n.a.</b>	<b>n.a.</b>
Guarantees issued by the group for related party	0.0	1.8	0.0	0.0	n.a.	n.a.
Guarantees received by the group from related party	0.0	0.0	0.0	0.0	n.a.	n.a.

In its capacity as the owner of Heta as well as HGAA and HBI, the Republic of Austria (the sole shareholder) has entered into a number of business and liability relationships which are described in detail in the notes to the consolidated financial statements in notes (9) Discontinued operations, (42) Segment reporting, (130.5.3.) Proceedings relating to loans and participations, and (133) Portfolio transfers from the SEE network and within Heta.

Key management personnel is defined as Executive Board members and managing directors of the subsidiaries as well as the first and second levels of management of Heta Asset Resolution AG. Relationships with other related parties are included as well.

Relationships with companies accounted for at equity are shown in the table under the item affiliated companies. Expenses in the amount of EUR -38.1 million (2013: EUR -5.6 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 former group companies which continue to be treated as related parties amount to a surcharge of between 33 and 125 basis points on the respective benchmark interest rate.

In addition, at the end of the reporting period there are business relations with publicly-owned organisations, to an extent common to the banking industry.

In addition to his responsibilities at Heta, Johannes Proksch also serves as the Deputy Chairman of the Executive Board of HGAA. He took over this role at the request of the owner; these new responsibilities were reported to Heta's Supervisory Board as well as the Austrian regulators. Heta announced in an ad hoc notice dated 26 February 2015 that Johannes Proksch will be stepping down as Heta's Chief Financial Officer (CFO) at his own request effective 30 June 2015.

In addition to his Executive Board responsibilities at Heta assumed in 2015, Martin Handrich also serves on the Supervisory Board of HGAA. The Supervisory Board and the owner of HGAA as well as the Austrian regulators were informed that Martin Handrich assumed this function on 29 January 2015.

The relationships with members of the Executive Board and Supervisory Board of Heta are shown in note (137) Relationships with members of the executive bodies.

The following expenses were incurred 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. - 31.12.2014	1.1. - 31.12.2013
Fees for Government Guaranteed subordinated bonds	-53.3	-53.3
Fees for Government Guaranteed bonds (other)	0.0	-4.3
Fees for Guarantees	-17.6	-18.2
Penalty claim	0.0	-4.0
<b>Total</b>	<b>-70.9</b>	<b>-79.7</b>

## (128) Participation capital

With the resolution of the shareholders' meeting of 23 May 2014, the Executive Board was authorised according to section 103q (14) of the Austrian Banking Act (BWG) in conjunction with 26b (2) (2) of the Austrian Banking Act (BWG) to include, with the approval of the Supervisory Board, participation capital issued by the company in full or regarding individual issues of participation capital or separate tranches defined at the issue, while guaranteeing equal treatment of the parties authorised up to and including 31 December 2015. The Executive Board resolved on 7 July 2014 to exercise its authority and to include participation capital issued by the company in part, and to include the entire participation capital 2009 – which was not subscribed to in accordance with the Financial Markets Stabilisation Act – at a face amount of EUR 64,428,867.95 (after reduction by resolution of the shareholders' meeting of 30 May 2011), for cash consideration of zero with approval from the Supervisory Board. The Supervisory Board approved the inclusion with its resolution of 8 July 2014. This required approval from the Austrian Financial Markets Authority (FMA). Application for approval was submitted to the Financial Markets Authority (FMA) on 24 July 2014 and approved on 18 September 2014. The auditor appointed by the respective court to audit the redemption plan drawn up by the Executive Board, in particular the reason stated in accordance with section 26b (4) of the Austrian Banking Act (BWG) regarding the defined appropriate cash consideration for the authorised parties, taking into account the terms of the participation capital, confirmed that the cash consideration of EUR 0 was appropriate. On 26 September 2014, the resolution of the Executive Board and approval by the Supervisory Board whereby the participation capital 2009 was to be fully included – and signed by the old shareholders of Heta – was announced in the official gazette of the Wiener Zeitung in accordance with section 26 b (6) of the Austrian Banking Act (BWG). The respective participation capital lenders requested a court audit of the appropriateness of a cash consideration of EUR 0.

The remaining participation capital – subscribed by the Republic of Austria – in total EUR 1,075,111,072.56 is reported in the consolidated financial statements of Heta as a separate item under equity. Payments of dividends relating to participation capital will be shown as appropriation of profits and not as interest expense. The basis of assessment for the payment of dividends is the separate financial statements for Heta Asset Resolution AG in accordance with UGB/BWG and the prerequisite is sufficient annual profit after movement in reserves. No distribution to participation capital is possible for 2014 as there is no such net income after movement in reserves.

## (129) Guarantee by the State of Carinthia

The legal guarantee of the State of Carinthia for all commitments of Heta is a statutory guarantee pursuant to section 1356 of the Austrian Civil Code (ABGB) and covers all of Heta's commitments entered into before 3 April 2003 as well as all commitments entered into between 3 April 2003 and 1 April 2007 whose terms do not extend beyond 30 September 2017. The State will no longer guarantee any commitments entered into after 1 April 2007. The terms of the guarantee are regulated in the Carinthian State Holding Law (K-LHG).

A guarantee commission agreement concluded between the State of Carinthia and Heta provides for a guarantee commission of 1 per mille p.a. of the amount drawn to be paid. Availing itself of the contractually agreed right to termination, notice was given by Heta to terminate the guarantee agreement as at 31 December 2011, whereby the contractual obligation to pay the guarantee commission would cease as from 2012. Irrespective of the termination of this contractual guarantee commission agreement, the state guarantee provided for in law in section 5 of the Carinthian State Holding Law (K-LHG) applies. The supervisory commissioner of the Carinthian State holding company will continue to be given access to all relevant information at the company.

Divergent legal positions exist between the company and the State of Carinthia on the guarantee commission for 2011, which has not been paid by the company to date. For now the company has issued a waiver of the defence of limitation (until 31 December 2015) to the State. In exchange the State of Carinthia has obligated itself not to sue the company for the time being.

As stated in note (1.2) Important events, some of Heta's liabilities that were covered by the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG) as well as the FMA Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV), which came into force on 7 August 2014, were derecognised on account of the deferment of the liability. EUR 0.8 billion related to subordinated liabilities for which the State of Carinthia had provided a guarantee. Taking into account the effectiveness of the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG) and the FMA Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV), the State of Carinthia still has guarantees for fixed-term and non-fixed-term commitments from Heta with a total value of EUR 10.2 billion as at 31 December 2014 (2013: EUR 12.2 billion).

EUR m

	31.12.2014	31.12.2013
Heta Asset Resolution AG	10,168.7	12,195.5
<b>Total</b>	<b>10,168.7</b>	<b>12,195.5</b>

In the event that the Austrian Constitutional Court declares the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG) or the FMA Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV) to be unconstitutional, the derecognised liabilities in question would have to be recognised in the statement of financial position once more. This would result in the direct increase in the state-guaranteed liabilities from EUR 10.2 billion to EUR 11.0 billion.

## (130) Important proceedings

### 130.1. EU state aid investigation

The EU state aid investigation involving the former Hypo Alpe-Adria-Bank International AG was completed in September 2013 by the decision of the Commission of the European Union (European Commission). The basis for the European Commission's decision of 3 September 2013 was the restructuring plan submitted at the end of June 2013.

With the decision of 3 September 2013, the capital measures previously granted by the Republic of Austria as well as other capital and liquidity measures were approved. Of the future capital measures of up to EUR 5.4 billion approved by the EU decision, EUR 2.5 billion had been paid to the company by 31 December 2014. The additional liquidity of EUR 3.3 billion approved by the EC to cover the liquidity shortfall in 2016/2017 described by management in the restructuring plan was not granted.

The execution of the sale of the Austrian subsidiary Hypo Alpe-Adria-Bank AG, Klagenfurt, which had been scheduled to take place by mid-2014 according to the EU restructuring plan, was already completed at the end of 2013. The signing of the deal between Heta and Advent/EBRD on the basis of FIMBAG's power of attorney for the sale of the SEE network took place on 22 December 2014 and therefore prior to deadline of 30 June 2015 set by the European Commission. The European Commission has defined a deadline of 31 December 2015 for the execution of the contract (with the option of extending it by a maxi-

mum of three months due to possible delays in approval by the authorities). Compliance with the new-business restrictions for the marketable units (SEE network) imposed by the European Commission were necessary until the signing as part of the reprivatization. New-business restrictions apply for Heta as the wind-down unit and the former subsidiary HBI. An independent monitoring trustee regularly monitors compliance with the conditions of the European Commission's decision and reports to the European Commission on a quarterly basis.

### 130.2. Proceedings related to Bayerische Landesbank

At the end of 2012, the former majority shareholder of Heta, BayernLB, sought a declaratory judgement from the Munich I regional court in relation to the financing lines, which in the view of the former Hypo Alpe-Adria-Adria Bank International AG are subject to the Austrian Equity Substituting Capital Act (EKEG) and may therefore neither be serviced by interest payments nor redeemed until further notice. The company submitted a comprehensive statement of defence against the application and contested the order sought in its entirety.

After receiving the original, contractual maturity for the majority of the financing on 31 December 2013, BayernLB almost completely converted the order sought into an action for performance. In the 2014 financial year (as in November 2013), there were several hearings with testimony given by witnesses and experts. Both sides submitted extensive expert reports on legal issues and relevant commercial matters.

The former Hypo Alpe-Adria-Bank International AG had also made repayments from August 2008 until knowledge of the existence of the conditions for an interest and repayment ban under the Equity Substituting Capital Act on refinancing lines of BayernLB, which were subsequently recognised as substituting for equity following a thorough analysis into the circumstances (particularly due to historical capital shortfalls which led to a "crisis" in terms of equity substitution regulations). Based on the Austrian Equity Substituting Capital Act (EKEG), Heta is therefore entitled to claim these interest payments and repayments back from BayernLB. In order to avert the threat of time-barring, the former company was compelled to judicially enforce the respective repayments it had made by means of counterclaim in the proceedings named above against BayernLB in Munich. A total of five counterclaims have been made against BayernLB for repayment of an amount totalling around EUR 4.8 billion.

In a hearing on 8 May 2015, the Regional Court Munich I orally announced a first-instance decision in the case between Heta and Bayerische Landesbank relating to the Austrian Equity Substituting Capital Act (EKEG). The written verdict was submitted to Heta's lawyers in this case on 2 June 2015. With its decision, which is not yet legally effective, the court largely allowed the claims of BayernLB and rejected the counter claims (repayment claims) of Heta. The reason is primarily based on four arguments: firstly, the court regards the shortfall in regulatory capital as claimed by Heta (crisis according to section 2 (3) of the Austrian Equity Substituting Capital Act (EKEG)) as non-existent. With regard to the knowledge of the equity shortfall or other breaches of due diligence by BayernLB, (alternatively demanded) by the court, the court regards that there is no evidence – neither in principle nor in terms of case law according to the interpretation of the Austrian Equity Substituting Capital Act (EKEG) in this case. Secondly, according to the court, Heta was not significantly over-indebted during the period in question (crisis in the meaning of section 2 (1) (2) of the Austrian Equity Substituting Capital Act (EKEG)) as the court gave a positive going concern assumption for Heta based on the continuation of Heta after 2009. Based on the assessment of these two points, the court did not carry out any evidence taking in terms of key aspects (historical capital shortfall or over-indebtedness). Thirdly, the court rejected the application of the Hypo Alpe Adria Restructuring Act (HaaSanG) and subsequent measures by the authorities to recover receivables under German law. The reason given was that the Austrian Financial Market Authority (FMA) Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV) issued by the Austrian Financial Market Authority (FMA) based on the Hypo Alpe Adria Restructuring Act (HaaSanG) does not represent a restructuring measure in the meaning of the restructuring regulation (guideline 2001/24/EU). The court also rejected that a court measure or measure by the authorities is at hand (a condition for recognition) because according to the court, the Austrian Financial Market Authority (FMA) Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV) was already determined by the Hypo Alpe Adria Restructuring Act (HaaSanG) and Austrian Financial Market Authority (FMA) could not make a decision at its discretion. Fourth, the court rejected the application of the decision of the Austrian Financial Market Authority (FMA) of 1 March 2015 on the basis of the Federal Act on the Recovery and Resolution of Banks (BaSAG), which deferred the disputed receivables of BayernLB until 31 May 2016. The reason given was that the Federal Act on the Recovery and Resolution of Banks (BaSAG), which is legally applicable to Heta, does not comply with the provisions of the wind-down guideline / BRRD (guideline 2014/59/EU) and is therefore not recognised in Germany.

A provision of approximately EUR 0.9 billion has been set aside for the impending availment by creditors for the liabilities that expired as a result of the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG) based on the initial judgement. Heta is of the opinion that key arguments in the dispute relating to legal issues of the proceeding are not sufficiently taken into account by the senate (as well as by experts appointed by the court). The rejection of a crisis based

on a shortfall in capital (section 2 (3) of the Austrian Equity Substituting Capital Act (EKEG)) was based on a legal opinion which has no precedent in legal writings or supreme court rulings and is in contradiction with the clear wording of the law. If the law had been interpreted correctly, the court would have taken evidence where Heta could have proven a historical shortfall in capital. Rejection of a crisis on the grounds of significant over-indebtedness (section 2 (1) (2) of the Austrian Equity Substituting Capital Act (EKEG)) is also based on a simplified opinion based on the continued existence of Heta after the period in question (after 2009); the fact that the Republic of Austria had to pay in billions into the capital as sole shareholder to avoid insolvency was totally ignored. The applicability of the Hypo Alpe Adria Restructuring Act (HaaSanG) and the Austrian Financial Market Authority (FMA) Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV) was rejected on the grounds of mere formalities without acknowledging the fact that the recovery regulation (unlike the wind-down regulation / BRRD) does not include any substantive specification for the form of the recovery measures and Austrian legislators therefore utilising the discretion granted to them. The non-recognition of the Austrian Financial Market Authority (FMA) Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV) as an official measure also rejects its legal quality (adopted by an Austrian agency authorised to issue statutory ordinances). The court's rejection of the legal effectiveness of the decision of 1 March 2015 is incomprehensible because – as legal writings shows – the applicability of the Federal Act on the Recovery and Resolution of Banks (BaSAG) for Heta is not only valid under EU-laws, it is also based on the legislator's obligation to uphold it.

In view of all these arguments, Heta will examine the verdict in detail, file an appeal within the deadline and decide on the substance of the appeal with careful consideration of its chances. Pursuant to German law, the appeal will not effect the suspending of the decision. As a general rule, BayernLB can, on the condition that it can provide the collateral stipulated by German procedural legislation and pursuant to the verdict of the Munich I regional court, seize Heta's assets. Pursuant to applicable legislation, a verdict passed by a court in a member county can only be enforceable if it is also acknowledged. A decision is not acknowledged if recognition is contrary to public policy in the member state (ordre public). A violation of ordre public is possible if the result of the recognition would be unacceptable under domestic law. No final assessment can be given as to the extent to which the verdict of the Munich I regional court would be qualified as a violation of material ordre public (on account of violations against the Federal Act on the Recovery and Resolution of Banks (BaSAG) and the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG)) or procedural ordre public (independence and impartiality of the courts, fair hearing, etc.). The raising of a violation of ordre public would have to be made as a ground for refusal by way of an appeal against the declaration of enforceability (sections 81 et seq. of the Austrian Act concerning the Execution of Legal Titles (EO)). There is also a chance that the Enforcement Court could have the applicability of the Federal Act on the Recovery and Resolution of Banks (BaSAG) reviewed by means of a submission to European authorities. As things stand, there is a considerable risk that the judgement could also be enforced in Austria. A provision of approximately EUR 0.9 billion has been set aside for the impending availment by creditors.

### 130.3. Proceedings related to the Hypo Alpe Adria Restructuring Act (HaaSanG)

The Hypo Alpe Adria Restructuring Act (HaaSanG) came into force on 1 August 2014 and foresees for the expiration of all supplementary capital issues and also approximately EUR 0.8 billion in subordinated liabilities held by third parties with guarantees from the State of Carinthia. Furthermore, this law also covers around EUR 0.8 billion in liabilities vis-à-vis former majority shareholder Bayerische Landesbank (BayernLB) that had been granted after the first Financial Markets Stabilisation Act (FinStaG) capital measure in December 2008. 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, expire.

As at 16 June 2015, Heta had been served with 33 claims in which creditors challenged the constitutional legitimacy of the Hypo Alpe Adria Restructuring Act (HaaSanG) and sued for a declaration of the existence of the receivables and for payment. In many of these civil law suits, the proceedings were interrupted due to appeals to the Constitutional Court of Austria to examine the constitutionality of the law. In all civil cases pending as at the reporting date, the matter in dispute is the question of the constitutionality of the contested legal provisions. The outcome of the proceedings and the prospects for success in the pending civil proceedings thus depend on the resolution of a purely legal question, that is, on the decision of the Constitutional Court of Austria. It is only in the case of those proceedings in which the creditors involved have not merely demanded interest coupons which are due, but also immediate repayment of liabilities by means of an action for performance – should the Constitutional Court of Austria repeal the Hypo Alpe Adria Restructuring Act (HaaSanG) in conjunction with the Austrian Financial Market Authority (FMA) Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with § 3 and § 4, clause 1 HaaSanG (HaaSanV) – that in the respective further proceedings the allowability of the demand for immediate payment contested by Heta or of the extraordinary termination due to the commencement of the Hypo Alpe Adria Restructuring Act (HaaSanG) in conjunction with the Austrian Financial Market Authority (FMA) Regulation on the implementation of reorganisation measures in accordance with § 7, clause 2, in conjunction with

§ 3 and § 4, clause 1 HaaSanG (HaaSanV) will need to be resolved. While some creditors have asserted claims for (allegedly) due coupons and rated a declaratory relief as relatively low, other creditors have pronounced the entire liability as due for payment or valued their legitimate interest at the full nominal value. With regard to the cost risks relating to the overturning of the ruling by the Austrian Constitutional Court, an objection was made by Heta against the excessive and unnecessary filing of a law suit in the pursuit of justice.

In one proceeding, Austrian Anadi Bank AG is a co-respondent from an enforceable judgement of demerger liability under section 15 of the Austrian Demerger Act (SpaltG), since the bond involved was transferred to Heta by means of a demerger in 2012. If – in the event that the Constitutional Court of Austria confirms expiry vis-à-vis Heta – Anadi is under an obligation to pay the plaintiff, the current sole shareholder of Anadi, Anadi Financial Holdings Pte. Ltd., would be entitled to make a corresponding contractual claim vis-à-vis Heta in accordance with the share purchase agreement dated 31 May 2013.

One of the main concerns of the referring courts relates to the expiration of the liabilities and collaterals under section 3 (2) of the Hypo Alpe Adria Restructuring Act (HaaSanG). The expiration of the deficiency guarantee of the State of Carinthia and also Kärntner Landes- und Hypothekenbank-Holding (KLH) in this manner is an ex lege direct result of the Carinthian State Holding Law (K-LHG) in the respective current version. As second or third defendants, the State of Carinthia and the Carinthian State Holding Law (K-LHG) are neither contracting parties to the liabilities nor adversaries in relation to the action for relief that is directed against Heta.

It is to be expected that in all civil proceedings, probably even before the beginning of the summer session of the court, applications will be directed to the Constitutional Court of Austria and the civil proceedings will be suspended pending the decision by the Constitutional Court of Austria. Individual appeals were submitted by 36 creditors affected by the Hypo Alpe Adria Restructuring Act (HaaSanG). Heta has commented on these appeals. The Austrian Constitutional Court has since rejected these appeals and has said that legal action via civil courts is acceptable. More lawsuits against Heta are therefore expected. Furthermore, 73 members of the National Council have applied to the Constitutional Court for a control of norms. Heta also commented on this application. According to a press release by the Austrian Constitutional Court dated 2 April 2015, a decision can be expected on the compliance of HaaSanG with constitutional law in autumn 2015.

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

As at 16 June 2015, Heta had been notified two lawsuits so far by German Investors for payments of bonds which were not paid on the original date of maturity due to the moratorium imposed on 1 March 2015. Heta was informed by the State of Carinthia and Kärntner Landesholding (KLH) of the dispute involving the lawsuit filed by an investor against the State of Carinthia and Kärntner Landesholding (KLH) in connection with the state guarantee relating to the bonds affected by the moratorium. According to media reports, further lawsuits have already been filed or will soon be filed with German courts.

It should also be noted that the written first-instance verdict of the Munich I Regional Court in the case between Heta and Bayerische Landesbank (BayernLB) with regard to the Austrian Equity Substituting Capital Act (EKEG) was submitted to Heta's lawyers in this case on 2 June 2015. In this proceeding, the court rejected the recognition in Germany of recent measures by Austrian legislators and the regulatory authorities in connection with the wind-down of Heta and did not take into consideration the deferral ordered by the resolution authority according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) on account of mainly formal arguments. See note (130.2) Proceedings related to BayernLB for more details.

#### **130.5. Other proceedings**

##### **130.5.1. PROCEEDINGS RELATED TO THE STATE OF CARINTHIA AND OTHER PARTICIPATION CAPITAL SUBSCRIBERS**

In December 2011, the then Hypo Alpe-Adria-Bank International AG was served with an action for declaratory relief by the State of Carinthia as a participant in connection with the capital reduction carried out in the general shareholders' meeting on 30 May 2011. The plaintiffs' claim was basically directed at having a determination made that the loss allocation to participation capital was ineffective and that future interest entitlements of the participant concerned would have to be satisfied on the basis of the unreduced nominal capital. The proceedings brought had no effect under company law on the reduction of capital already legally registered and the capital increase carried out on 30 June 2011. The judgement of the Commercial Court of Vienna as the court of first instance on 16 July 2012 granted the action for declaratory relief. The company thereupon appealed this judgement of the court of first instance within the time allowed. The Higher Regional Court of Vienna (OLG), in a judgement dated 29 January 2013, allowed the appeal of the company in full and overruled the judgement of the Commercial Court of Vienna. The State of Carinthia lodged a regular appeal on points of law at the Austrian Supreme Court (OGH) on 11 March 2013.



In a judgement dated 29 April 2014, the OGH then decided that the loss allocation carried out to the participation capital was performed effectively, but that it is unlawful, however, to the extent that the liability reserves ought to have been released before the nominal capital reduction up to the statutory limit of section 183 of the Austrian Stock Corporation Act (AktG). The breach of law thus established, it has no implications, however, for the validity of the resolution by the general shareholders' meeting. The legal consequences thereof continue on the contrary to be valid, in respect of the participants also. The only reason the OGH saw to allow the claim for declaratory relief in relation to the breach of law was that the State of Carinthia had relied in the action on possible financial disadvantage in the event that a profit was made by the company from the 2013 financial year onwards.

In June 2014, the company was served with a further claim for declaratory relief by Kärnter Landes- und Hypothekbank-Holding as a participant in connection with the capital reduction carried out at the general shareholders' meeting on 30 May 2011. The claim for relief was identical to that of the State of Carinthia in 2011. The action for declaratory relief was rejected by the Commercial Court of Vienna, since the participation capital was collected at the end of September 2014 and thus a legal interest in the declaratory judgement no longer existed. See Note (128) Participation capital. The time allowed for appeals has since passed.

### 130.5.2. PROCEEDINGS RELATED TO THE REPUBLIC OF AUSTRIA AND BAYERISCHE LANDESBANK

In a claim filed shortly before the end of 2014 at the Commercial Court of Vienna, the Republic of Austria, represented by the Austrian Attorney General's office, applied for the adjustment of the share purchase agreement entered into between the Republic of Austria and Bayerische Landesbank (BayernLB) (so called emergency nationalisation agreement) and the term sheets on which it is based. The claim for relief (main action) is for the payment of an amount 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, is sought. In case the court does not assent to the main action, a series of alternative claims have been made, including the annulment of the emergency nationalisation agreement.

BayernLB is the first defendant. Heta is the second defendant. The primary grounds for the claim are that BayernLB is said to have deceived the Republic of Austria about the true capital requirements of the former Hypo Alpe-Adria-Bank International AG during the emergency nationalisation. Fundamentally, none of the claims are directed specifically at Heta. The alternative claim for annulment of the share purchase agreement would have negative implications for Heta, since the capital and liquidity measures taken at the time by Bayern LB in favour of the then Hypo Alpe-Adria-Bank International AG, inter alia, would thereby also be annulled with retrospective effect. Furthermore, in the event of a reversal of the transactions, Heta would once more be under the ownership of BayernLB.

The claim was served on Heta on 5 January 2015. The defence was lodged within the time allowed on 2 February 2015.

### 130.5.3. PROCEEDINGS RELATED TO LOANS AND PARTICIPATIONS

#### 130.5.3.1. Alpe Adria Privatbank Liechtenstein in liquidation

Since the end of 2012 intense forensic investigations have been underway at the group company Alpe Adria Privatbank Liechtenstein in liquidation (AAP). Investigations are being conducted, involving the authorities in Liechtenstein and Austria, into various facts and suspicions which show a connection to Liechtenstein, in order to make it possible for Heta to examine and pursue any further claims for damages. After consulting with the Liechtenstein Financial Markets Authority and the liquidator, an interface between Heta and AAP in liquidation was installed in mid-2013.

These investigations have since resulted in more than 61 reports to the FIU/Liechtenstein public prosecutors to date, which will forward all facts relevant in Austria to the Austrian authorities. Investigations relating to the processing of past cases in Liechtenstein were continued in 2014. The company is to be fully liquidated by the end of 2015 at the latest.

#### 130.5.3.2. Claims against foreign currency loans and variable interest rate clauses

In Serbia, Croatia, Bosnia and Herzegovina and Montenegro, bank customers and bodies representing bank customers have lodged claims against (former) Hypo Alpe-Adria-Bank International AG group companies, or have threatened to do so. They allege that provisions in some lending agreements relating to interest are not in compliance with the law and/or that interest rate adjustments did not comply with contractual provisions. Some cases also allege that clauses contained in the agreements regarding coupling with the CHF benchmark index rate ought to be changed, and that these should instead be coupled with the EUR benchmark interest rate.

The picture in the countries in question – primarily Croatia, Bosnia and Herzegovina, Serbia and Montenegro – varies greatly in terms of the number and progress of the various proceedings. In some countries, such as Croatia and Montenegro,

class actions and claims from interest groups were filed against former group companies – for example, such a class action against the former Serbian subsidiary bank was rejected in Serbia as inadmissible. The situation in (the federation of) Bosnia and Herzegovina and Republika Srpska is characterised by a large number of individual claims. Individual national legislators and national regulatory authorities have also taken up the issue.

The new consumer protection law which entered into effect in Croatia as at 1 January 2014, for example, will have an impact on the granting of future loans and the assessment of existing consumer loans. It specifically defines criteria which are to be considered when setting interest rates and determines methods according to which maximum interest rates are calculated. In Serbia, National Bank of Serbia, for example, has issued recommendations that must be implemented by the banks and mean that certain borrowers must be granted certain easements.

The remaining Heta leasing companies and local wind-down entities in the above-mentioned countries are also affected to a certain degree by the aforementioned developments. This is primarily due to the fact that they assumed the credit agreements of the respective former banking subsidiaries within the scope of the so-called “brush” transactions implemented to adjust the portfolios of the former subsidiary banks. The leasing companies also have a portfolio of interest rate adjustment clauses.

#### 130.5.3.3. Malversation in Italy

In 2013, the former subsidiary bank in Italy, Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) was confronted with the fact that for many years interest rate adjustment clauses in leasing agreements were applied incorrectly for the benefit of the bank, resulting in higher obligations for customers. These cases only applied to corporate/SME leasing clients; retail customers were not affected. After becoming aware of the problem, Heta immediately ordered the necessary internal investigations to clear up the matter, which resulted in criminal charges being brought forward against the former CEO of the subsidiary bank, among others; investigations by local financial police, the public prosecutors in Udine and the Italian banking regulatory authorities; as well as consequences in terms of personnel and internal organisation. By the end of 2013, external experts had revealed other minor cases of malversation during recent investigations; appropriate compensation of affected customers was immediately initiated. The repayment of all incorrectly retained amounts totalling EUR 119 million was fully completed in 2014.

The cases of malversation led to an on-site audit by the Italian regulator, Banca d'Italia, which extended to the former Italian subsidiary HBI and the Italian leasing unit which remains part of the Heta group. The reason for including the leasing company was that a portfolio of HBI was transferred to the leasing unit in 2012 along with manipulated IT systems which led to the calculation errors. The audit began in March 2013 and was completed in August 2013. Banca d'Italia announced the results of its audit in November 2013. The former bank subsidiary and the leasing company commented on the audit results at the beginning of 2014. The active members of the Administrative Board at the time gave statements on the charges. On 31 October 2014 Banca d'Italia notified both companies of the penalties. The Italian regulator imposed fines of various amounts on all members of the respective Administrative Boards and Control Boards, but only those who were in office during the audit period. Those concerned included six Heta representatives including (former) employees of Heta or current and former members of the Executive Board of Heta, who assumed non-operative Administrative Board functions. Administrative Board and Control Board members who were in office before 2010 or after 2013 were not affected although the investigations revealed that the malversations went back around ten years with regard to the bodies that had been active in the distant past.

Heta provided evidence through several external expertises that the fraudulent actions by a group of insiders consisting of employees close to the former CEO of HBI were not visible to the Heta representative in the Administrative Board. An appeal was lodged against the penalties in due time at the end of 2014. The appeal did not have a suspensive effect, which meant that the fines were already due for payment by the respective representatives. At the end of 2014, the bodies of Heta decided to reimburse the fines to the representatives concerned on the basis of two external legal opinions which concluded that under the circumstances, the company had an obligation to compensate them.

The audit by the financial police and public prosecutors of Udine which began in 2013 was concluded in the first half of 2015. The investigations led to the initiation of criminal proceedings against six individuals (former CEO and other company employees) and Hypo Alpe-Adria-Bank S.p.A. (HBI) (responsibility of legal entities). On the basis of the applicable legal provisions, HBI could face fines. In the event of a negative outcome in the proceedings, Heta has assumed liability vis-à-vis HBI-BH. Provisions for potential fines have been set aside for any assumption of liability by Heta.

#### 130.5.3.4. Other proceedings

At the end of 2010, a borrower filed a lawsuit against the former subsidiary bank Hypo Alpe-Adria-Bank d.d., Zagreb, and against Heta. The action was only formally brought against Heta in November 2012. The plaintiff argues that the project related to the loan, the financing of a hotel in Croatia, should have received further financing/financing sufficient for its completion, above and beyond the credit lines previously granted. The plaintiff's claim is targeted at compensation for damages as well as loss of earnings; the amount in dispute is around EUR 130.0 million. Heta assumes that there is no basis whatsoever for this

lawsuit in view of the borrower's previous violations of the contract and the improper use of funds which led to the termination of the credit lines. The complaint was answered in due time. A committee of creditors for one of the joint plaintiffs, which has since become insolvent, has withdrawn this complaint as unfounded. The cases against the other plaintiffs continue. The attempt to acquire the shares in two companies that hold the majority of the shares in the plaintiff company pledged to Heta by means of an execution failed on account of various appeals and other measures filed against Heta.

A claim for damages filed by a Cypriot company against group company Heta Asset Resolution d.o.o. Beograd<sup>16</sup> for some EUR 22.5 million has been pending before an arbitration court in Belgrade since the first quarter of 2013. These proceedings relate to the failure to fulfil contractual obligations arising from the shareholder agreement concluded between the parties in a dispute relating to a special purpose entity. The Cypriot company claims that the purpose of this special purpose entity – the construction of a commercial property in Serbia and the financing of the construction as well as the subsequent profitable sale of the property – was not achieved due to delays of several years in the fulfilling of obligations. The court advised the parties in early October 2014 to hold (non-prejudicial) settlement negotiations. As the settlement negotiations ultimately failed, a judgement was issued on 30 January 2015 ruling that the company is required to pay damages of EUR 2.74 million. An application for the annulment of the judgement was filed with the Commercial Court in Belgrade on 27 February 2015.

In a legal dispute between former small shareholders of Slavenska Banka d.d., Osijek, which had been acquired by Hypo Alpe-Adria-Bank International AG in the late 1990s and then merged with Hypo Alpe-Adria-Bank d.d., Zagreb, and the former company, the Supreme Court of Croatia upheld the appeal of six small shareholders in March 2014. The proceedings relate to the question of the legal admissibility of the difference in the price paid by Hypo Alpe-Adria-Bank International AG to these small shareholders and the price paid to the Republic of Croatia for the shares. The previous-instance decision was reversed and returned to the first-instance court for a new hearing. Some of the proceedings in question have been pending for more than ten years. The difference in the price paid to the small shareholders and the price paid to the Republic of Croatia was legally permitted at the time of the acquisition. However, the law has since been declared unconstitutional. Following a preliminary hearing in June 2014, proceedings were held in October 2014, during which the plaintiffs were ordered to present additional documentation. Heta assumes that the claims of the small shareholders in question, with the exception of the claims of those shareholders who had their appeals upheld, have all become statute-barred. Heta would have to pay the price difference plus interest of approximately EUR 1.5 million were the court to uphold the six claims.

A Croatian non-governmental organisation (NGO) is of the view that a credit agreement concluded between Hypo Alpe-Adria-Bank International AG and a Croatian company is invalid and that the liens on those properties agreed as collateral for the monies, need to be cancelled. Claims of some EUR 6 million are related to Hypo Alpe-Adria-Bank International AG's lack of authorisation to conduct banking activities in Croatia. The claim filed in Croatia will now be served formally. Heta sought external legal advice that rebuts this. This complaint was answered in due time. As insolvency proceedings have since been opened against this Croatian company, these proceedings are suspended until such time as an insolvency administrator has been appointed. Heta has been informed of at least one other such claim from this NGO.

Three Croatian companies filed a claim against Heta and Hypo Alpe-Adria-Bank d.d. Zagreb, that was served to Heta at the end of March 2015, relating to the invalidity of credit agreements concluded in 2005 and the cancellation of mortgages recorded on properties agreed on as collaterals. The plaintiffs claim that Heta (then: Hypo Alpe-Adria-Bank International AG) conducted inadmissible banking activities in the Republic of Croatia without the appropriate authorisations as the lending business had seemingly been carried out by Hypo Alpe-Adria-Bank d.d. Zagreb while all transactions had, in fact, been conducted by Heta, which had obtained the benefits from the lending business. The first court hearing is scheduled for September 2015; an appeal was prepared in due time.

Several buyers of residential units of a project are claiming compensation as they were not aware of the fact that mortgages were taken out on the property in favour of Heta. In this respect, 13 cases are pending and an injunction prohibiting further property disposals has been requested.

Heta was granted a mortgage by one borrower who held usage rights to a property owned by the Republic of Serbia. After initiating enforcement proceedings, the Republic of Serbia is claiming that enforcing a mortgage is not permissible as the real estate is public property.

A pledgee is asserting his right in several proceedings that the joint liability agreed as part of a pledge agreement is void and that the entire pledge agreement is void as it did not define the extent of the liability. The party is also contesting the enforcement.

A Croatian credit customer is filing a lawsuit based on the invalidity of credit and pledge agreements and argues that the interest adjustment clause was unlawful, that interest was incorrectly calculated, unlawful currency conversions were carried out and that a clause stating that payment transactions were to be conducted via Hypo banks violated competition law.

A shopping centre which was financed still revealed numerous construction defects after completion. It was agreed by the contractor and the customer that the remaining purchase price of EUR 2.5 million would only be paid once the defects had

<sup>16</sup> "Hypo Alpe-Adria-Rent d.o.o. Beograd" was renamed "Heta Asset Resolution d.o.o. Beograd" effective 20 November 2014.

been rectified. Heta was partly liable as the financier. The litigation case is based on the question as to whether the defects have been rectified and that the remaining purchase price is to be paid.

Two borrowers have made claims for revocation and compensation on the basis that the loan agreement is void as Heta did not, as assumed, take on the construction financing after financing a real estate acquisition by a subsidiary. Heta denies that it misled borrowers.

#### 130.5.4. PROCEEDINGS RELATED TO INVESTORS

In April 2012, an action was filed by an investor in the Klagenfurt Regional Court against the former Hypo Alpe-Adria-Bank International AG and claims for damages, warranty claims and claims for declaratory relief were asserted. Specifically, the plaintiff petitions for the repayment of the nominal value (including statutory default interest) of a supplementary capital bond of the former Hypo Alpe-Adria-Bank International AG amortised to zero (at final maturity date) based on the statutory loss allocation of section 23 (7) (3) of the Austrian Banking Act (BWG). In addition, the plaintiff petitions for the payment of the missed interest on the bond from April 2009 to April 2011, including statutory default interest.

In Heta's view, the full amortisation of the bond to zero at the final maturity date was performed properly (see also note (132) Servicing of subordinated capital). Due to numerous changes of judge, the first hearing at the Klagenfurt Regional Court only took place in December 2013. At this hearing, it was resolved to delegate the case to the Commercial Court of Vienna. The hearing took place in the Commercial Court of Vienna on 29 July 2014; the main matter discussed was the further programme of proceedings. The further hearing originally scheduled for the start of January 2015, in which the questioning of witnesses ought to have taken place, was postponed to April 2015.

#### 130.5.5. PROCEEDINGS REGARDING THE INVOLVMENT OF FORMER SHAREHOLDERS

On 21 March 2012, the former Hypo Alpe-Adria-Bank International AG filed a suit against original shareholders HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS), HYPO-BANK BURGENLAND Aktiengesellschaft, Kärntner Landes- und HypothekenbankHolding and Berlin & Co Capital S.á.r.l. as well as a total of nine former Executive and Supervisory Board members (so-called "consultants" civil suit). The amount in dispute totals EUR 50.1 million, with the performance order being sought for EUR 50.0 million and the action for a declaratory judgement for EUR 0.1 million. The claims made relate to what former Hypo Alpe-Adria-Bank International AG considered the undue distribution of a disproportionate special dividend to the above-mentioned shareholders in 2008 for the 2007 financial year. In a submission dated November 2012, one of the joint defendants, Berlin & Co Capital S.á.r.l., filed a counterclaim during the proceedings for EUR 250.0 million due to assumed deception when acquiring shares relating to a capital increase implemented by the company in 2006 to be offset against the claim (and up to that amount); the company also addressed this purported claim out of court. Heta does not believe this counterclaim to be valid. In the proceedings themselves, the preliminary hearing took place in the first quarter of 2014; evidentiary proceedings begin in the first quarter of 2014. A settlement of approximately EUR 19 million (around 75% of the amount in dispute) was agreed in July 2014 between Heta and the defendant and co-defendant former shareholders as well as two former board members. Proceedings against the remaining defendants continued with a pro-rata restricted total amount of some EUR 27 million.

The Klagenfurt public prosecutors initiated criminal investigations on 11 November 2014 relating to the distribution of the special dividend.

The list of defendants in the civil suit was increased by two representatives of BayernLB as well as, pursuant to the Act on the Responsibility of Legal Entities for Criminal Offences (Verbandsverantwortlichkeitsgesetz – VbVG), by Kärntner Landesholding (KLH), HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS), Hypo Bank Burgenland, Berlin & Co Capital S.á.r.l. and BayernLB.

A decision was made on 1 December 2014 to interrupt the civil suit until the conclusion of criminal proceedings. Heta recently filed an appeal with the Higher Regional Court (OLG) of Graz to prevent the proceedings from becoming fragmented and to ensure the prompt continuation of the proceedings.

### **(131) Guarantee agreement with the Republic of Austria**

On 28 December 2010, a guarantee agreement was concluded between the Republic of Austria and the former Hypo Alpe-Adria-Bank International AG, in which the liability of the Republic of Austria as deficiency guarantor in accordance with section 1,356 of the Austrian Civil Code (ABGB) was agreed. This guarantee relates to a precisely specified portion of receivables which are part of the portfolio of the former Hypo Alpe-Adria-Bank International AG, and is limited to EUR 200.0 million ("maximum liability amount"). In return for the assumption of this guarantee by the Republic of Austria, a commission of 10% p.a. to be paid by the company was agreed, calculated on the nominal amount of the part of the receivables for which liability was accepted. With effect as at 30 June 2013, the liability of the Austrian Federal Government as guarantor under section 1,346 of the Austrian Civil Code (ABGB) was extended to 30 June 2017 by the signing of an addendum.

As part of the extension, amongst other things certain collateralised receivables were replaced by other pre-existing receivables. The maximum liability amount of EUR 200.0 million and the provisions relating to the commission to be paid remained identical. Furthermore, the drawdown process was adapted, and in particular the process for auditing the drawdown preconditions was redrafted.

As part of the extension of the guarantee, the ability to assert claims was altered to the effect that the latter only became possible from May 2014. In total, claims concerning a nominal amount of loans and advances of roughly EUR 48.8 million have so far been exercised. To date, the Republic of Austria has not yet made any payments in these cases, since the responsible departments in the Austrian Federal Ministry of Finance (BMF) requested further information, and in one case the BMF does not view the conditions for the drawdown as being met at this point. The company takes the view that the preconditions for a claim existed at the time of the drawdown, and is conducting talks with the BMF.

By decision of the resolution authority dated 1 March 2015, the obligation of Heta to pay the commission was deferred until 31 May 2016. The BMF is now of the opinion that the continuation of the guarantee is dependent on the full payment of the commission and the non-payment of this amount would result in no claims existing under the guarantee. Irrespective of this, the follow-up on claims submitted in autumn 2014 has shown that the complex requirements and regulatory provisions, in the submission of guaranteed loans and advances, their restructuring and the claiming of the guarantee, could lead to objections on the part of the BMF and would eventually lead into questions as to whether the prerequisites for payment have been fulfilled. According to principles applied to the measurement of loans in the annual financial statements 2014, an asset guarantee may only be taken into consideration if it can be assumed with a high level of probability that the claims are satisfied by the guarantor. The Executive Board does believe that this level of probability – particularly due to the legal rights of lien on the part of the BMF – does not exist in respect of the entire amount of guaranteed loans and advances, rather only in respect of an amount of EUR 36.5 million, which is attributable to claims made prior to the issuance of the decision. In respect of other guaranteed loans and advances, the necessary level of probability does not apply. Irrespective of the accounting principles applied, Heta will review further legal options for its course of action.

### **(132) Servicing of subordinated capital**

#### **132.1. Supplementary capital**

The company had in the past issued supplementary capital pursuant to section 23 (7) of the Austrian Banking Act (BWG) (old version), which in accordance with supervisory regulations has been allocated to own capital funds. According to the restrictions laid down in section 23 (7) (2) of the Austrian Banking Act (BWG), interest can only be paid out "if it is covered by the annual profits (before movements in reserves)". As the separate financial statements of the former Hypo Alpe-Adria-Bank International AG pursuant to UGB/BWG as at 31 December 2007 to 2013 did not meet this criterion, following formal adoption of the financial statements, interest on the supplementary capital issues could not be paid out. The supplementary capital outstanding as at 7 August 2014 expired with the Austrian Financial Market Authority's (FMA) regulation on the basis of the Hypo Alpe Adria Restructuring Act (HaaSanG).

In the event that the Hypo Alpe Adria Restructuring Act (HaaSanG) is repealed by the Constitutional Court due to alleged unconstitutionality, the payments on the supplementary capital bonds would also be covered by the moratorium enacted by the wind-down authorities pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG). It should also be pointed out that taking into account the loss allocation required by law, a complete financial loss in relation to the supplementary capital issues by the company has been established. On the basis of the significant change in forward-looking assessment, future cash flows to investors had to be adjusted in 2012 so that further positive supplementary capital was reported and, pursuant to IAS 39 and IAS 8, the supplementary capital measured at amortised cost was impaired.

### 132.2. Hybrid capital

The former Hypo Alpe Adria has in the past made a total of two issues of subordinated hybrid capital, with no obligation to re-margin interest (Hypo Alpe-Adria Jersey Ltd. for a nominal value of EUR 75.0 million and Hypo Alpe-Adria (Jersey) II Ltd. for a nominal value of EUR 150.0 million). Both issues are essentially for an unlimited term, although the issuer has a unilateral right to terminate. The primary criterion for servicing the outstanding hybrid capital issues is sufficient “distributable funds” as defined in the issue conditions; the secondary criterion is that there is no short-fall on the limits set for the group’s own capital funds.

As the separate financial statements for Heta as at 31 December 2014 prepared in accordance with UGB/BWG show a clear loss (prior to movements in reserves), the prerequisite for servicing hybrid capital is not met, and thus may not be carried out. Furthermore, this obligation would be covered by the moratorium enacted by the resolution authority with an edict notice pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG).

As there is no supervisory regulatory obligation to re-margin missed interest payments, the payments with regard to this hybrid capital do not apply and are therefore not shown as interest expense in the consolidated income statement.

The hybrid capital of Hypo Alpe-Adria Jersey Ltd. measured at amortised cost (outstanding nominal value: approximately EUR 36.5 million) was assessed in the same way as the supplementary capital. As no more payments are expected on this instrument in the future, this was valued at zero in the consolidated financial statements. The hybrid capital of Hypo Alpe-Adria (Jersey) II Ltd. (outstanding nominal value: approximately EUR 23.4 million) is measured at fair value; the valuation here is based on the market price at the reporting date.

The annual financial statements of both companies are published on Heta’s website ([www.heta-asset-resolution.com](http://www.heta-asset-resolution.com); → Investor Relations → Publications 2015).

### 132.3. Subordinated liabilities

The termination and deferment of the liabilities of the then Hypo Alpe-Adria-Bank International AG listed in the Austrian Financial Market Authority (FMA) regulation took effect by act of law with the announcement of the Austrian Financial Market Authority (FMA) regulation on 7 August 2014; this means that repayment sums, interest or other ancillary fees owed by the company, where applicable, will automatically be reduced to zero. Approximately EUR 0.8 billion in subordinated liabilities issued by the then Hypo Alpe-Adria-Bank International AG were affected by this.

The remaining subordinated liabilities of approximately EUR 1.1 billion are currently covered by the moratorium enacted by the resolution authority pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) decision. The moratorium also covers the EUR 1.0 billion subordinated bond issued on 6 December 2012 for which the Republic of Austria gave an unconditional and irrevocable guarantee, which was approved by the European Commission on 3 September 2013. In exchange for the guarantee, Heta undertook in 2012 to pay the Republic of Austria a guarantee fee calculated following a European Commission scheme. The guarantee fee is also subject to the deferment pursuant to the resolution authority’s decision notice dated 1 March 2015 and is not currently being paid to the Republic of Austria by Heta.

## (133) Portfolio transfers from the SEE network and within Heta

Following the decision by the European Commission of 3 September 2013, measures were carried out that were intended to maximise the attractiveness of the units of the SEE which are suitable for reprivatisation in terms of potential investors. On this basis, further portfolio adjustments were carried out in a similar manner to past transactions. On 14 November 2014, a portfolio of selected loans of the former Bosnian subsidiary banks with a total exposure of some EUR 131 million was transferred to the Heta wind-down unit. This transaction was transferred in the form of a true sale. As a result of the transfer, the portfolios were derecognised, which brought about a normalisation of the key financial figures at subsidiary level, in particular net interest income, NPL ratios, (non-performing loans), refinancing capacity (loan/deposit ratio) and also the strengthening of the equity base without the need for external capital.

In 2014, a portfolio transfer from the former Serbian subsidiary to the Serbian unit of Heta was carried out in two tranches as a true sale. The total exposure of the transaction was approximately EUR 26.0 million.

Within Heta, additional steps were taken to bundle the performing real estate portfolio. For this purpose, portfolios of Heta Asset Resolution d.o.o.<sup>17</sup> were transferred to two other companies as part of a transformation and the remaining portfolios at Heta Asset Resolution d.o.o. will be wound down. One of the transferred performing real estate portfolios of approximately EUR 380 million was transferred to Centrice Real Estate Ljubljana d.o.o.; a performing leasing portfolio of around EUR 300 million was transferred to HYPO Alpe-Adria-Leasing, družba za financiranje d.o.o.; and Centrice Real Estate Ljubljana d.o.o. was sold to a group company Centrice Real Estate GmbH, Vienna. In 2014, Hypo Alpe-Adria-Leasing družba za

<sup>17</sup> “Hypo Leasing d.o.o.” was renamed “Heta Asset Resolution d.o.o.” effective 2 June 2014.

financiranje d.o.o. was sold to Hypo Alpe-Adria-Bank d.d., which is part of HGAA. Further, various real estate project companies in Slovenia and Croatia were sold to Centrice Real Estate GmbH so as to bundle the performing real estate for a planned sale.

#### (134) Audit conducted by the Österreichische Prüfstelle für Rechnungslegung (OePR)

On 13 May 2014, the Österreichische Prüfstelle für Rechnungslegung (OePR) initiated a special audit of the consolidated financial statements as at 31 December 2013 regarding the recognition of the assets belonging to the SEE network. Subsequently the audit was expanded to include the interim report as at 30 June 2014. The performed audit was related both to a sample of individual credit cases in the SEE countries and the valuation of the entire SEE network in the (interim) consolidated financial statements of Heta.

The OePR announced the results of the audit on 10 April 2015 and, regarding the statement of financial position item "Credit risk provisions for customers", noted that these were too low in the consolidated financial statements as at 31 December 2013 by at least EUR -8.1 million and in the interim report as at 30 June 2014 by at least EUR -3.8 million. It was also noted that the "Provisions" statement of financial position item in the interim report as at 30 June 2014 with a corresponding effect on results was too high by EUR -1.16 billion, since in the opinion of the OePR the conditions for recognising a provision for the loss on disposal were not given as at 30 June 2014. Insofar as permitted by the relevant IFRS standards, the assets side of the group would instead have to be remeasured regarding the assets of the SEE network.

According to the opinion of the OePR, the losses reported as at 30 June 2014 would have been significantly lower than those actually reported by recognising a provision in the amount of the expected loss on disposal. Since it is the opinion of the Executive Board that there was an obligation to recognise a provision for the SEE network as at 30 June 2014, Heta notified the OePR on 27 April 2015 that it objects to the results of the audit. The Austrian Financial Market Authority (FMA) is pursuing with the audit.

#### (135) Employees

	31.12.2014	31.12.2013
Employees at closing date (Full Time Equivalent – FTE)	1,805	6,008
Employees average (FTE)	1,927	6,574

The significant reduction in the number of full-time employees (FTEs) by 4,203 as at 31 December 2014 is mainly due to the deconsolidation of HBI (2013: 310 FTEs) and HGAA (2013: 3,910 FTEs). The figure includes 152 employees who were transferred to HGAA in the first half of 2015. This will result in a further reduction in the number of employees in 2015.

**(136) Severance and pension payments**

The outlay of the parent company for severance and pension payments is shown in the table below:

EUR m

	31.12.2014		31.12.2013	
	Severance Payments	Pensions	Severance Payments	Pensions
Key management personnel	0.3	0.1	0.1	0.0
Other employees	2.9	0.8	1.0	0.2
Members of Executive Board	0.0	0.1	0.0	0.1
<b>Total</b>	<b>3.2</b>	<b>0.9</b>	<b>1.1</b>	<b>0.3</b>

Expenses for severance payments and pensions contain contributions to defined contribution plans totalling EUR 0.9 million (2013: EUR 0.9 million).

**(137) Relationship with members of the executive bodies****137.1. Advances, loans and guarantees in respect of members of the executive bodies**

The financial relationship of Heta to the members of the Executive Board and Supervisory Board of Heta is as follows:

EUR m

	31.12.2014	31.12.2013
<b>Loans and advances</b>	<b>0.0</b>	<b>0.0</b>
Executive Board	0.0	0.0
Supervisory Board	0.0	0.0
<b>Liabilities</b>	<b>0.0</b>	<b>0.0</b>
Executive Board	0.0	0.0
Supervisory Board	0.0	0.0

EUR m

	31.12.2014	31.12.2013
<b>At end of previous period</b>	<b>0.0</b>	<b>0.0</b>
New loans issued during the period	0.0	0.0
Amount owing to bank recorded on the balance sheet	0.0	0.0
Amount received by the bank	0.0	0.0
Changes to Executive bodies	0.0	0.0
Credit repaid during the period	0.0	0.0
Changes to the consolidated Group	0.0	0.0
<b>At end of period</b>	<b>0.0</b>	<b>0.0</b>
Interest income	0.0	0.0

EUR m

	31.12.2014	31.12.2013
<b>At end of previous period</b>	<b>0.0</b>	<b>1.3</b>
Deposits received during the period	0.0	0.0
Changes to Executive bodies	0.0	0.0
Deposits paid out during the period	0.0	0.0
Changes to the consolidated Group	0.0	-1.3
<b>At end of period</b>	<b>0.0</b>	<b>0.0</b>
Interest expenses on liabilities	0.0	0.0



**137.2. Breakdown of remuneration received by members of the executive bodies of the holding company**

Remuneration received by the members of the Executive Board and Supervisory Board of Heta for carrying out their functions, received from this or from another group company, is as follows:

	EUR m	
	31.12.2014	31.12.2013
<b>Executive Board</b>	<b>1.6</b>	<b>2.2</b>
thereof ongoing payments	1.6	2.2
<b>Supervisory Board</b>	<b>0.3</b>	<b>0.2</b>
<b>Remuneration of former members of the Executive and Supervisory Board and their surviving dependents</b>	<b>0.0</b>	<b>0.5</b>
<b>Total</b>	<b>1.9</b>	<b>3.0</b>

The members of the Executive Board and Supervisory Board are stated in note (138) Executive bodies.

**(138) Executive bodies**

1 January to 31 December 2014

**Supervisory Board****Chairman of the Supervisory Board:**

Klaus LIEBSCHER, Member from 30 April 2013, Chairman from 21 June 2013 to 21 February 2014

Herbert WALTER, Member from 23 May 2014, Chairman from 3 June 2014 to 7 November 2014

Michael MENDEL, Member from 7 November 2014, Chairman from 7 November 2014

**Deputy Chairman of the Supervisory Board:**

Rudolf SCHOLTEN, until 23 May 2014

Wolfgang HARTMANN, Member from 23 May 2014,

Deputy Chairman from 3 June 2014 to 7 November 2014

Alois HOCHEGGER, member from 23 May 2014, Deputy Chairman from 7 November 2014

**Members of the Supervisory Board:**

Helmut DRAXLER, until 23 May 2014

Alois STEINBICHLER, until 23 May 2014

Ludwig SCHARINGER, until 4 February 2014

Adolf WALA, until 23 May 2014

Christine SUMPER-BILLINGER, from 23 May 2014

Regina FRIEDRICH, from 23 May 2014

Bernhard PERNER, from 7 November 2014

**Appointed to the Supervisory Board by the Works Council:**

Gerhard PLIESCHNIG, until 3 October 2014

Helmut GRUBER, from 20 September 2014 to 3 October 2014

Richard JOHAM

**Federal Supervisory Authorities****State Commissioner:**

Alexander PESCHETZ

**Deputy State Commissioner:**

Monika HUTTER, until 30 April 2014

Stefan WIESER, from 1 August 2014

**Trustees****Trustee:**

Alexander PESCHETZ, Federal Ministry of Finance

**Deputy Trustee:**

Jakob KÖHLER, Federal Ministry of Finance, until 30 August 2014

Maria HACKER-OSTERMANN, from 1 September 2014

**Executive Board**

Wolfgang EDELMÜLLER, Deputy Chairman of the Executive Board until 28 February 2014

Rainer SICHERT, Deputy Chairman of the Executive Board from 1 March 2014 to 29 October 2014

Alexander PICKER, Chairman of the Executive Board from 1 January 2014 to 29 October 2014

Johannes PROKSCH, member from 19 April 2010, Deputy Chairman of the Executive Board from 31 October 2014, previously member of the Executive Board

Rainer JAKUBOWSKI, Member of the Executive Board from 15 September 2014, Chairman of the Executive Board from 31 October 2014

For more details on the changes to the composition of the Executive Board and the Supervisory Board, please refer to note (141) Events after the reporting date.

## (139) Material subsidiaries as at 31 December 2014

FINANCIALS			OTHERS		
<b>HETA ASSET RESOLUTION AG</b>					
<b>Austria:</b>			<b>Austria:</b>		
HAR GmbH, Klagenfurt/WS	<b>Bosnia and Herzegovina:</b>		CEDRUS Handels- und Beteiligungs GmbH, Klagenfurt/WS	<b>Croatia:</b>	
HETA Asset Resolution Leasing GmbH, Klagenfurt/WS	HETA d.o.o., Sarajevo		HYP0 ALPE-ADRIA BETEILIGUNGEN GMBH, Klagenfurt/WS	REZIDENCIJA SKIPER d.o.o., Savudrija	
HETA Real Estate GmbH, Klagenfurt/WS	BORA d.o.o., Banja Luka	<b>Jersey, Channel Islands:</b>	Hypo Alpe-Adria- Immobilien GmbH, Klagenfurt/WS	X Turist d.o.o., Umag	
HETA Luftfahrzeuge Leasing GmbH, Klagenfurt/WS		HBInt Credit Management Limited, St. Helier 51 %	HYP0 Vermögens- verwaltung GmbH, Klagenfurt/WS	Y Turist d.o.o., Umag	
HETA Grund- und Bau- Leasing GmbH, Klagenfurt/WS	<b>Serbia:</b>	Norica Investments Limited, St. Helier 51 %		GRAND HOTEL LAV d.o.o., Podstrana	
HETA Leasing Kärnten GmbH & Co KG, Klagenfurt/WS	HETA LEASING D.O.O., BEOGRAD		<b>Performing Real Estate:</b>	<b>Serbia:</b>	
HETA Immobilien- und Bauconsult GmbH, Klagenfurt/WS	HETA ASSET RESOLUTION D.O.O., BEOGRAD		Centrice Real Estate GmbH, Wien	ZAJEDNIČKI INFORMACIONI SISTEM DOO, BEOGRAD	
<b>Italy:</b>	HETA REAL ESTATE D.O.O., BELGRAD		HYP0 PREP d.o.o., Ljubljana	BLOK 67 ASSOCIATES DOO BEOGRAD	
Heta Asset Resolution Italia S.r.l., Udine	<b>Bulgaria:</b>		Prep Management d.o.o., Ljubljana		
	HYPO ALPE-ADRIA-LEASING OOD, Sofia				
<b>Slovenia:</b>	HYPO ALPE-ADRIA AUTOLEASING OOD, Sofia				
HETA Asset Resolution d.o.o., Ljubljana	<b>Montenegro:</b>				
TCV d.o.o., Ljubljana	HYPO ALPE-ADRIA-LEASING D.O.O., Podgorica				
TCK d.o.o., Ljubljana	HETA ASSET RESOLUTION D.O.O., PODGORICA				
	<b>Macedonia:</b>				
<b>Croatia:</b>	HYPO ALPE-ADRIA-LEASING DOOEL, Skopje				
HETA Asset Resolution Hrvatska d.o.o., Zagreb	<b>Hungary:</b>				
HETA Asset Resolution Ulaganja d.o.o., Zagreb	HETA Asset Resolution Magyarország Zrt., Budapest				
H-ABDUCO d.o.o., Zagreb	<b>Germany:</b>				
Aurea Savjetovanje d.o.o., Zagreb	HETA Asset Resolution Germany GmbH, München				

Illustrated are the direct fully consolidated subsidiaries of the Heta Asset Resolution AG (excluding companies in liquidation) which are marked with '1'. The other subsidiaries represent fully consolidated second- or third level subsidiaries of the Heta Asset Resolution AG, mainly subsidiaries of the HAR GmbH or Hypo Alpe-Adria-Beteiligungen GmbH. It is pointed out that this organigram does not contain all direct and indirect subsidiaries of the Heta Asset Resolution AG, therefore the illustration is not exhaustive.

**Segment Financials:** Contains the Wind-Down leasing companies, the companies which took over the non-performing financing portfolio from the former sister banks ('brush entities'), and the two investment companies with minority interests.

**Segment Others:** Contains the subholdings, other subsidiaries and companies which manage the performing real estate portfolio.

**(140) Scope of consolidation**

The consolidated group of companies as defined in IFRS as at 31 December 2014 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	31.12.2014
Alpe Adria Snow Fun Park Grundstücks GmbH	Wittenburg	100.0	100.0	31.12.2014
Alpe-Adria nekretnine d.o.o.	Zagreb	100.0	100.0	31.12.2014
Alpe-Adria poslovodstvo d.o.o.	Zagreb	100.0	100.0	31.12.2014
Alpe-Adria-Projekt GmbH	München	100.0	100.0	31.12.2014
BLOK 67 ASSOCIATES DOO BEOGRAD	Belgrad - Novi Beograd	100.0	100.0	31.12.2014
BORA d.o.o. Banja Luka	Banja Luka	100.0	100.0	31.12.2014
BRODARICA POSLOVNI CENTAR d.o.o.	Zagreb	100.0	100.0	31.12.2014
Carinthia I Limited	St. Helier - Jersey	100.0	51.0	31.12.2014
Carinthia II Limited	St. Helier - Jersey	100.0	51.0	31.12.2014
CEDRUS Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2014
Centrice Real Estate GmbH	Wien	100.0	100.0	31.12.2014
DOHEL d.o.o.	Sesvete	100.0	100.0	31.12.2014
EPSILON GRAĐENJE d.o.o.	Zagreb	100.0	100.0	31.12.2014
GRAND HOTEL LAV d.o.o.	Podstrana	100.0	100.0	31.12.2014
H-ABDUKO d.o.o.	Zagreb	100.0	100.0	31.12.2014
HAR GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2014
HBInt Credit Management Limited	St. Helier - Jersey	51.0	51.0	31.12.2014
HETA 2014 Tanácsadó Kft	Budapest	100.0	100.0	31.12.2014
HETA Asset Resolution d.o.o.	Ljubljana	(25.0/75.0)	100.0	31.12.2014
HETA ASSET RESOLUTION d.o.o.	Podgorica	100.0	100.0	31.12.2014
HETA ASSET RESOLUTION D.O.O. BEOGRAD	Beograd	100.0	100.0	31.12.2014
HETA Asset Resolution Germany GmbH	München	100.0	100.0	31.12.2014
HETA Asset Resolution Hrvatska d.o.o.	Zagreb	100.0	100.0	31.12.2014
Heta Asset Resolution Italia S.r.l.	Tavagnacco (UD)	100.0	100.0	31.12.2014
HETA Asset Resolution Leasing GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2014
HETA Asset Resolution Magyarország Zrt.	Budapest	100.0	100.0	31.12.2014
HETA d.o.o. Sarajevo	Sarajevo	100.0	100.0	31.12.2014
HETA Grund- und Bau-Leasing GmbH	Klagenfurt am Wörthersee	(99.9/0.01)	100.0	31.12.2014
HETA Immobilien- und Bauconsult GmbH	Klagenfurt am Wörthersee	99.0	100.0	31.12.2014
HETA LEASING D.O.O. BEOGRAD	Belgrad	100.0	100.0	31.12.2014
HETA Leasing Kärnten GmbH & Co KG	Klagenfurt am Wörthersee	100.0	100.0	31.12.2014
HETA Luftfahrzeuge Leasing GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2014
HETA REAL ESTATE D.O.O. BELGRAD	Belgrad	100.0	100.0	31.12.2014
HETA Real Estate GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2014
HTC ENA d.o.o.	Ljubljana	100.0	100.0	31.12.2014
HYPERIUM DOOEL Skopje	Skopje	100.0	100.0	31.12.2014
HYPO ALPE-ADRIA-AUTOLEASING OOD	Sofia	(99.83/0.17)	100.0	31.12.2014
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2014
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2014

Company	Registered office	Ownership (direct) in %	Ownership (indirect) in %	Closing date
HYPO ALPE-ADRIA-LEASING D.O.O. - PODGORICA	Podgorica	100.0	100.0	31.12.2014
HYPO ALPE-ADRIA-LEASING DOOEL Skopje	Skopje	100.0	100.0	31.12.2014
HYPO ALPE-ADRIA-LEASING OOD	Sofia	(99.9/0.01)	100.0	31.12.2014
HYPO ALPE-ADRIA-Verwaltung 2011 GmbH	München	100.0	100.0	31.12.2014
HYPO ALPE-ADRIA-ZASTUPNIK - Društvo za zastupanje u osiguranju d.o.o. Sarajevo	Sarajevo	100.0	100.0	31.12.2014
HYPO CENTER –2 d.o.o.	Ljubljana	100.0	100.0	31.12.2014
HYPO GALERIJA d.o.o.	Zagreb	100.0	100.0	31.12.2014
HYPO HOUSE D.O.O. - PODGORICA	Podgorica	100.0	100.0	31.12.2014
HYPO NEPREMICNINE d.o.o.	Ljubljana	100.0	100.0	31.12.2014
HYPO PREP d.o.o.	Ljubljana	100.0	100.0	31.12.2014
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	100.0	100.0	31.12.2014
HYPO-ALPE-ADRIA-NEKRETNINE d.o.o.	Zagreb	100.0	100.0	31.12.2014
LOMA CENTER d.o.o.	Ljubljana	100.0	100.0	31.12.2014
Malpensa Gestioni Srl	Tavagnacco (Udine)	100.0	100.0	31.12.2014
MM THETA d.o.o.	Ljubljana	100.0	100.0	31.12.2014
MM ZETA d.o.o.	Ljubljana	100.0	100.0	31.12.2014
Norica Investments Limited	St. Helier - Jersey	51.0	51.0	31.12.2014
O-CENTER d.o.o.	Maribor	100.0	100.0	31.12.2014
Prep Management d.o.o.	Ljubljana	100.0	100.0	31.12.2014
REZIDENCIJA SKIPER d.o.o.	Savudrija	(75.0/25.0)	100.0	31.12.2014
SKIPER HOTELI d.o.o.	Savudrija	100.0	100.0	31.12.2014
SKIPER OPERACIJE d.o.o.	Savudrija	100.0	100.0	31.12.2014
SKORPIKOVA POSLOVNI CENTAR d.o.o.	Zagreb	100.0	100.0	31.12.2014
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Wittenburg	100.0	100.0	31.12.2014
SPC SZENTEND Ingtatlanforgalmazó és Ingtatlanfejlesztő Kft.	Budapest	100.0	100.0	31.12.2014
TCK d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2014
TCV d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2014
TERME SPA ROGASKA D.D.	ROGAŠKA SLATINA	100.0	100.0	31.12.2014
Tridana d.o.o.	Ljubljana	100.0	100.0	31.12.2014
Victor Retail I d.o.o.	Sarajevo	100.0	100.0	31.12.2014
X TURIST d.o.o.	Umag	100.0	100.0	31.12.2014
Y TURIST d.o.o.	Umag	100.0	100.0	31.12.2014
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD	Novi Beograd	100.0	100.0	31.12.2014

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 31.12.2014	Share of profit for the year
Bergbahnen Nassfeld Pramollo AG	Hermagor	29.5	29.5	0.0	0.4
HYPO PARK DOBANOVCI DOO BEOGRAD	Beograd	20.0	20.0	0.0	-0.5
HYPO-BA Leasing Süd GmbH	Klagenfurt am Wörthersee	50.0	50.0	1.4	0.0
LANDTRUST DOO BEOGRAD	Beograd	50.0	50.0	0.7	0.0

#### (141) Events after the reporting date

After two members of the Executive Board of Heta left the company in the fourth quarter of 2014 following the disposal of the SEE network, three new members were appointed to the Executive Board as at 26 February 2015. Sebastian Prinz von

Schoenaich-Carolath was appointed as Chairman of the Executive Board. Martin Handrich and Alexander Tscherteu were also appointed as new members of the Executive Board. Martin Handrich took up his duties as member of the Executive Board on 16 March 2015. Sebastian Prinz von Schoenaich-Carolath took up his duties as at 16 April 2015, and Alexander Tscherteu will join the company on 1 July 2015. While Rainer Jakubowski will remain a member of the Executive Board of Heta, the previous CFO, Johannes Proksch, will resign from the Executive Board of Heta of his own accord in mid-2015.

The Federal Act on the Recovery and Resolution of Banks (BaSAG) entered into effect on 1 January 2015, according to which the resolution authority, the Austrian Financial Markets Authority (FMA), announced a decision on 1 March 2015 regarding the ordering of wind-down measures in accordance with the Federal Act on the Recovery and Resolution of Banks (BaSAG), whereby a moratorium was imposed on all “eligible liabilities” of Heta until 31 May 2016 (see note (130) Important proceedings).

On 15 January 2015, the Swiss National Bank (SNB) unexpectedly decoupled the Swiss franc from the euro and the minimum exchange rate of CHF 1.20 per euro, which immediately caused the franc to appreciate sharply against the euro. The SNB justified this decision primarily with the discrepancies in fiscal policies of various key currency regions. We refer to note (111) Assets/liabilities in foreign currencies for more details on the impact of the unexpected appreciation of the Swiss franc on Heta.

On 10 April 2015, the Austrian Financial Reporting Enforcement Panel (OePR) announced the results of the audit under way since 14 May 2014. In this regard, we refer to note (134) Audit carried out by the Austrian Financial Reporting Enforcement Panel (OePR).

The Regional Court Munich I announced on 8 May 2015 an appealable judgement in the case between Heta and Bayerische Landesbank (BayernLB) with regard to the applicability of the Austrian Equity Substituting Capital Act (EKEG) for certain outstanding refinancing liabilities of Heta. In this regard, we refer to note (130.2) Proceedings relating to Bayerische Landesbank.

Klagenfurt am Wörthersee, 16 June 2015  
Heta Asset Resolution AG

THE EXECUTIVE BOARD

Sebastian  
Prinz von Schoenaich-Carolath  
( Chairman )

Johannes Proksch  
( Deputy Chairman )

Rainer Jakubowski  
( Member )

Martin Handrich  
( 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, 16 June 2015  
Heta Asset Resolution AG

THE EXECUTIVE BOARD

Sebastian  
Prinz von Schoenaich-Carolath  
( Chairman )

Johannes Proksch  
( Deputy Chairman )

Rainer Jakobowski  
( Member )

Martin Handrich  
( 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 1 January 2014 to 31 December 2014. These consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2014, the consolidated income statement, the consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year ended on 31 December 2014, as well as a summary of the material accounting policies used, the accounting estimates made by management and other disclosures.

### Management's responsibility for the consolidated financial statements and for the consolidated accounting system

The company's management is responsible for the consolidated accounting system and for the preparation and fair presentation of consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) as they are applied in the EU and the additional requirements of section 245a Austrian Commercial Code (UGB). This responsibility includes: designing, implementing and maintaining internal controls relevant for the preparation and fair presentation of consolidated financial statements so that they are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting and measurement policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' 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 and the International Standards on Auditing (ISAs) promulgated 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 misstatements.

An audit involves performing procedures to obtain audit evidence regarding the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, 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 controls 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 company's internal controls. 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, taking into account the limitations described therein.

### Opinion

During the course of our audit following issue was detected:

As disclosed by the group's management board in the notes to the consolidated financial statements in note (131) "Guarantee agreement with the Republic of Austria", there are significant differences in the understanding between the company and the guarantor regarding compliance with the requirements of the default guarantee and the ongoing existence of the guarantee. The responses and documentation provided during the course of the audit did not allow us to finally evaluate with the required level of certainty, the enforceability of the claims and the amounts considered within the financial statements. Therefore, we were not able to conclude whether adjustments to the recorded amounts were required.

In our opinion, which is based on the results of our audit taking into account the possible effects of the limitation described in the previous paragraph, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the group as at 31 December 2014 and of its financial performance for the fiscal year from 1 January to 31 December 2014 in accordance with International Financial Reporting Standards (IFRSs) as they are applied in the EU.



Without qualifying our opinion we draw attention to the following:

- Disclosure made by the group's management board in the notes to the consolidated financial statements in note (2) "Gone concern assumption" with regard to the assessment of the group's continuance as a going concern in the consolidated financial statements as at 31 December 2013. In 2013 the company's management board referred to the same assumptions underlying the group's restructuring plan approved by the European Commission, which foresaw capital measures for subsequent years to maintain the going concern assumption to cover accrued losses over the course of the portfolio wind-down. The valuation of the group's portfolio-wind-down relevant assets was initiated once the Federal Law on the Creation of a Wind-Down Unit (GSA) fully came into force at the end of October 2014 following the transfer of Heta into a partially regulated but not insolvency-proof wind-down unit. This valuation reflects the short- to medium-term intention to sell in saturated markets within a timeframe of five years for the portfolio wind-down under the assumption that 80% of the assets are to be wound down by 2018. Following the announcement of the interim results of the Asset Quality Review (AQR), which indicated a potential capital shortfall of between EUR -4.0 billion and EUR -7.6 billion, in excess of the capital measures still available under the state aid framework approved by the European Commission of EUR 2.9 billion as well as the expected implications of these for the company's capital and liquidity situation, the company's shareholder, the Republic of Austria, announced on 1 March 2015 that no further measures in accordance with the Federal Act on Financial Market Stability (FinStaG) will be taken for Heta. Based on the amended business purpose, the implications of the Federal Law on the Creation of a Wind-Down Unit (GSA), which calls for mandatory self-liquidation after achieving the statutory wind-down objectives, 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) decision by the resolution authority, the company's management board no longer has a basis for continuing to prepare the financial statements based on the going concern assumption. Instead, the consolidated financial statements as at 31 December 2014 are based on the gone concern assumption;
- Disclosure made by the group's management board in the notes to the consolidated financial statements in note (2) "Gone concern assumption": The company's management board does not provide for interest or capital repayment for the company's debt in the wind-down plan to be prepared according to GSA. The resolution plan to be prepared by the resolution authority according to BaSAG can deviate in terms of time and content from Heta's wind-down plan, so that from the company's management's point of view, it is uncertain (in particular for the period after the currently applicable moratorium) if a proper liquidation of Heta would be possible other than within the context of insolvency proceedings;

Disclosure made by the group's management board in the notes to the consolidated financial statements in notes (1.2.3) "Adoption of the regulation pursuant to the Hypo Alpe Adria Restructuring Act", (48) "Result from the application of the Hypo Alpe Adria Restructuring Act (HaaSanG)" and (130.3) "Proceedings related to the Hypo Alpe Adria Restructuring Act (HaaSanG)", which relate to the coming into effect of the regulation pursuant to the Hypo Alpe Adria Restructuring Act (HaaSanG) on 1 August 2014. The Hypo Alpe Adria Restructuring Act (HaaSanG) provides that upon the proclamation of a regulation to be issued by the Austrian Financial Market Authority (FMA) for this purpose that certain subordinated liabilities and partner's liabilities of Hypo expire and that the due date of certain contested liabilities is deferred until a legally binding decision is made on the respective contested liability. This affects around EUR 0.8 billion in subordinated liabilities of the company, all outstanding supplementary capital issues and certain shareholder loans granted by BayernLB totalling EUR 0.8 billion since the first Financial Markets Stabilisation Act (FinStaG) measure in December 2008. These liabilities will be dissolved pursuant to section 3 of the Federal Law on Restructuring Measures for Hypo Alpe-Adria-Bank International AG (HaaSanG), along with all collaterals, including guarantees, relating to such subordinate liabilities. As at 16 June 2015, the company faced 33 lawsuits in which creditors disputed the constitutionality of the Federal Law on Restructuring Measures for Hypo Alpe-Adria-Bank International AG (HaaSanG) and claimed the continued existence of the liabilities, or for payment;

- Disclosure made by the group's management board in the notes the consolidated financial statements in note (130.2) "Proceedings related to Bayerische Landesbank", that at the end of 2012, the former majority shareholder of Heta, Bayerische Landesbank (BayernLB), sought a declaratory judgement from the Munich I regional court in relation to the financing lines, which in the view of the company are subject to the Austrian Equity Substituting Capital Act (EKEG) and may therefore neither be serviced by interest payments nor redeemed until further notice. The company submitted a comprehensive statement of defence against the application and contested the order sought in its entirety. In a hearing on 8 May 2015, the Regional Court Munich I orally announced a first-instance decision in the case between Heta and Bayerische Landesbank (Bayern LB) relating to the Austrian Equity Substituting Capital Act (EKEG). The writ-

ten verdict was submitted to the company's lawyers in this case on 2 June 2015. With its decision, which is not yet legally effective, the court largely allowed the claims of BayernLB and rejected the counter claims (repayment claims) of the company. A provision of approximately EUR 0.9 billion has been set aside for the impending availment by creditors for all liabilities that expired as a result of the Federal Law on the reorganisation of Hypo Alpe-Adria-Bank International AG (HaaSanG) based on the initial judgement. The company is of the opinion that key arguments in the dispute relating to legal issues of the proceeding are not sufficiently taken into account by the senate (as well as by experts appointed by the court). It will examine the verdict in detail, file an appeal within the deadline and decide on the substance of the appeal with careful consideration of its chances. Pursuant to German law, the appeal will not affect the suspending of the decision. As a general rule, BayernLB can, on the condition that it can provide the collateral stipulated by German procedural legislation and pursuant to the verdict of the Munich I regional court, seize the company's assets. At present, there is a considerable risk that the judgement could also be enforced in Austria;

- Disclosure made by the group's management board in the notes to the consolidated financial statements in notes (1.2) "Important events" and (9.1) "Carve-out of the Italian banking subsidiary (HBI)", which refer to the deconsolidation of Hypo Alpe-Adria-Bank S.p.A., Udine and the refinancing of HBI, and the corresponding risks to the company resulting from the sale agreement. Due to the Federal Act on the Recovery and Resolution of Banks (BaSAG) moratorium the company is no longer able to meet its contractual obligations in terms of the recoverability of these receivables a figure needed to be recognised in the financial statements by Heta for its valuation which would be realistic according to a regulatory wind-down procedure in Italy.
- Disclosure made by the group's management board in the notes to the consolidated financial statements in notes (1.2) "Important events" and (9.2) "SEE network", which refer to the sale agreement and the refinancing of Hypo Group Alpe Adria (of the SEE Network) and the corresponding risks to the company. The sale agreement provides for a comprehensive list of guarantees and warranties. Among other things, it grants the bidder consortium the right to transfer certain loans and advances and other assets and risk positions up to a value of EUR 800 million (net statement of financial position as at 31 December 2014) to the company or one of its nominated subsidiaries. Pursuant to contractual provisions, the company is obligated to continue to maintain the lines of credit in place as at 31 December 2014 (EUR 2.0 billion; expandable up to EUR 2.4 billion). There is uncertainty for the 2015 financial year as to whether the sales agreement will in fact be executed. The SEE network must be wound down in the event that the sale falls through before the end of the deadline set by the European Commission (closing deadline: 31 December 2015); this would place additional high financial burdens on Heta. In this case, the purchase price mechanism of the carve-out agreement would be based on a negative wind-down scenario for Heta, rather than a sales scenario. In such a scenario, it is highly likely that the nominal value of the loans and advances to HGAA of EUR 2.0 billion as at 31 December 2014 will be completely irrecoverable, which means that additional losses of up to EUR -1.0 billion are to be expected depending on the loans and advances still to be paid at the time of this decision;
- Disclosure made by the group's management board in the notes to the consolidated financial statements in note (1.2.5) "Federal Act on the Recovery and Resolution of Banks (BaSAG)", which refers to the fact that the resolution authority issued a decision on the wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) on 1 March 2015. This decision puts a moratorium on all of Heta's "eligible liabilities" until 31 May 2016 pursuant to section 58 (1) (10) of the Federal Act on the Recovery and Resolution of Banks (BaSAG) in preparation for the utilisation of the creditor participation instrument;
- Disclosure made by the group's management board in the notes to the consolidated financial statements in note (9) "Discontinued operations", in which the fact that comprehensive legal and business relationships to companies exist that are under the direct control of the owner of the company (i.e. the Republic of Austria), particularly with regard to the carve-out of Hypo Alpe-Adria-Bank S.p.A., Udine was presented.

**Comments on the group management report**

Pursuant to statutory provisions, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures in the group management report are not misleading with respect to the group's position. The auditors' report also has to contain a statement as to whether the group management report is consistent with the consolidated financial statements.

In our opinion, the group management report is consistent with the consolidated financial statements.

Vienna, 16 June 2015

Ernst & Young  
Wirtschaftsprüfungsgesellschaft m.b.H.

Helmut Maukner  
Wirtschaftsprüfer

Friedrich O. Hief  
Wirtschaftsprüfer

KPMG Austria GmbH  
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Walter Reiffenstuhl  
Wirtschaftsprüfer

Klaus-Peter Schmidt  
Wirtschaftsprüfer

Please note:

Only the German is the authentic language version. The English version of the Auditors' Report is a translation.

# Imprint

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