

Interim Financial Report 2015

Heta Asset Resolution

Key data based on the interim consolidated financial statements in accordance with IFRS

Heta Asset Resolution (Group)

EUR m

	2015	2014
Income statement	1.1.-30.6.	1.1.-30.6.*
Net interest income	35.2	44.6
Net fee and commission income	-10.1	-11.7
Impairment on financial instruments – at cost (risk provision)	135.0	-172.6
Operating expenses (general administrative expenses)	-79.8	-89.5
Operating result – prior to risk provisions on loans and advances	-1,246.4	-1,469.2
Operating result – after risk provisions on loans and advances	-1,111.4	-1,641.9
Result before tax (from continued operation)	-1,111.4	-1,641.9
Result after tax	-1,112.1	-1,663.5
Statement of financial position	30.6.2015	31.12.
Loans and advances to customers	8,411.0	8,739.1
Liabilities to customers	1,524.1	1,575.5
Liabilities evidenced by certificates and subordinated capital and hybrid capital	10,823.2	9,906.6
Negative equity (including non-controlling interests)	-5,816.7	-4,700.1
Total assets	11,578.3	12,030.8
Moody's rating	30.6.2015	31.12.
Long-term (liabilities not covered by statutory guarantee)	withdrawn	withdrawn
Long-term (liabilities covered by statutory guarantee)	Ca**	Caa1
Short-term	withdrawn	withdrawn
Bank Financial Strength Rating (BFSR)	withdrawn	withdrawn
Employees and locations	30.6.2015	31.12.
Employees at closing date (Full Time Equivalent – FTE)	1,734	1,805
Employees average (FTE)	1,726	1,927
Number of locations	35	44

*Previous year's values have been adjusted for the first half of 2014. For further information please refer to Note (6) Adjustment of previous year's values.

**Moody's Rating Downgrade from Caa1 to Ca of 4 March 2015

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Interim Management Report 2015

1. Business purpose of Heta Asset Resolution AG and legal framework conditions

Heta (formerly known as Hypo Alpe-Adria-Bank International AG) was founded in 1896 as “Landes- and Hypothekenbankanstalt” and is the group holding company of the Heta Group (formerly known as Hypo Alpe Adria). Since 30 December 2009 it has been 100% owned by the Republic of Austria. By virtue of a resolution of the shareholders’ meeting of 29 October 2014 the company name was changed from „HYPO ALPE-ADRIA-BANK INTERNATIONAL AG“ to „HETA ASSET RESOLUTION AG“.

On 30 October 2014 the Austrian Financial Market Authority (FMA) revoked the banking license of the then Hypo Alpe-Adria-Bank International AG issued by the Austrian Financial Market Authority (FMA) pursuant to the Austrian Banking Act (BWG). The company is now continued as a partly deregulated wind-down unit pursuant to the Federal Law on the Creation of a Wind-Down Unit (Federal Law Gazette I 2014/51, GSA). Heta’s business purpose is the complete wind-down of its assets. Pursuant to § 3 para 1 GSA the wind-down unit must ensure “an orderly, active and optimum portfolio wind-down”. Subsequently the company shall be liquidated. Within this scope the legal concession of the GSA also allows continued banking and leasing operations which serve this purpose. Pursuant to § 3 para 4 GSA Heta within certain limitations is governed by the provisions of the BWG and therefore has certain reporting and notification duties to the Austrian Financial Market Authority (FMA). The Austrian Financial Market Authority (FMA) continues to have supervisory competence and pursuant to § 8 GSA must verify compliance with the applicable provisions of the Austrian Banking Act.

The Federal Act on the Recovery and Resolution of Banks (BaSAG) came into force on 1 January 2015. Pursuant to § 162 para 6 BaSAG the competences and instruments set out in section 4 of the act apply to Heta.

In order to reflect the objective of an “earliest possible portfolio wind-down” in the valuation of the assets of relevance for the portfolio wind-down Heta issued new valuation guidelines as basis for a so-called “asset quality review” (AQR). After the first results of a group-wide AQR became known in February 2015 showing an undercapitalisation of between EUR -4.0 billion and EUR -7.6 billion, i.e. above the aid threshold authorized by the EU Commission, the Republic of Austria as owner of Heta announced that it would not take any further measures for Heta under the FinStaG. On this basis the FMA on 1 March 2015 issued a decision pursuant to BaSAG imposing a moratorium until 31 May 2016 on all so-called “eligible liabilities” of Heta in preparation for the application of the instrument of creditor participation. Accordingly Heta in its consolidated financial report and in its individual financial report presents the liabilities, valued at the respective record date. The resolution authority will determine possible creditor participation as well as the

extent and point-of-time of the repayment of the respective liabilities in exercising its sole decision making powers pursuant to the BaSAG. For further information please refer to the decision of the Austrian Financial Market Authority (FMA) of 1 March 2015 published on the FMA website (www.fma.gv.at) as well as on the Heta website (www.heta-asset-resolution.com → Press → Austrian Bank Restructuring and Resolution Act).

The present condensed Interim Financial Report pursuant to IFRS and the Interim Management Report do not contain all the information included in the most recent Annual Financial Report as at 31 December 2014 and must therefore be read exclusively jointly with it.

Since the Board considers that the separate Financial Report of Heta Asset Resolution pursuant to UGB/BWG offers a true and fair view of the assets, liabilities, financial position and profit and loss, particularly from the perspective of the creditors, special reference is made to the information provided on the proforma interim statement under UGB/BWG in chapter 2.15.

2. Overview of the first half of 2015

2.1. Development of results during the first six months of 2015

In consideration of the preliminary wind-down plan, with the exception of certain special effects the first six months of 2015 generally developed in line with the predicted aliquot end-of-the-year values, as planned in the provisional wind-down plan pursuant to GSA for 2015. The plan envisages an 80% reduction in the assets until end of 2018. Targets were met or even exceeded with respect to the reduction of the portfolio (above plan), the development of risk provisions (on plan), as well as expenses for personnel and administration (below plan). Negative deviations from planned targets were mainly due to expenses in connection with legal proceedings. Accordingly, the present fulfilment over plan means that wind-down is advancing at a faster rate than as envisaged in the wind-down plan. Significant deviations from the preliminary wind-down plan were due mainly to the three following circumstances:

- Loss from the re-recognition through profit and loss of liabilities in connection with the revocation of the HaaSanG and the HaaSanV by the Constitutional Court (EUR -0.8 billion)
- Expenditures in connection with the sale of the SEE bank network (EUR -0.2 billion)
- Yield from the valuation of the refinancing line to the former Italian subsidiary bank HBI (EUR +0.1 billion).

In total the consolidated result for the first half of 2015 after tax and before minority interests was therefore negative at EUR -1,112.1 million (1 January to 30 June 2014: EUR -1,663.5 million). After minority interests the result is

EUR -1,105.5 million (1 January to 30 June 2014: EUR-1,673.0 million).

2.2. Changes on the Executive and Supervisory Boards of Heta Asset Resolution AG

On 26 February 2015 the Supervisory Board appointed three new members to the Executive Board. Wirt.-Ing. Sebastian Prinz von Schoenaich-Carolath was appointed Chairman of the Executive Board. Mag. Martin Handrich and Mag. Alexander Tscherteu were appointed new Board members. Mag. Martin Handrich started his activities on the Board as of 16 March 2015, Wirt.-Ing. Sebastian Prinz von Schoenaich-Carolath as of 16 April 2015. Mag. Alexander Tscherteu joined the company on 1 July 2015.

Mag. Johannes Proksch left the Heta Board at his own request as of the end of June 2015. In addition, as of the end of July 2015 Dr. Rainer Jakubowski also departed from Heta Board at his own wish. Heta's Executive Board therefore at present consists of Wirt.-Ing. Sebastian Prinz von Schoenaich-Carolath (Chairman of the Executive Board) and the members of the Executive Board Mag. Martin Handrich and Mag. Alexander Tscherteu. No deputy chairman has been appointed; this is not required by the articles of association.

The Supervisory Board currently consists of the Chairman Dipl.-Kfm. Michael Mendel, the Deputy Chairman Mag. Alois Hohegger and the members Mag. Christine Sumper-Billinger, Mag. Regina Friedrich and DI Bernhard Perner. The works council delegates to the Supervisory Board are Mr. Erwin Sucher and Akad. Vkm. Richard Joham.

2.3. EU State aid investigation

The EU state aid investigation into the former Hypo Alpe-Adria-Bank International AG was concluded by the decision of the Commission of the European Union (EU Commission) of 3 September 2013.

The requested sale of the banking network in South Eastern Europe (SEE network, HGAA) by EU Commission followed on 17 July 2015 (closing) and hence within the term defined by the EU Commission for the closing of a sale (deadline defined before the end of the year 2015). The state aid aspects of the transaction have been approved by the EU Commission before the closing.

Heta's business purpose continues to be the wind-down of its assets with the restrictions provided in the Commission's decision of September 2013 still in place. As far as the wind-down portion is concerned, therefore, in addition to a prohibition on new transactions and the principle of a capital and value-friendly wind-down, requirements on the restructuring and business adjustment of individual commitments, as well as requirements regarding the sale of assets, apply in particular. Compliance with the provisions of the Commission's decision is regularly monitored by an independent Monitoring Trustee and separately reported on to the European Commission in quarterly reports.

2.4. Ruling by the Austrian Constitutional Court on HaaSanG and HaaSanG-related proceedings

The Hypo Alpe Adria Restructuring Act (HaaSanG) entered into force on 1 August 2014 and defined the Austrian Financial Market Authority (FMA) as competent authority for the implementation of the restructuring measures provided by the act. Upon the publication of the Austrian Financial Market Authority's (FMA) regulation (HaaSanV) on 7 August 2014 Heta's liabilities as listed in the Austrian Financial Market Authority (FMA) regulation have been terminated or were deferred by law, i.e. any repayments, interest or other side fees owed by the company – if applicable – were automatically reduced to zero. Payment day for certain "disputed liabilities" pursuant to HaaSanG was deferred until at least 30 June 2019. Liabilities of a total of approx. EUR 1.6 billion expired of which EUR 0.8 billion consisted of subordinate liabilities held by third-party investors and EUR 0.8 billion of liabilities towards Bayerische Landesbank (BayernLB).

After the Constitutional Court of Austria on 3 July 2015 (published on 28 July 2015) completely revoked the HaaSanG and the HaaSanV based on this legal foundation without providing an appeals deadline, the liabilities qualified as expired and effectively de-recognized at fair value through profit and loss in 2014 were again re-entered into the balance sheet, and the provisions of EUR 0.9 billion created in 2014 in connection with the first-instance ruling by the Regional Court Munich I (BayernLB Eigenkapital Gesetz (EKEG proceedings) of 8 May 2015 have been released through P&L. All in all as of 30 June 2015 the negative effect on Heta's income statement and thus also on its equity totalled approx. EUR -0.8 billion (nominal value) plus interest claims with respect to the subordinated creditors.

As of 28 August 2015 Heta has to date been served 34 civil actions in which creditors challenge the constitutionality of the HaaSanG jointly with the HaaSanV and demand the validity of the claims to be confirmed and payment to be made. The object of all civil suits pending at the record date is the question of the constitutional conformity of the respective norms. The Constitutional Court's decision revoking the law and the respective regulation issued will restrict the subject matter of the proceedings to the applicability of the payment moratorium in law for Heta since 1 March 2015 for the respective liabilities.

Despite the decision of the Constitutional Court at present no payments are being made towards the liabilities originally established by the HaaSanG, as by now they are subject to the payment moratorium since imposed by the resolution authority. The interest claims, however, continue to be carried forward and are shown as liabilities. The BaSAG and the payment moratorium imposed on its basis by the Austrian Financial Market Authority (FMA) did not constitute the subject matter of the Constitutional Court's decision. In one pending referral request the referring court also raised the unconstitutionality of § 162 para 6 BaSAG. Heta immediately contacted the resolution authority to discuss

the effects on the pending civil proceedings and further steps. It is expected that the civil proceedings will now be continued at the initiative of the claimants unless an amicable agreement is reached on the interruption of these proceedings until a decision is reached on a possible wind-

down measure by the Austrian Financial Market Authority (FMA). Another option would be an interruption of the proceedings on a request by the resolution authority based on § 59 para 1 BaSAG.

EUR m.

31.12.2014	Profit and loss	Statement of financial position	
		Provisions	Liabilities
Allocation provision for anticipated claims	-886.5	886.5	0.0
Derecognition application HaaSanG (liabilities to BayernLB and subordinated capital)	1,675.3	0.0	-1,675.3
Total	788.8	886.5	-1,675.3
30.6.2015			
Release of provision (utilization)	886.5	0.0	0.0
Cancellation HaaSanG (liabilities to BayernLB and subordinated capital)	-1,709.0	0.0	1,709.0
Total	-822.5	0.0	1,709.0

2.5. Agreement with the Republic and HBI-Bundesholding AG on the capitalisation and liquidity supply of Hypo Alpe-Adria-Bank S.p.A.

In compliance with the legal provisions of the GSA and the HBI-Federal Holding Act, by virtue of the share purchase agreement of 8 September 2014 Heta transferred all of its shares in Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) to HBI-Bundesholding AG (HBI-BH). In addition to temporarily preserving Heta's existing funding for the benefit of HBI totalling approximately EUR 1.7 billion (nominal value) of the re-financing lines under the carve-out, Heta had also obligated itself to provide a so-called "emergency liquidity facility" of up to EUR 300 million to HBI in the event of customer deposits being withdrawn.

As a result of the BaSAG moratorium in force since 1 March 2015, Heta could no longer comply with its contractual obligation for providing an emergency liquidity facility, and this caused a continuous deterioration of HBI's liquidity situation as it could not compensate for the continuous deposit drain without external assistance. In addition in its local financial statements as at 31 December 2014, presented in June 2015, HBI recorded high additional risk provisions on loans and advances leading to a shortfall in the minimum core capital ratio (Tier 1 Ratio). The share purchase agreement concluded with HBI-BH envisaged that as of the closing date of the agreement HBI-BH would be responsible for maintaining the Tier 1 minimum capital ratio of HBI as specified by the supervisory authority (currently 11.5%), but in light of the increased risk provisions of HBI in regard to Heta, HBI-BH pleaded warranty claims arising from the share purchase agreement. In addition it pointed to the non fulfilment of the duty to provide the Emergency Liquidity Facility.

On the basis of the fact that HBI-BH itself does not have sufficient means and no conclusive assessment was possible

concerning whether and in what amount the owner of HBI-BH, the Republic of Austria, would undertake capital measures in order to provide HBI-BH with corresponding funds, there was a threat that regulatory wind-down procedures by the supervisory authorities would be instituted by Banca d'Italia on the basis that the equity requirements had not been met.

Adequate risk provisions were made in the Heta consolidated statement as at 31 December 2014, on the basis of wind-down proceedings against HBI by the supervisory authority.

In order to prevent a wind-down of this kind by supervisory authorities in Italy, which would have led to substantially higher losses for Heta with respect to its refinancing lines on 23 June 2015, Heta, following a detailed internal and external, legal and economic analysis of the legal options under the share purchase agreement concluded a binding term sheet with the Republic of Austria and HBI-BH on the further financing and the equity base of HBI. The agreements in the term sheet also aim at achieving a higher repayment rate for the funds tied up in HBI. The resolution authority subjected the agreement to a first review and subsequently announced that the authority would raise no objections against the agreement. The term sheet provides for liquidity and contributions to HBI by HBI-BH and debt waivers by Heta, which is still the biggest creditor interested in a maximum repayment of its still outstanding refinancing lines. HBI-BH provided HBI with EUR 196 million in equity (EUR 100 million) and one subordinated loan (EUR 96 million). Heta committed itself to provide a loan amount to EUR 100 million which can only be drawn by HBI subject to the prior use of funds of HBI-BH and proof of adequate further liquidity requirement for the repayment of customer deposits and the repayment of liabilities from bonds issued by HBI. The new Heta loan is to be restored to Heta in priority over all other claims of HBI-BH and other existing financing of

Heta, including financing provided to HBI. Heta also agreed to renounce on up to EUR 630 million with respect to the historically existing refinancing line against HBI in the amount of EUR 1.7 billion (nominal value) to cover the capital requirement arising through the accelerated wind-down and to allow HBI to fulfill its equity requirements.

In June 2015 Heta renounced on a tranche of EUR 280 million in receivables from HBI. This prevented wind-down proceedings against HBI by the supervisory authorities. From a legal perspective the renunciation against HBI had to be final. From an economic perspective, Heta is compensated by a better-fortune agreement. In return for the waiver of debt from the refinancing lines by Heta, HBI-BH must pass on to Heta any financial advantage from or in connection with its position as shareholder, provider of equity or third-party capital provider including payments from the equity contribution made by HBI-BH and the granted new loan up to the amount of the waivers issued by Heta (better-fortune agreement). To secure the claims from the better-fortune agreement and to guarantee the repayment of the re-financing lines as well as the new loan to Heta, HBI-BH in addition also pledged its shares in HBI as well as all current and future claims against HBI for the benefit of Heta. All claims by HBI-BH against HBI of any kind whatsoever are subordinate to the claims of Heta (including those under the better-fortune agreement) and other creditors of HBI. As part of its shareholder rights HBI-BH must guarantee that HBI, following the repayment of the remaining refinancing lines after the waiver, releases a maximum amount of excessive liquidity to HBI-BH and distributes profits to allow HBI-BH to fulfill its obligations towards Heta under the better-fortune agreement. Unless expressly regulated otherwise, any still existing claims between Heta, the Federal Government and HBI-BH arising from or in connection with the share purchase agreement are finally settled by this agreement.

The value of the financing line provided by Heta as at 30 June 2015 substantially increased through the considerable capital and liquidity contributions provided by HBI's owner, HBI-BH. The consolidated interim financial report showed a release of risk provisions through P&L of a total of EUR 123.4 million, while the claims waiver of EUR 280 million had no effect on the income statement for the first half of 2015.

2.6. Heta's new governance structure involving the resolution authority

By virtue of the decree of the resolution authority on the imposition of wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) Heta as of 1 March 2015 was made subject to the BaSAG. The Austrian Financial Market Authority (FMA) pursuant to § 3 (1) BaSAG is the resolution authority for Austria. In using the wind-down instruments and exerting the wind-down powers the resolution authority must observe the wind-

down objectives. Under its competences the resolution authority can also recall or replace organs of the institutes to be wound-down or take over direct control of the institutes. In Heta's case the authority decided that the company organs should continue to run the business of the company, and the authority has comprehensive supervisory, controlling, and reporting rights, which are to some extent implemented by a separate governance structure. Heta's new governance structure was worked out together with the authority during the first half of 2015. Subsequently the necessary changes in the statutes of Heta and the by-laws of the Supervisory Board and the Executive Board were implemented.

The changes of the statutes were approved by the shareholders' meeting of Heta on 29 June 2015. The resolution authority has the right to participate in the meetings of Heta organs through its representatives. A number of essential transactions and decisions require the prior approval or non prohibition by the resolution authority before implementation. Also provided for is the establishment of an advisory committee of external experts appointed by the resolution authority, which will issue recommendations to the resolution authority on the decisions by Heta organs requiring approval. The advisory committee is a body of the resolution authority, not an organ of Heta. The authority also has an escalation right pursuant to which the processing of all decisions must be delegated to the authority, including such as are not generally to be submitted to the authority under the provisions of the by-laws.

At the same time, dealing with the past was specifically deleted from the statutes as a specific business purpose of Heta. However, it was agreed with the authority that the investigation of the so-called „forensic cases“ not finally investigated so far as part of dealing with the past will be continued, subject to considerations of practicality and economic efficiency, and shall subsequently be ended.

2.7. Closing of the sales agreement for reprivatizing the SEE network

On 17 July 2015 Heta and the consortium of bidders consisting of US Fund Advent International (Advent) and the European Bank for Reconstruction and Development (EBRD) closed the share purchase contract of 22 December 2014 on the sale of all stocks in Hypo Group Alpe Adria AG (SEE Network) (closing). The closing followed a so-called "pre-closing" on 30 June 2015 at which the parties confirmed the existence and fulfillment of all essential closing conditions. The remaining deferring conditions were confirmed at the final closing. At the pre-closing the resolution authority also cleared the way for an implementation of the closing through a non-prohibition. With respect to the details of the share purchase agreement of 22 December 2014 reference is made to the presentation in note (9.2) SEE network in Heta's Annual Financial Report 2014.

Certain changes to the transaction and funding documents were agreed with the buyers before the closing. The changes concern technical aspects, particularly the implementation of the above mentioned pre-closing mechanism and commercial aspects, including reducing the maximum total volume of corporate loans from EUR 800 million to EUR 600 million, which until March 2016 can be transferred to Heta in so-called "purchaser brush"-transactions, and provisions against losses with respect to one HGAA non performing retail portfolio of EUR 100 million of up to EUR 75 million (net exposure). The implementation of these amendments to the transaction and financing documents also required a new power of attorney by FIMBAG as (then) shareholder of Hypo Group Alpe Adria AG, which was duly issued.

In the course of this new issuing of the power of attorney, Heta and FIMBAG as parties to the carve-out agreement as well as Heta and the Republic of Austria as issuer of a hedging instrument for the benefit of the buyer of the SEE network came to a final agreement on the components of purchase price (subject to the actual utilization for risk exemptions, guarantees and other commitments in favour of the buyer, i.e. between EUR 0 and EUR 248 million to be paid to FIMBAG), profit sharing (EUR 44 million paid to FIMBAG in July 2015), and fee for the guarantee instrument (1.27% p.a. to be paid to the Republic of Austria, current valuation basis EUR 1.7 billion) as stipulated in the carve-out agreement of 30 October 2014. Under the current agreement the amount of the fee is subject to the outstanding guarantees of the Republic of Austria under the hedging instrument. In the event of a change in the risk situation for the Republic of Austria, Heta and the Republic of Austria with the support of an independent expert will try to reach an agreement on a possible cut in the fee of currently 1.27% annually. A full provision of a total of approx. EUR 148 million was made for the fee incurred on the basis of the currently applicable agreement on the term of the underlying SEE purchase agreement (i.e. until 2022), because of the obligation to provide such acceptance of liability as a precondition for closing.

The post-closing project organization, which has been communicated to both the Supervisory Board as well as the resolution authority, basically concentrates on the agendas defined in the purchase agreement with the buyers, particularly in regard to the existing refinancing lines extended to HGAA and concerning liabilities under guarantees and exemptions. The "purchaser brush" is also handled within this structure. The project structure guarantees that the essential and relevant information and necessary reports are received by the addressees.

2.8. Wind-down plan pursuant to GSA

Pursuant to § 5 GSA the portfolio wind-down must follow a wind-down plan to be drawn up by the Board and to be approved by the Supervisory Board. A distinction has to be

made between the wind-down plan pursuant to GSA and the resolution plan pursuant to BaSAG, which is to be drawn up by the resolution authority and will be authoritative for the resolution of Heta pursuant to BaSAG. Nevertheless Heta has a statutory duty to draw up a wind-down plan pursuant to GSA. Pursuant to § 5 para 2 GSA the preliminary wind-down plan for Heta includes the following:

- an overview of the transactions and liquidation measures planned for the portfolio wind-down,
- a time schedule for the complete sale of the assets,
- periodical schedules of the net assets as well as of the assets, liabilities, financial position and profit and loss; including cash flow statements, budgeted balance sheets, budgeted income statements and liquidity plans and
- information on the risk management in line with the wind-down targets

The preliminary wind-down plan has been drawn up in line with the accounting principles of the Austrian Commercial Code/Austrian Banking Act (UGB/BWG) and refers to the financial statements of the holding company Heta Asset Resolution AG. The planning horizon covers the period up to 2020. It is planned that the final wind-down plan will be submitted to the Supervisory Board for approval during the second part of 2015.

The plan exclusively lists the sale of the assets (asset side) and the expenses still to be incurred for the portfolio wind-down. Due to the current moratorium the equity and liabilities side neither shows interest nor capital repayments, whereas the asset side shows the build-up of cash balances.

After the establishment of the Annual Financial Statements as at 31 December 2014 in June 2015 the preliminary wind-down plan was revised and the figures from the Annual Financial Statements 2014 were adopted. The wind-down target remains unaltered as a constant reduction of the asset side (excluding cash-in-hand) of approx. 80% by the end of 2018.

In order to reach the targets defined plans exist to sell receivables and real estate to investors individually, but preferably in package and portfolio transactions. Preparations for the first package and portfolio sale started during the first half of 2015.

The planning assumptions regarding receivables from HBI and HGAA were subjects of a separate consideration and with respect to the termination schedules will probably still exist beyond 2020 as will some performing housing promotion loans. No decision has as yet been taken as to how these transactions will be integrated into the wind-down plan as a whole.

Performing loans and securities with a short remaining term (until 2020) shall be redeemed through regular payment while those with a longer remaining term shall be reduced in the mid-future through market placements. The

underlying collaterals of non-performing loans shall only be repossessed if an immediate sale (within 12 months) can be expected.

Pursuant to § 6 GSA the division managers of the wind-down unit have reporting duties to the Supervisory Board. These are fulfilled either at regular intervals in the form of quarterly and sales reports or specifically as special reports.

First coordination meetings with the resolution authority on a preliminary wind-down plan for Heta have already taken place. In parallel to the establishment of the wind-down plan pursuant to the GSA by Heta the resolution authority establishes the wind-down plan pursuant to BaSAG which represents the final valuation as defined by § 57 BaSAG (on the valuation date 1 March 2015).

2.9. Memorandum of Understanding (MoU) between the Republic of Austria and the Free State of Bavaria and the evaluation of the MoU by Heta

On 7 July 2015 both the Austrian as well as the German ministries of finance announced that a Memorandum of Understanding (MoU) had been signed between the Republic of Austria and the Free State of Bavaria constituting the possible basis for reconciling all claims between BayernLB on the one hand and Heta, the Republic of Austria and Kärntner Landesholding on the other hand.

The closing of the MoU by the Republic of Austria and the Free State of Bavaria initiated a process also inviting Heta to evaluate and decide whether it wished to approve a general settlement of the existing legal proceedings on the basis of this MoU. The Heta bodies therefore must evaluate whether they can conclude a settlement regarding the proceedings with effect on Heta as specified in the MoU. This particularly concerns the termination of the EKEG proceedings with BayernLB and the termination of the action for error brought by the Republic of Austria against BayernLB and Heta (see Note (51.6.1) proceedings in connection with the Republic of Austria and BayernLB). The MoU defines the „settlement amount“ for the EKEG-proceedings at EUR 2.4 billion. In addition, the claims of BayernLB against Heta are specified as non-subordinate unsecured claims (i.e. senior unsecured) and Heta's counterclaims pending in court are also settled. With this settlement amount of EUR 2.4 billion BayernLB will rank *pari passu* in right of payment with all other existing non-subordinate creditors in the Heta wind-down procedure (whether pursuant to BaSAG or in an insolvency).

The agreement on the implementation of the MoU (Memorandum of Understanding implementation agreement) shall as a whole be made no later than by 31 October 2015. A commission chaired by Dr. Irmgard Griss will evaluate the acceptability of the implementation of the MoU from the perspective of the Republic of Austria. This commission will not evaluate a possible amicable settlement between BayernLB and Heta.

In cooperation with Austrian and German legal experts, the Heta organs are currently intensively reviewing the preconditions for concluding an amicable settlement and the respective effects on Heta. From today's position it can be assumed that in the event of a positive decision by the Heta organs and the resolution authority a settlement could be concluded until beginning of November.

2.10. Ruling by the Regional Court Munich I on equity substitution loans of Bayerische Landesbank

Bayerische Landesbank (BayernLB), the former majority shareholder of Hypo Alpe-Adria-Bank International AG (now Heta), at the end of 2012 brought an action before the Regional Court Munich I regarding the loans which according to the then Hypo Alpe Adria are covered by the Austrian EKEG [Equity Substitution Act] and for which therefore neither interest payments nor repayments must be made, demanding a declaratory judgment which later was converted to a suit for performance. The then Hypo Alpe-Adria Bank International AG brought a comprehensive response and challenged the requested order in its entirety, pleading repayments in the course of the proceedings through five counterclaims of a total of approx. EUR 4.8 billion.

The Regional Court Munich I in an oral session on 8 May 2015 orally announced the judgment of first instance. The written ruling was served on Heta's lawyers in charge of the proceedings on 2 June 2015. In the ruling, which is not yet legally binding, the court for the most part confirmed the order sought by BayernLB, ordering Heta to pay an amount of (i) EUR 1.03 billion plus interest thereon in the amount of 5 percent above the respective base rate (but at least 5% p.a. since 1 January 2014) and since 21 June 2014 (ii) CHF 1.29 billion plus interest thereon in the amount of 5 percent above the respective base rate (but at least 5% p.a. since 1 January 2014) and (iii) EUR 1.4 million plus interest, and fully rejected Heta's counterclaims (repayment claims). The court pleaded non competence only with respect to one CHF 300 million bond. The court also found that all damages caused to BayernLB through the non-payment or late payment of the loans must be reimbursed. In order to obtain an enforceable decision with regard to damages claims BayernLB would have to bring a suit for performance. The declaratory judgment issued with the ruling of the Munich regional court, however, restricts the court's evaluation scope, in the event of a subsequent performance suit, to the question of whether the damages claimed are damages within the meaning of the court's finding and whether the amount has been correctly calculated.

The reasons given by the court basically stated that Heta had failed to provide proof of the "crisis" as defined by the EKEG; the court rejected both the application of the HaaSanG and measures and claims based thereon pursuant to German law, and also the application of the decision by

the Austrian Financial Market Authority (FMA) of 1 March 2015 issued on the basis of the BaSAG, by which in particular the claims of BayernLB constituting the subject matter of the suit were made subject to a moratorium up to 31 May 2016.

As a consequence of the ruling of first instance provisions of an approximate amount of EUR 0.9 billion (nominal value) had been formed in the Consolidated Annual Financial Report as at 31 December 2014 for the liabilities that had expired pursuant to the HaaSanG. Meanwhile the Constitutional Court of Austria has revoked the HaaSanG and the liabilities have again been re-recognized at fair value through profit and loss. The provisions made have accordingly been released.

An appeal has been submitted to the Higher Regional Court of Munich on 19 June 2015 in order to meet the deadline. In agreement with BayernLB the deadline for submitting the grounds of appeal has been extended to 19 November 2015 – also as a consequence of the conclusion of a Memorandum of Understanding (MoU) signed in the meantime between the Republic of Austria and the Free State of Bavaria.

Under German law the remedy of the appeal has no suspensive effect. BayernLB, subject to providing the guarantees required under German procedural law and the ruling of the Regional Court Munich I, can proceed with executing Heta's net assets by virtue of the ruling. Heta would then have to take legal remedies against the execution on its assets, making reference to the moratorium pursuant to BaSAG. Within the field of application of BaSAG (§ 59 (2) BaSAG), the resolution authority could apply for the suspension of court measures).

2.11. Audit operations of the audit court

During the first six months of 2012 the audit court carried out an audit on the "sales activities during the restructuring phase". In 2014 Heta made a corresponding statement. The results of the audit were published on 16 July 2015. In December 2014 Heta was served the audit results (raw report) "Hypo Alpe-Adria-Bank International AG (HBInt) - nationalization" by the audit court. Heta drew up a statement of response within one month which was sent to the audit court at the beginning of January 2015. The final audit report was submitted to the National Council on 19 March 2015 and published on the website of the audit court.

The audit which was started by the audit court on the "EU state aid investigation" and "Creation of a wind-down unit" in January 2015 was temporarily interrupted due to the setting up of the parliamentary investigating committee and the overlapping of the subject areas, and may resume after the parliamentary investigation committee has been terminated.

2.12. Parliamentary investigation committee

On 16 June 2015 the parliamentary administration, by order of the President of the National Council as Chair of the investigation committee on responsibility for the events surrounding Hypo Group Alpe Adria (Hypo investigation committee), approached Heta with a request for the voluntary submission of certain files and documents. Heta has no legal obligation to forward documentation and information to the parliamentary investigation committee.

In the interest of full transparency the Heta organs agreed to accept this request with adequate steps being taken to fully protect Heta's justified interests (in particular with respect to the pending court and sales proceedings) as well as those of its employees (data protection), and to ensure that business operations are not impaired with a negative consequence for creditor interests by the provision of the documents. Due to the large amount of documents requested it has been agreed that delivery will be made in tranches.

In the course of the hearings of informants Heta has in the past issued several declarations of exemption from the obligation of confidentiality for former and current employees and consultants. Heta generally cannot issue any declarations concerning release from bank secrecy for an unlimited period of time, as the respective restrictions also still apply to it as well. Heta therefore has the obligation to point out these strict restrictions whenever granting a release for informants. Heta can issue releases from operating and business secrecy. The releases granted to date excluded pending court sales proceedings in order to avoid any negative impacts on Heta's position in these proceedings.

2.13. Status of the audit by the Austrian Financial Reporting Enforcement Panel (Oesterreichische Prüfstelle for Rechnungslegung)

The audit conducted in 2013 by the Austrian Financial Reporting Enforcement Panel (OePR / AFREP) was completed on 10 April 2015 with the announcement of the results. Regarding the interim financial report published at 30 June 2014 the OePR found that the credit risk provisions had been too low by at least EUR 3.8 million and that considering the effect on the results the provisions shown had been too high by EUR 1.2 billion, as according to the OePR the preconditions for the provisions for an expected loss from sales did not exist at 30 June 2014. As far as permissible under the relevant IFRS standards, the assets of the SEE network would instead have had to be reassessed.

According to the view of OePR the loss to be shown as at 30 June 2014 would have been far lower than the loss actually shown as a result of the provisions in the amount of the expected loss from sales. The reporting periods affected are appropriately identified in the notes.

Since the Board takes the view that there was a provision obligation concerning the sale of the SEE network per 30 June 2014, on 27 April 2015 Heta informed OePR that it

disagreed with the results of the audit. The proceedings are being continued by the FMA.

2.14. Organisational changes within Heta – transformation into a wind-down unit pursuant to GSA

The Heta target operating model reflects the company's transformation into a sales organisation in compliance with all legal requirements for achieving the best possible realisation result within the framework of the portfolio wind-down of the wind-down unit. The objective is the continuous portfolio reduction and its implementation on an operational level. The Heta Implementation Program is currently establishing a stable, functioning, and flexible control structure and infrastructure at the level of the holding company, which takes the requirements of the portfolio wind-down into account as far as possible. The program is currently in the implementation phase.

The focus during the first half of 2015 was primarily on strengthening the sales functions for real estate at the level of the individual assets and portfolios, and on the adaptation of the sales processes. The processes and the necessary infrastructure for conducting portfolio sales and the respective data rooms have been established. The control of the wind-down specific risks has been addressed by realigning the functions in the various areas. During the second half of the year, in addition to accelerating the wind-down, the main focus will be on securing and modifying the IT tools and improving data quality, to ensure the anticipative avoidance of operative risks that may occur during the portfolio wind-down and the further reduction of operations.

2.15. Proforma interim financial statement of Heta Asset Resolution AG as at 30 June 2015 pursuant to UGB/BWG

As highlighted in the annual financial report at 31 December 2014, due to the company's special situation the Board considers the annual statement pursuant to the Austrian Commercial Code/Austrian Banking Act (UGB/BWG) of Heta Asset Resolution AG to be the more relevant method for giving an authentic picture of the net assets, financial- and liquidity situation for the creditors. This annual financial report (including notes and management report) is drawn up once a year as at 31 December of each financial year.

For this reason proforma financial figures for the individual institute of Heta Asset Resolution AG are provided pursuant to UGB/BWG as at 30 June 2015 to supplement the consolidated interim financial report pursuant to IFRS pursuant to § 87 para 2 Stock Exchange Law (BörsenG).

Substantial deviations occur due to accounting rules applied for the consolidated financial statements (IAS/IFRS) and the individual financial statements (UGB/BWG). In addition to the valuation differences in the individual accounting concepts, in particular expected future losses in the consolidated financial report cannot be anticipated. Such expected losses (which are not taken into account in IFRS) also result from the diverging consideration given to events after the record date, operative expenditures yet to occur in the future, as well as expected future operational losses from the sale of performing loans and real estate.

Heta's consolidated interim financial statements as at 30 June 2015 show an equity amount higher by EUR +2.3 billion (EUR -5.8 billion) than in the proforma interim financial statements of Heta Asset Resolution AG pursuant to UGB/BWG (EUR -8.1 billion). The reasons for the main deviations are as follows:

- equity shown in the consolidated financial report attributable to minority shareholders in two group companies (EUR +0.5 billion)
- assessment of own liabilities at fair value under IFRS (EUR +0.4 billion) while under UGB/BWG these are recorded under liabilities at repayment value
- differences in the valuation of provisions (EUR +0.1 billion) in connection with liabilities entered into
- Personnel and administrative expenditures as expected for the resolution of Heta in the future (EUR +0.4 billion), for which provisions (wind-down costs) have been made in the UGB/BWG
- Expected future operational losses of the subsidiary companies included in the consolidated financial report (EUR +0.3 billion), which in UGB/BWG are included in the evaluation of the refinancing lines to subsidiary companies
- Provisions for negative exchange rate developments of the Swiss Franc (EUR +0.1 billion) for which pursuant to § 57 para 1 BWG a value adjustment has been included in UGB/BWG due to the impairment to be expected
- Losses expected in future from the sale of performing loans (EUR +0.1 billion) for which a § 57 para 1 BWG value adjustment has also been registered;
- A provision in UGB/BWG for negative market values from derivatives formerly in a hedge relationship to liabilities (EUR +0.2 billion)
- Other effects from different considerations UGB/BWG vs. IFRS (EUR +0.2 billion)

The proforma interim financial statements of Heta Asset Resolution AG pursuant to UGB/BWG as of 30 June 2015 (separate financial statements) read as follows:

EUR m

Statement of financial position (condensed version)	30.6.2015	31.12.2014
ASSETS		
Cash in hand, balances with other banks	2,109.7	2,358.8
Loans and advances to credit institutions	3,238.9	2,520.4
Loans and advances to customers	2,972.2	3,246.4
Fixed income securities, shares and investment funds	408.2	645.4
Shares in affiliated companies	532.6	505.3
Tangible and intangible fixed assets	7.9	7.7
Other assets	331.6	325.5
Total assets	9,601.1	9,609.5
EQUITY AND LIABILITIES		
Negative equity	-8,071.0	-6,987.2
Liabilities to credit institutions	3,617.1	2,929.2
Liabilities to customers	1,683.4	1,668.1
Liabilities evidenced by certificates	8,816.3	8,616.4
Subordinated capital	1,944.0	1,095.6
Provisions and other liabilities	1,611.3	2,287.4
Total equity and liabilities	9,601.1	9,609.5

EUR m

Profit and loss (condensed version)	1.1. - 30.6.2015
Net interest income	-47.1
Net fee and commission income	-36.0
Net income from trading activities	-28.8
Other income	15.8
Operating income	-96.0
Operating expenses incl. general administrative expenses	-40.9
Operating result	-137.0
Net gain/loss from valuation on loans and advances, securities and participations	-44.1
Result from ordinary activities	-181.1
Extraordinary result (thereof net effect from the reversal of HaaSanG EUR -825 million)	-901.4
Taxes	-1.2
Net loss according UGB/BWG	-1,083.7

The result for the period after tax of EUR -1.1 billion shown in the proforma interim financial statements pursuant to UGB/BWG is mainly based on the following:

- Loss from the re-recognition of liabilities in connection with the revoking of the HaaSanG and the HaaSanV by the Constitutional Court (EUR -0.8 billion - shown as extraordinary result)
- Expenses in connection with the sale of the SEE banking network (EUR -0.2 billion)
- Gains from the valuation of the refinancing line to the former Italian subsidiary bank HBI (EUR +0.1 billion - shown as extraordinary result)
- Expenses in connection with provisions for costs and damages claims (EUR -0.1 billion)

Taking into account the negative equity of EUR -7.0 billion as of 31 December 2014 as well as the result after taxes for the first half of 2015 of EUR -1.1 billion, a negative equity of EUR -8.1 billion results as at 30 June 2015.

3. Economic development of the Group

3.1. Development of results

By way of introduction it is pointed out that the valuation used as basis for the interim financial statement is based on the gone-concern-principle as already at 31 December 2014.

During the first half of 2015 business operations focused on the portfolio wind-down pursuant to GSA whose implementation currently despite difficult circumstances (initiated BaSAG wind-down proceeding, continued weak market dynamics) is going according to plan. Despite the wind-down progress made in 2015 Heta's consolidated result after tax for the first six months before minorities is EUR -1,112.1 million (comparable adjusted value 1 January to 30 June 2014; see also consolidated interim financial statements note (6) Adjustment of previous year's values: EUR -1,663.5 million, significantly impaired by one-off effects such as the revoking of the HaaSanG by the Constitutional Court, the sale of the SEE network and costs in connection with legal proceedings. On a segment level the most important negative effects result from the holding company segment in which the negative special effects had to be recorded. The asset resolution segment comprising the subsidiary companies intended for wind-down or sale was negative at a result before tax of EUR -64.7 million (comparable adjusted value 1 January to 30 June 2014: EUR -168.1 million) as had been expected.

The consolidated net interest income decreased against the comparative period of the previous year from EUR 44.6 million to EUR 35.2 million. This corresponds to a drop of EUR -9.4 million or -21.0%. The wind-down portfolio is constantly decreasing, while new financing business has been completely stopped. In addition to the strongly increased volume of non-interest bearing assets in recent years, during the current financial year the high volume of non-performing loans (NPL) again had a negative impact on the interest result for which pursuant to IFRS interest is only accounted on the basis of the cash value of the net receivables (gross exposure less specific risk provisioning) („unwinding“). The interest result also shows expenses from the guarantee commission in the amount of EUR -26.4 million for the subordinated bond of EUR 1.0 billion covered by a federal guarantee and issued in December 2012, even though in consequence of the payment moratorium imposed by the FMA as from 1 March 2015 it has no longer been paid out.

The net fee and commission income during the first six months was negative at EUR -10.1 million (adjusted 1 January to 30 June 2014 EUR:-11.7 million). The commission expenses also showed the guarantee commissions in the amount of EUR -9.9 million (2014: EUR -9.9 million) referring to loan guarantees granted by the Republic of Austria at the end of 2010. The remunerations falling within the period after the moratorium came into force continue to be recognised as expenses, but are not paid out.

The results from the financial assets not measured at fair value through profit and loss totalled EUR 1.1 million, while in the comparative period these had totalled EUR 5.4 million (adjusted value 1 January to 30 June 2014).

The result from the application of the HaaSanG in the amount of EUR -1,709.0 million shows the effect of the renewed insertion of the liabilities expired in 2014 as a consequence of the decision by the Constitutional Court of Austria of 3 July 2015 to revoke the HaaSanG and the HaaSanV. The provision made in connection therewith in 2014 on the basis of the ruling of first instance by the Regional Court Munich I regarding the BayernLB EKEG proceedings counteracts this effect at EUR 886.5 million and is shown under other operating result.

The result from trading totalled EUR -135.2 million (1 January to 30 June 2014 adjusted value EUR 3.5 million) with this loss mainly originating from the valuation result of foreign currencies in connection with the liberalization of the exchange rate for the Swiss Franc (CHF) at the beginning of 2015 and the subsequent appreciation of the CHF over the Euro. The result also includes effects from derivative positions which during the comparative period 2014 had still been recorded as hedging positions. Following the dissolution of the guarantee relationships on the basis of the BaSAG proceedings, market value changes of the derivatives are directly included in the income statement while the underlying transactions (predominantly issues and liabilities) – taking account of the dissolution of the basis adjustment – are generally recognized at cost.

The result from hedge accounting is almost zero (EUR -0.2 million), since a high level of effectiveness exists between underlying and hedging transactions, and the contrary market values arising from the underlying and hedging transaction of the Fair Value Hedge practically balance each other out. The adjusted comparison value per 30 June 2014 was EUR 1.7 million.

The result from the financial investments – designated at fair value through profit or loss (fair-value-option) was entered at a total value of EUR 64.1 million while during the previous year's period it had been EUR 39.6 million. The positive result during the first half of 2015 was mainly the consequence of own issues (own liabilities) which on 30 June 2015 again had a far lower value. Also included in this revenue item is the valuation result from the portfolio of the investment company HBInt. Credit Management Limited, Jersey, at EUR +0.2 million.

The operating income from investment properties, which during the previous year's period had been EUR 10.5 million (adjusted value), was again positive in the reporting period at EUR 11.8 million. This is the result from the total proceeds and the current depreciations and other expenses from investment properties.

The other operating result, which during the comparative period of the previous year had been clearly negative at EUR -1,449.1 million (adjusted value) as a consequence of a

provision for the expected loss from the transfer of HBI and the SEE network, improved during the first half of 2015 to EUR 584.6 million. This item also includes proceeds from the release of provisions for the threatening utilisation by creditors, which had been formed in connection with the first instance ruling of the Bayern LB EKEG proceedings (EUR 886.5 million), the fee in the amount of EUR 145.5 million to be paid to the Republic of Austria in connection with the sale of the SEE network, as well as additional risk provisions in the amount of EUR 75.0 million for the contractually agreed purchaser brush of a retail portfolio to be transferred to Heta.

In comparison with the comparative period of the previous year credit risk provisions of EUR 135.0 million could be released (1 January 2014 to 30 June 2014 EUR -172.6 million) which at EUR 123.4 million came from the improvement of the value of the refinancing line to the former Italian subsidiary bank HBI. The conclusion of a term sheet with the owner of HBI providing for substantial restructuring contributions of HBI Bundesholding AG (HBI-BH) led to the partial re-dissolution of risk provisions recognized in 2014.

During the first six months the impairment of non-financial assets totalled EUR -8.7 million following EUR -23.3 million during the same period the year before (adjusted value). This is in connection with the valuation of investment properties and repossessed assets. Also included are valuation effects of two Croatian hotel projects which have been shown separately and classified as assets held for sale.

On the cost side, expenses decreased by a total of EUR 9.7 million in comparison with the previous year. Personnel expenses decreased from EUR -48.7 million by EUR 6.1 million to EUR -42.6 million mainly as a result of decreased personnel headcount. During the first six months of 2015 Heta as part of a corporate transfer took over a total of 152 employees from HGAA. The respective wage costs are shown under personnel expenditures, while the proceeds from billing to HGAA are shown under other operating result. Administrative expenditures total EUR -35.0 million remaining unchanged in comparison with the previous year (1 January to 30 June 2014: adjusted value EUR -35.0 million).

Depreciation and amortisation on tangible and intangible assets totalled EUR -2.2 million (1 January to 30 June 2014 adjusted value: EUR -5.8 million).

The operating income in the amount of EUR -1,157.7 million (1 January to 30 June 2014 adjusted value: EUR -1,355.4 million) has been set off by impairments of financial and non financial assets in the amount of EUR 126.1 million (1 January to 30 June 2014 adjusted value: EUR -196.9 million) and operating expenses in the amount of EUR -79.8 million (1 January to 30 June 2014 adjusted value: EUR -89.5 million). This produced an operating result in the amount of EUR -1,111.4 million (1 January to 30 June

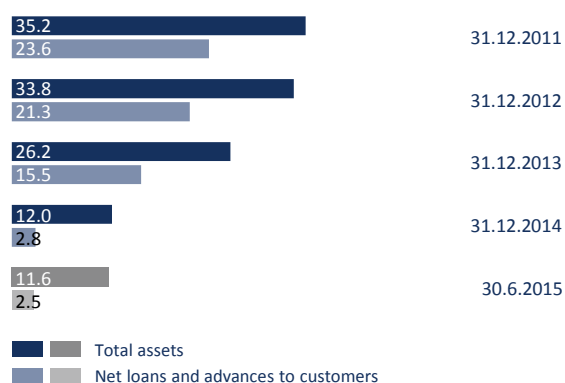
2014 adjusted value: EUR -1,641.9 million) also corresponding to the period result before tax from continued operations.

Taking into account income taxes in the amount of EUR - 0.7 million (1 January to 30 June 2014 adjusted value: EUR 2.7 million) the result after tax totalled EUR -1,112.1 million (1 January to 30 June 2014 adjusted value: EUR -1,663.5 million).

3.2. Development of the balance sheet

Heta's total group assets during the first half of 2015 further declined from EUR 12.0 billion by EUR -0.4 billion to EUR 11.6 billion mainly due to the lower market values of derivatives.

Total assets/net loans and advances to customers in EUR bn

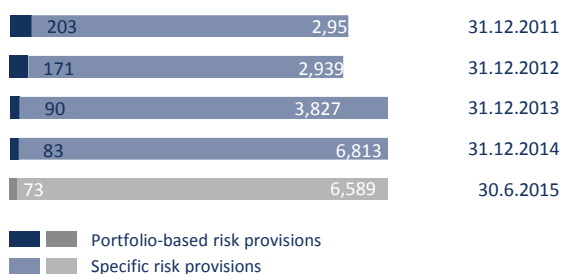


The total liquidity stocks of Heta increased in the first half of 2015 from EUR 2.6 billion (31 December 2014) to EUR 3.3 billion (30 June 2015). Because of reallocations within the liquidity stock, there was a reduction in the cash reserve from EUR 2.4 billion to EUR 2.1 billion, which essentially consists of short-term invested funds held at Oesterreichische Nationalbank (OeNB). There was a corresponding rise in receivables from credit institutions, which by comparison with 31 December of the previous year rose by EUR 0.6 billion to EUR 4.6 billion. In addition to money market transactions for steering the liquidity stock, this item also includes the loans to HBI and HGAA (which are not allocated to the liquidity stock).

Net receivables from customers (gross receivables after credit risk provisions) decreased during the first six months 2015 from EUR 2.8 billion to EUR 2.5 billion, corresponding to a change of EUR 0.3 billion or approx. -10.6%. The (gross) receivables from customers decreased from EUR 8.7 billion to EUR 8.4 billion. At EUR -6.6 billion, credit risk provisions on loans and advances are EUR 0.2 billion lower than as at 31 December of the previous year (2014: EUR -6.8 billion).

Development of risk provisions on loans and advances

in EUR m



The share of non-performing loans (NPLs) has decreased during the first six months of 2015. This problematic portfolio could be further decreased.

The derivative financial instruments containing the positive market values from derivative transactions on the assets side at EUR 0.8 billion lie below the level per 31 December 2014. (2014: EUR 1.0 billion). In addition to the wind-down of the derivative portfolio this is a result of lower market values.

The financial assets from the „designated at fair value through profit or loss“ category (FVO) during the reporting period again totalled EUR 0.5 billion. The balance sheet value for available-for-sale financial instruments (AFS) dropped significantly by EUR -0.4 billion to EUR 0.7 billion during the financial year. This was essentially due to the lower volume of debt instruments and fixed interest bearing securities.

Investment properties totalled EUR 0.8 billion and as such remains unchanged in comparison with the 31 December 2014.

On the liability side, liabilities to credit institutions during the first six months 2015 increased from EUR 2.8 billion to EUR 3.5 billion. This increase is mainly due to the liabilities to BayernLB which in 2014 had to be derecognised on the basis of the HaaSanG and the HaaSanV and had to be re-recognised on the basis of the decision of the Constitutional Court (VfGH) to revoke the HaaSanG and the HaaSanV.

A drop by EUR -0.1 billion to EUR 1.5 billion occurred in regard to liabilities to customers in comparison with 31 December 2014, which was mainly due to valuation effects. Securitised liabilities during the financial year 2015 increased by EUR 0.1 billion to EUR 8.9 billion.

Total provisions amounted to EUR 0.7 billion, corresponding to a drop by EUR -0.7 billion. The 2014 provision made in connection with the BayernLB EKEG proceedings was released with an effect of EUR +0.9 billion through profit and loss as the underlying liabilities had to be re-recognised through profit and loss following the revocation of the HaaSanG and the HaaSanV. In connection with the guarantee instrument granted by the Republic of Austria to the purchaser of the SEE network, provisions were made for a guarantee fee of EUR -0.1 billion.

Due to the decision by the Constitutional Court the subordinated capital again increased by EUR 0.8 billion, thus totalling approx. EUR 2.0 billion as at 30 June 2015.

Compared with 31 December 2014 the group equity pursuant to IFRS decreased from EUR -4.7 billion as at 30 June 2015 to EUR -5.8 billion, thus demonstrating a clear capital over indebtedness of the group.

3.3. Key profit indicators

No information is provided on the cost/income ratio, which establishes a ratio between operating expenses and operating income and capital related indicators, as they are irrelevant considering the losses and the negative equity shown.

4. Outlook for the second half of 2015

After several far reaching steps for Heta Asset Resolution AG during the first half of 2015 such as the Asset Quality Review, the adoption of a payment moratorium by the FMA and the closing of the sale of the SEE network during the second half of 2015, the Management will focus on finalising the wind-down plans pursuant to the Federal Law on the Creation of a Wind-Down Unit (GSA) and the subsequent implementation of the course set at the beginning of the year. The focus will clearly be on the continuation of an active and value conscious realisation of Heta's assets as well as on the creation of the organisational infrastructure required for these challenging tasks.

As is generally known, on 1 March 2015 the decree by the Financial Market Authority concerning the ordering of wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) came into force, which is now the basis for Heta's continued operations. At the same time a payment moratorium for eligible Heta liabilities was declared. It must be said in this context that this moratorium is still in place. A decision by the Financial Market Authority regarding a possible wind-down measure is not expected until 31 May 2016.

During the second half of 2015 a wind-down plan will be presented to the Financial Market Authority as resolution authority which will have to be approved by the Supervisory Board. The central element of the plan is the „orderly, active and optimum portfolio wind-down“ with the legal requirement of the „fastest possible portfolio wind-down“. The planning period is five years, basically providing for a full wind-down of the loans and assets with the exception of the refinancing lines of the SEE bank network as well as the Italian Hypo Alpe Adria Bank S.p.A. (HBI) and some performing housing subsidy loans. The final wind-down plan is currently being worked out and should be approved by the Supervisory Board during the second half of 2015.

The wind-down plan will serve as basis for the short to medium term reduction of net assets and risks. On the basis of the intensive preparations which have been under way since the beginning of the year, further large volume sales

processes can already be expected to kick off during the second half of 2015. The closing of the sales negotiations for several tourism projects is imminent. More intensive work is dedicated to the continued bundling and marketing of attractive loan portfolios.

This will all be supported by organisational as well as technical changes. The sales functions have already been strengthened and further functions required for sales preparations have been established. This already initiated restructuring of the organisational structure at headquarters will also be continued, and will probably be completed during the second half of the year.

On the technical side, plans exist for a significant improvement of the online sales platform AAAPlatfom. More detailed search functions and a modern design should boost the moveable and immoveable property sales platform and thus clearly increase user numbers.

Despite these efforts the Heta Board expects further challenges in regard to the sale of many assets. On the one hand a lot of real estate for sale is located in non-central locations, on the other hand economic recovery is still highly idiosyncratic: while the Vienna Institute for International Economic Studies (WIIW) is expecting clear economic growth for Slovenia and Montenegro at 2.4 and 2.3 percent for 2015 as a whole, recovery in the central markets of Croatia and Serbia remains very moderate at 0.4% and -0.1%. A slight economic improvement in these markets is expected for 2016.

The numerous legal disputes constitute yet another source of uncertainty during the second half of 2015. Both in Germany and in Austria numerous actions have been brought against Heta and against the decree by the Financial Market Authority on the wind-down procedure pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG). To date 4 actions have been served on Heta. Heta has also joined two proceedings against the state of Carinthia and Kärntner Landesholding. Other creditors mainly from Germany have also announced that they will be taking legal steps against Heta. From the perspective of Heta

the action taken by the creditors is significantly disadvantageous, since substantial costs for Heta are associated with these claims which are having an adverse effect on the success of the resolution, and even if their actions are successful the creditors cannot obtain full satisfaction of their claims from Heta. This would contradict the principle of the equal treatment of creditors as applicable in the resolution pursuant to BaSAG. If further foreign courts reject the applicability of BaSAG, Heta would have to take legal remedies as provided in execution regulations, making reference to BaSAG, in order to avoid individual creditors having access to assets of Heta and to ensure the equal treatment of the creditors.

As communicated on 29 July 2015 the Constitutional Court of the Republic of Austria (VfGH) fully revoked the Hypo Alpe Adria Restructuring Act (HaaSanG) which provided for the expiry of subordinated liabilities and liabilities to Bayerische Landesbank (BayernLB). Heta has duly taken this new situation into account in its Consolidated Interim financial statements as at 30 June 2015. As a consequence of the decision by the VfGH, the 34 civil actions brought against Heta by the creditors affected by the HaaSanG are again being continued. Because of the moratorium, however, Heta will not be making any payments towards these liabilities.

The settlement between the Republic of Austria and the Free State of Bavaria announced on 7 July 2015 (see 2.9 above on this point) can be seen as a further contribution towards greater legal certainty.

In the middle of August 2015 the process for the sale of 100% of the shares in Centrice Real Estate GmbH (Centrice), a 100% participation of Heta, started with the placing of advertisements in international daily papers inviting the submission of offers. Centrice owns and manages a portfolio consisting of a total of 31 retail and office buildings in Slovenia, Croatia, Bosnia, Serbia and Macedonia. The aim is for this sale project to be completed in 2016, and for a transparent and discrimination-free realisation of Centrice under the best possible terms and the release of the refinancing granted by Heta.

**Interim Consolidated
Financial Statements**

as at 30 June 2015

Heta Asset Resolution

I. Group statement of comprehensive income

Income statement

EUR m

	Note	1.1. - 30.6.2015	1.1. - 30.6.2014*, **
Interest and similar income	(8)	287.1	291.7
Interest and similar expenses	(9)	-251.8	-247.1
Net interest income		35.2	44.6
Fee and commission income	(10)	1.2	3.0
Fee and commission expenses	(11)	-11.2	-14.6
Net fee and commission income		-10.1	-11.7
Gains/losses on financial instruments that are not measured at fair value	(12)	1.1	5.4
Result from the application of the HaaSanG	(13)	-1,709.0	0.0
Result from trading	(14)	-135.2	3.5
Result from hedge accounting		-0.2	1.7
Result from fin. investments – designated at fair value through profit or loss	(15)	64.1	39.6
Operating income from investment properties	(16)	11.8	10.5
Other operating result	(17)	584.6	-1,449.1
Operating income		-1,157.7	-1,355.4
Impairment of financial assets	(18)	134.8	-173.6
thereof financial assets – at costs (risk provision)		135.0	-172.6
thereof financial assets– available for sale		-0.2	-1.0
Impairment of non financial assets		-8.7	-23.3
Operating income after impairment		-1,031.6	-1,552.3
Personnel expenses		-42.6	-48.7
Other administrative expenses	(19)	-35.0	-35.0
Depreciation and amortization on tangible and intangible assets		-2.2	-5.8
Operating expenses		-79.8	-89.5
Operating result		-1,111.4	-1,641.9
Result from companies accounted for at equity		0.0	0.0
Result before tax from continued operation		-1,111.4	-1,641.9
Taxes on income		-0.7	-2.7
Result after tax from continued operation		-1,112.1	-1,644.6
Result after tax from discontinued operations		0.0	-18.9
Result after tax		-1,112.1	-1,663.5
thereof attributable to non-controlling interests		-6.6	9.5
thereof from continued operations		-6.6	9.5
thereof from discontinued operations		0.0	0.0
thereof attributable to equity holders of parent (consolidated result after tax and non-controlling interest)		-1,105.5	-1,673.0
thereof from continued operations		-1,105.5	-1,654.0
thereof from discontinued operations		0.0	-18.9

*Previous year's values have been adjusted for the first half of 2014. For further information please refer to Note (6) Adjustment of previous year's values.

**The values of the reporting period for the first half of 2014 have been subject of a review by the "Oesterreichische Prüfstelle für Rechnungslegung" (OePR) which is now being continued by the FMA.

Other comprehensive income

EUR m

	1.1. - 30.6.2015	1.1. - 30.6.2014*, **
Result after tax	-1,112.1	-1,663.5
Remeasurement of the net defined benefit liability	0.1	0.9
Remeasurement of the net defined benefit liability from discontinued operations	0.0	0.0
Deferred tax relating to items that will not be reclassified to profit or loss	0.0	0.0
Items, that will not be reclassified to profit or loss	0.1	0.9
Available-for-sale-reserve	2.1	12.0
Gains/losses on available-for sale evaluation	2.5	11.3
Effects of deferred taxes	0.0	0.0
Gains/losses on available-for sale disposal (reclassification)	-0.7	-3.6
Effects of deferred taxes	0.0	0.0
Gains/losses on available-for sale impairment (reclassification)	0.2	1.0
Effects of deferred taxes	0.0	0.0
Gains/losses from discontinued operation	0.0	4.0
Effects of deferred taxes from discontinued operations	0.0	-0.6
Foreign exchange differences (change in foreign currency reserve)	-5.8	2.0
Items, that will be reclassified to profit or loss	-3.7	14.0
Total other comprehensive income	-3.6	14.9
Total comprehensive income	-1,115.7	-1,648.6
thereof attributable to non-controlling interests	-7.2	11.2
thereof from continued operations	-7.2	11.2
thereof from discontinued operations	0.0	0.0
thereof attributable to equity holders of parent	-1,108.5	-1,659.8
thereof from continued operations	-1,108.5	-1,646.3
thereof from discontinued operations	0.0	-13.5

*Previous year's values have been adjusted for the first half of 2014. For further information please refer to Note (6) Adjustment of previous year's values.

** The values of the reporting period for the first half of 2014 have been subject of a review by the "Oesterreichischen Prüfstelle for Rechnungslegung" (OePR) which is now being continued by the FMA.

II. Group statement of financial position

EUR m

	Note	30.6.2015	31.12.2014*
ASSETS			
Cash and balances at central banks		2,116.9	2,365.3
Loans and advances to credit institutions	(20)	4,564.3	3,938.5
Risk provisions on loans and advances to credit institutions	(22)	-675.1	-837.2
Loans and advances to customers	(21)	8,411.0	8,739.1
Risk provisions on loans and advances to customers	(22)	-5,947.2	-5,984.3
Derivative financial instruments	(23)	755.2	956.3
Financial investments – designated at fair value through profit or loss	(24)	474.4	489.2
Financial investments – available for sale	(25)	674.1	1,106.1
Investments in companies accounted for at equity		2.0	2.0
Investment properties	(26)	791.5	789.6
Tangible assets		42.3	42.8
Tax assets		40.7	44.8
thereof current tax assets		39.4	20.7
thereof deferred tax assets		1.4	24.1
Assets classified as held for sale	(27)	83.5	99.8
Other assets		279.5	309.3
Risk provisions on loans and advances on other assets	(22)	-34.8	-30.6
Total assets		11,578.3	12,030.8
EQUITY AND LIABILITIES**			
Liabilities to credit institutions	(28)	3,517.7	2,845.3
Liabilities to customers	(29)	1,524.1	1,575.5
Liabilities evidenced by certificates	(30)	8,851.1	8,750.8
Derivative financial instruments	(31)	572.9	789.8
Provisions	(32)(22)	712.1	1,445.9
Tax liabilities		31.9	33.3
thereof current tax liabilities		29.2	30.4
thereof deferred tax liabilities		2.7	2.8
Liabilities included in disposal groups classified as held for sale	(33)	6.0	4.1
Other liabilities	(34)	207.1	130.4
Subordinated capital	(35)	1,972.2	1,155.4
Hybrid capital	(36)	0.0	0.4
Negative equity		-5,816.7	-4,700.1
thereof attributable to equity holders of parent		-6,329.6	-5,221.1
thereof attributable to non-controlling interests		512.9	521.0
Total equity and liabilities		11,578.3	12,030.8

* The values of the reporting period for the first half of 2014 have been subject of a review by the "Oesterreichische Prüfstelle for Rechnungslegung" (OePR) which is now being continued by the FMA.

** The liabilities covered by the moratorium remain reflected in the financial statement including currency and interest. A possible creditor participation as well as the extent and time of repayment will be defined by the wind-down authority (FMA) exercising its sole decision-making powers pursuant to BaSAG.

III. Group statement of changes in equity

EUR m

	Issued capital	Participation capital	Additional paid-in capital	Available-for-sale-reserve	Foreign currency translation	Cumulative results	Owners of the parent	Non-controlling interests	Total
Equity as at 1.1.2015	2,354.7	1,139.5	0.0	-18.8	9.9	-8,706.4	-5,221.1	521.0	-4,700.1
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.9	-0.9
Total comprehensive income	0.0	0.0	0.0	2.6	-5.8	-1,105.4	-1,108.5	-7.2	-1,115.7
Result after tax	0.0	0.0	0.0	0.0	0.0	-1,105.5	-1,105.5	-6.6	-1,112.1
Other comprehensive income	0.0	0.0	0.0	2.6	-5.8	0.1	-3.1	-0.6	-3.6
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Negative equity as at 30.6.2015	2,354.7	1,139.5	0.0	-16.1	4.1	-9,811.8	-6,329.6	512.9	-5,816.7

EUR m

	Issued capital	Participation capital	Additional paid-in capital	Available-for-sale-reserve	Foreign currency translation	Cumulative results	Owners of the parent	Non-controlling interests	Total
Equity as at 1.1.2014	1,669.1	1,139.5	250.0	-27.3	-104.2	-1,586.0	1,341.1	517.7	1,858.8
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	-11.8	-11.8
Total comprehensive income	0.0	0.0	0.0	10.3	2.0	-1,672.1	-1,659.8	11.2	-1,648.6
Result after tax	0.0	0.0	0.0	0.0	0.0	-1,673.0	-1,673.0	9.5	-1,663.5
Other comprehensive income	0.0	0.0	0.0	10.3	2.0	0.9	13.2	1.8	14.9
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.2
Equity as at 30.6.2014	2,419.1	1,139.5	250.0	-17.0	-102.3	-3,258.1	431.2	516.9	948.2

IV. Group statement of cash flows

EUR m

	2015	2014
Result after tax from continued operation	-1,112.1	-1,644.6
Result after tax from discontinued operations	0.0	-18.9
Result after tax	-1,112.1	-1,663.5
Non-cash items included in profit and reconciliation to cash flows from operating activities:		
Gains / losses from the sale of subsidiaries	0.0	0.0
Result from the application of HaaSanG	1,709.0	0.0
Depreciation and amortisation of tangible fixed assets and financial investments	23.2	47.2
financial investments	0.0	1.8
intangible and tangible assets	23.1	45.4
Change in risk provisions	-179.5	167.3
Change in provision	-720.6	1,431.3
Gains (losses) from disposals of tangible fixed assets and financial investments	-2.0	-5.6
Financial investments	-1.1	-5.0
Intangible and tangible assets	-0.9	-0.6
Subtotal	-282.0	-23.3
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:		
Loans and advances to credit institutions and customers	-316.3	1,401.3
Financial investments	448.7	131.7
Trading assets	0.0	8.6
Other assets	236.4	-64.0
Liabilities to credit institutions and customers	-263.9	-762.3
Liabilities evidenced by certificates	100.3	-909.7
Trading liabilities	0.0	0.0
Provisions	-13.2	-36.5
Other liabilities from operating activities	-139.2	61.9
Cash flows from operating activities	-229.2	-192.2
Proceeds from the sale of:	37.5	18.5
Financial investments and participations	1.1	11.4
Tangible assets, investment properties, operate lease assets and intangible assets	36.3	7.1
Payments for purchases of:	-41.6	-35.5
Financial investments and participations	0.0	-5.3
Tangible assets, investment properties, operate lease assets and intangible assets	-41.6	-30.2
Payments from the purchase of subsidiaries	0.0	0.2
Payments for acquisitions of subsidiaries	0.0	-0.2
Other changes	0.4	-21.1
Cash flows from investing activities	-3.8	-38.0
Capital contributions / disbursements	0.0	750.0
Subordinated capital and other financing activities	-8.3	61.6
Dividends paid	-0.9	-11.8
thereof dividends paid to owners of the parent	0.0	0.0
thereof dividends paid to non controlling interest	-0.9	-11.8
Cash flows from financing activities	-9.2	799.8

EUR m

	2015	2014
Cash flows for taxes, dividends and interests	4.4	-196.4
Payments for taxes on income	0.0	-0.2
Payments for interests	-225.4	-425.4
Dividends received	0.0	0.3
Interests received	229.8	228.9

EUR m

	2015	2014
Cash and cash equivalents at end of previous period (1.1.)	2,365.3	2,312.7
Cash flows from operating activities	-229.2	-192.2
Cash flows from investing activities	-3.8	-38.0
Cash flows from financing activities	-9.2	799.8
Effect of exchange rate changes	-6.3	0.3
Cash and cash equivalents at end of period (30.6.)	2,116.8	2,882.7

V. Notes to the Interim Financial Report

Accounting policies and principles of consolidation

(1) Important events

During the first half of 2015 the focus of business activities was on preparing the portfolio wind-down pursuant to GSA, developing the preliminary wind-down plan, and creating the conditions for the closing of the sale of the SEE bank network (closing).

The deregulation and conversion of Heta into a wind-down unit as established by law in October 2014 was connected with the group-wide adjustment of the measurement parameters for the valuation of the assets of relevance for the portfolio wind-down and the group wide application of these altered parameters. The Heta Board had weighted the wind-down objective of an „orderly, active and optimum portfolio wind-down“ against the legal requirement of the „fastest possible portfolio wind-down“ and had then defined a period of five years as adequate for the portfolio wind-down. The wind-down target was defined as 80% of the assets by 2018. The measurement parameters were therefore adjusted to these provisions so that they reflected the short to medium term intention to sell in non liquid markets. The group-wide valuation of loans and real estate as at 31 December 2014, which was finally completed in June 2015, produced an additional devaluation result in the amount of approx. EUR -3.3 billion included in the consolidated financial statement. As of the record date of 30 June 2015 the valuation was updated applying the same parameters.

The annual financial report of Heta Asset Resolution AG as at 31 December 2014 and the valuation contained therein were the starting point for the preliminary wind-down plan pursuant to GSA covering a period of five years. The preliminary wind-down plan was first developed during the first half of 2015 in accordance with the accounting principles of the Austrian Commercial Code/Austrian Banking Act, the final plan is currently being established and will be submitted to the Supervisory Board for approval during the second half of the year. The plan presents the realisation of the assets and the expenses still to be incurred in regard to the portfolio wind-down. No interest or capital repayments are planned for the liabilities affected by the moratorium on the equity and liabilities side, instead cash reserves are built up on the asset side. The plan assumes different wind-down scenarios – the realisation or the sale (i) as a portfolio or (ii) of individual assets. See also Note (3) Wind-down plan pursuant to GSA.

The first half of 2015 was also dominated by the intensive preparations surrounding the closing of the sale of the SEE network (HGAA). This phase was characterised by internal coordination and talks both on the operative level, particularly between Heta and HGAA, as well as strategically, especially between the consortium of buyers and Heta, as well as with representatives of the Federal Ministry of Finance, FIMBAG and the resolution authority. The so-called "Pre-Closing" followed on 30 June 2015 with the parties confirming the existence and fulfillment of all essential agreed closing conditions. The Closing of the sale by FIMBAG occurred on 17 July 2015. For further information please refer to Note (52.4) Closing of the sales agreement for reprivatizing the SEE network

The closing of a term sheet on the financing and capitalisation of the former Italian group company Hypo-Alpe-Adria Bank S.p.A. (HBI) by the Republic of Austria, the HBI-Bundesholding AG (HBI-BH) and Heta followed on 29 June 2015. Under this agreement HBI-BH provided HBI with liquidity of EUR 196 million (EUR 100 million in capital, EUR 96 million as a subordinated loan). Heta will in return provide one new loan in the amount of EUR 100 million to finance customer deposit drains and renounce on a total of up to EUR 630 million in existing receivables; the renouncing of a part amount of EUR 280 million was completed during the first half of 2015. As counterperformance for this waiver of receivables, HBI-BH has promised, in the context of a better-fortune agreement, to pass on to Heta any financial benefit in an amount up to the waivers issued by Heta. To secure the claims of Heta, HBI-BH has undertaken to pledge its shares in HBI in favour of Heta. For further information please refer to Note (52.2) Agreement with the Republic and HBI-Bundesholding AG on the capitalisation and liquidity supply of Hypo Alpe-Adria-Bank S.p.A.).

On an organisational level the complete board of the supreme group company was replaced, and work on the adjustment of the internal structure formerly geared towards bank management to a business model fully focused on a pure wind-down unit. This internal structural change has created the preconditions for swiftly implementing the portfolio reduction on an operative level.

On 3 July 2015 (published on 28 July 2015) the Constitutional Court of Austria (VfGH) revoked the HaaSanG and the HaaSanV FMA regulation issued on this legal foundation in full and without setting a period for reparation. The liabilities in the amount of EUR 1.6 billion (nominal value) which had been regarded as terminated in the year 2014 and had been derecognised through profit and loss had to be re-entered, and the provisions made as at 31 December 2014 in connection with the judgment of first instance by the Regional Court Munich I judgment in the context of the BayernLB EKEG-proceedings of 8 May 2015 had to be released accordingly. The general effect on the profit and loss account as at 30 June 2015 is negative, as is the effect on Heta's equity at approx. EUR 0.8 billion (nominal value) plus interest claims by the subordinated creditors. For further information on this point please refer to Note (51.3) Proceedings in connection with Bayerische Landesbank.

On 7 July 2015 both the Austrian as well as the Bavarian ministries of finance announced that a basic agreement existed between the Republic of Austria and the Free State of Bavaria to conclude a “general settlement” (= MoU-implementation agreement) subject to the fulfillment of the preconditions as outlined in the Memorandum of Understanding (MoU). For further information on this point please refer to Note (52.1) Memorandum of Understanding (MoU) between the Republic of Austria and the Free State of Bavaria.

(2) Applicable accounting standards

The present Interim Financial Report of Heta as at 30 June 2015 was drawn up according to IFRS as applicable for interim reporting in the EU (IAS 34). The abridged Interim Financial Report does not include all the information and detailed notes required in the Group Annual Financial Report. The Interim Financial Report must therefore be read jointly with the Group Annual Financial Report last published as at 31 December 2014.

The Interim Financial Report as at 30 June 2015 has been drawn up according to the generally accepted accounting principles as well as in consideration of the general norm of giving a true and fair view of the assets, liabilities, financial position and profit and loss of the company, but has not been submitted to an audit or an audit review by the auditors. As per 31 December 2014, the valuation of assets and liabilities was based on the gone-concern principle as well as the provisions of the GSA and the BaSAG insofar as these are in accordance with the international accounting principles (IAS/IFRS).

Unless presented otherwise the present Interim Financial Report was drawn up based on the same accounting standards and balancing principles as well as calculation methods as the last published Group Annual Financial Report as at 31 December 2014, unless standards, changes, and interpretations were applied that are valid in respect of financial years starting on or after 1 January 2015.

The Interim Financial Report takes account of IFRS, which was already mandatory on the balance sheet date. The following new and/or amended standards and interpretations pursuant to IFRS/IAS which were issued by the IASB and adopted by the EU are to be applied for the first time in 2015:

Standard	Description		Compulsory for annual period
IAS 19	Employee Benefits	Employee contributions	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	2015
Collective Standard	IFRS December 2013 (Improvements 2011-2013)	Annual Improvements IFRS 1, IFRS 3, IFRS 13, IAS 40	2015
IFRIC 21	Levies		2015

No major changes in the accounting standards resulting from the use of new or amended standards have occurred in comparison with the Group Annual Financial Report as at 31 December 2014. 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.

(3) Wind-down plan pursuant to GSA

Pursuant to § 5 GSA the portfolio wind-down must follow a wind-down plan to be drawn up by the Board and to be approved by the Supervisory Board. A distinction has to be made between the wind-down plan pursuant to GSA and the resolution plan pursuant to BaSAG, which is to be drawn up by the resolution authority and will be authoritative for the resolution of Heta pursuant to BaSAG. Nevertheless Heta has a statutory duty to draw up a wind-down plan pursuant to GSA. Pursuant to § 5 para 2 GSA the preliminary wind-down plan for Heta includes the following:

- an overview of the transactions and liquidation measures planned for the portfolio wind-down,
- a time schedule for the complete sale of the assets,
- periodical schedules of the assets liabilities, financial position and profit and loss; including cash flow statements, budgeted balance sheets, budgeted income statements and liquidity plans and
- information on risk management in line with the wind-down targets

The preliminary wind-down plan has been drawn up in line with the accounting principles of the Austrian Commercial Code/Austrian Banking Act (UGB/BWG) and refers to the financial statements of the holding company Heta Asset Resolution

AG. The planning horizon covers the period up to 2020. The final wind-down plan is envisaged as being submitted to the Supervisory Board for approval during the second part of 2015.

The plan exclusively sets out the realisation of the assets (asset side) and the expenses still to be incurred for the portfolio wind-down. Due to the current moratorium the equity and liabilities side does not show interest or capital repayments, whereas the asset side shows the build-up of cash and balances. After the establishment of the Annual Financial Statements as at 31 December 2014 in June 2015 the preliminary wind-down plan was revised and the figures from the Annual Financial Statements 2014 were adopted. The wind-down target remains unchanged as a constant reduction of the asset side (excluding cash-in-hand) of approx. 80% by the end of 2018.

In order to reach the targets defined, plans exist to sell receivables and real estate to investors individually, but preferably in package and portfolio transactions. Preparations for the first package and portfolio sale started during the first half of 2015.

The planning assumptions regarding receivables from HBI and HGAA were subjects of a separate consideration and with respect to the termination schedules will probably still exist beyond 2020 as will some performing housing subsidy loans. No decision has as yet been taken as to how these transactions will be integrated into the wind-down plan as a whole.

Performing loans and securities with a short remaining term (up to 2020) shall be redeemed through regular payment while those with a longer remaining term shall be reduced in the medium term through market placements. The underlying collaterals of non-performing loans shall only be repossessed if an immediate sale (within 12 months) can be expected.

According to § 6 GSA, the managers of the wind-down unit are required to submit reports to the Supervisory Board. These reports are either presented regularly in the form of quarterly reports and realisation reports, or on an ad hoc basis in the form of special reports. Initial coordination talks with the resolution authority concerning the provisional wind-down planning for Heta have already taken place. In parallel with the drafting of the wind-down plan pursuant to GSA by Heta, the resolution authority is drafting the resolution plan pursuant to BaSAG, which represents the final valuation pursuant to § 57 BaSAG (per the valuation date 1 March 2015).

(4) Use of estimates

In the assessment of the essential financial information provided in the consolidated interim financial statements, which is essential for an understanding of the assets, liabilities, financial performance and profit and loss, care has been taken to ensure that the resulting information has been reliably estimated pursuant to IAS 34. For further information concerning the discretionary decision of accounting and valuation methods, we refer to the most recently published consolidated financial statements as of 31 December 2014 (Note 6).

(5) Scope of consolidation

The consolidated interim financial statements – including Heta Asset Resolution AG – covers 15 (31 December 2014: 15) domestic and 63 (31 December 2014: 63) international companies:

	2015		2014	
	Fully consolidated	Equity method	Fully consolidated	Equity method
Start of period (1.1.)	74	4	84	2
Newly included in period under review	0	0	9	2
Merged in period under review	0	0	0	0
Excluded in period under review	0	0	-19	0
Reclassified	0	0	0	0
End of period (30.6./31.12.)	74	4	74	4
thereof Austrian companies	13	2	13	2
thereof foreign companies	61	2	61	2

(6) Adjustment of previous year's values

The profit and loss account of the comparison period of the previous year (1 January – 30 June 2014) has been adjusted in accordance with IFRS 5, since in October 2014 the subsidiaries HGAA and HBI ceased to be a part of the Group.

The result after taxes for the period from continued operations of the two deconsolidated companies (HGAA and HBI) has been reclassified into the result after taxes for the period from discontinued operations. Analogously to the adjustment of the income statement, the information in the notes has also been adjusted accordingly.

EUR m

	Published consolidated financial statements 1.1. - 30.6.2014	IFRS 5	Adjusted consolidated financial statements 1.1. - 30.6.2014
Interest and similar income	467.5	-175.9	291.7
Interest and similar expenses	-294.4	47.3	-247.1
Net interest income	173.1	-128.5	44.6
Fee and commission income	39.5	-36.5	3.0
Fee and commission expenses	-18.6	3.9	-14.6
Net fee and commission income	21.0	-32.6	-11.7
Gains/losses on fin. instr. that are not measured at fair value	7.5	-2.2	5.4
Result from trading	7.2	-3.7	3.5
Result from hedge accounting	1.7	0.0	1.7
Result from fin. investments – designated at fair value through profit or loss	39.6	0.0	39.6
Operating income from investment properties	10.4	0.1	10.5
Other operating result	-1,454.1	5.0	-1,449.1
Operating income	-1,193.6	-161.9	-1,355.4
Impairment of financial assets	-246.4	72.8	-173.6
thereof financial assets – at costs (risk provision)	-245.1	72.5	-172.6
thereof financial assets– available for sale	-1.4	0.4	-1.0
thereof financial assets – held to maturity	0.0	0.0	0.0
Impairment of non financial assets	-24.0	0.7	-23.3
Operating income after impairment	-1,464.0	-88.3	-1,552.3
Personnel expenses	-104.1	55.4	-48.7
Other administrative expenses	-83.9	48.8	-35.0
Depreciation and amortization on tangible and intangible assets	-16.3	10.5	-5.8
Operating expenses	-204.3	114.7	-89.5
Operating result	-1,668.3	26.4	-1,641.9
Result from companies accounted for at equity	0.0	0.0	0.0
Result before tax from continued operation	-1,668.3	26.4	-1,641.9
Taxes on income	4.8	-7.5	-2.7
Result after tax from continued operation	-1,663.5	18.9	-1,644.6
Result after tax from discontinued operations	0.0	-18.9	-18.9
Result after tax	-1,663.5	0.0	-1,663.5

Notes to the income statement

(7) Segment reporting

Segment reporting is based on standard IFRS 8 „Operating Segments“. Segment reporting is based on the information that is continuously provided to the group management as chief operating decision maker as defined in IFRS 8.7 (so-called management approach). The segment structure can therefore differ from the structure shown in the income statement. The basis for segment reporting here is Heta's corporate structure. The 2014 transformation of the company into a wind-down unit according to GSA, and the compulsory sale of HGAA which this required, as well as the sale of the Italian subsidiary bank HBI, have considerably changed the structure of the Heta Group. In consequence, on the one hand individual group segments have been lost whereas on the other hand current segments have been reorganised.

The (now former) group units under the "SEE network" consist of bank and leasing units in the countries of Slovenia, Croatia, Bosnia and Herzegovina as well as the banks in Serbia and Montenegro and a domestic management holding with bank license. The "SEE network" business unit was transferred to FIMBAG as part of the carve-out at the end of October 2014, and was therefore de-consolidated, and has since ceased to be part of the Heta group. The „Hypo Italia“ segment shows the (former) Italian bank subsidiary bank HBI which in October 2014 was transferred to HBI-BH, which is not part of the group.

The "Holding" segment includes Heta Asset Resolution AG (individual bank), the minority companies HBInt Credit Management Ltd. and Norica Investment Ltd., the real estate company Centrice Real Estate GmbH, in which the performing real estate portfolio has been bundled, and participations in the fields of tourism and real estate.

The „Asset Resolution“ segment includes all the group leasing companies operating in the countries of Croatia, Germany, Austria, Hungary, Macedonia, Montenegro, Bulgaria, Bosnia and Herzegovina, Serbia and Italy. This segment also includes problem-stricken wind-down portfolios which have been released from the SEE bank network in Bosnia and Herzegovina, Montenegro, Slovenia, Serbia and Croatia and have been classified for wind-down.

„Consolidation“ includes effects from the consolidation between the various business segments.

The segment reporting corresponds to the internal reports given to the Board as supreme group company since the sale of the SEE network and HBI. The comparative figures for 2014 have also been adjusted to this reporting format.

7.1. SEE network

With the October 2014 carve-out the SEE network was transferred to FIMBAG and has since left the consolidation scope of the HETA Group.

7.2. Hypo Italy

Hypo Italy was transferred to HBI-Bundesholding under the carve-out in October 2014 and has since left the consolidation scope of the HETA Group.

7.3. Asset Resolution

The loss of the asset resolution segment during the first half of 2015 totals EUR -64.7 million. This loss is primarily the result of negative effects in connection with the appreciation of the Swiss Franc over the Euro. The net interest result is EUR -6.8 million and as such is clearly below the value of the previous year (EUR 40.2 million), primarily due to lower interest gains as a consequence of the decrease in the share of performing loans and partly also reduced unwinding effects. During the first six months risk provisions in the amount of EUR 30.7 million could be released in the asset resolution risk provision segment (30 June 2014: EUR -140.7 million) with devaluation requirements of repossessed assets and investment properties in the amount of EUR -7.8 million. (30 June 2014: EUR -19.7million).

The balance sheet total in the „asset resolution“ segment as at 30 June 2015 is EUR 1,937.1 million and as such is clearly below the value of the previous year (EUR 4,809.6 million) mainly as a result of value adjustments under the asset quality review (AQR) as at 31 December 2014. The clear rise in customer liabilities is the consequence of a restructuring of liabilities towards the Heta Asset Resolution AG parent company, which ceased to be a credit institution on the return of the bank license in October 2014, so that these liabilities are now shown under the item "liabilities to customers".

7.4. Holding

The loss in the holding segment as at 30 June 2015 totals EUR -1,062.1 million, mainly driven by the item of other comprehensive income at EUR 1,130.4 million which can be explained almost entirely with special effects. The HaaSanG result is not shown separately in segment reporting but is designated in the other result. Compensated by the release of the provision formed last year recognized on the basis of the first-instance ruling in the Bayern LB EKEG proceedings the other comprehensive income of this segment is impaired at EUR -822.5 million by the decision by the Constitutional Court of 3 July 2015 revoking the HaaSanG as not in conformity with the constitution. In addition the Other comprehensive income shows the guarantee

fee in the amount of EUR 145.5 million to be paid in connection with the sale of the SEE network to the Republic of Austria as well as additional risk provisions in the amount of EUR 75.0 million for the contractually agreed brush of a HGAA retail portfolio of EUR 100.0 million to be transferred to Heta.

The trading result in the amount of EUR -92.2 million includes the currency indexed change in market values from the derivatives business of Heta Asset Resolution AG as a result of the fluctuations of the exchange rate of the Swiss Franc. This is counterbalanced by positive effects in the fair value option of approx. EUR 64.0 million mainly from the valuation of own issues which on 30 June 2015 again showed a clearly lower exchange rate. During the first six months risk provisions totalling EUR 101.1 million could be released, including EUR 123.4 million from the valuation of credit lines to HBI.

The segment assets as at 30 June 2015 total EUR 7,582.1 million and as such are approx. EUR 2,962.2 million below the assets of the previous year (30 June 2014: EUR 10,544.2 million). This significant decrease is mainly the result of depreciations recognized as at 31 December 2014 under the AQR.

7.5. Consolidation

This segment shows the consolidation effects between the individual business segments. In the previous year this segment also had to bear the burden of the provision formed for the expected loss on disposal of HBI and the SEE network.

7.6. Segment presentation

EUR m

Period 1.1. - 30.6.2015	SEE- Network*	Hypo Italy*	Holding	Asset Resolution	IFRS 5 Re- classification	Consoli- dation	Heta Group
Operating income	0.0	0.0	-1,110.0	-53.5	0.0	5.8	-1,157.7
Net interest income	0.0	0.0	30.1	-6.8	0.0	11.9	35.2
Net fee and commission income	0.0	0.0	-9.7	-0.3	0.0	-0.1	-10.1
Other result	0.0	0.0	-1,130.4	-46.4	0.0	-6.1	-1,182.8
Operating expense	0.0	0.0	-52.0	-34.7	0.0	6.9	-79.8
Operating result – prior to risk provisions on loans and advances	0.0	0.0	-1,162.0	-88.2	0.0	12.7	-1,237.5
Impairment of financial assets	0.0	0.0	101.1	30.7	0.0	3.0	134.8
Impairment of non financial assets	0.0	0.0	0.0	-7.8	0.0	-0.9	-8.7
Result after tax from continued operation	0.0	0.0	-1,062.1	-64.7	0.0	14.7	-1,112.1
Result after tax from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Result after tax	0.0	0.0	-1,062.1	-64.7	0.0	14.7	-1,112.1
Segment assets	0.0	0.0	7,582.1	1,937.1	0.0	2,059.1	11,578.3
Loans and advances to customers	0.0	0.0	3,765.8	4,957.6	0.0	-312.4	8,411.0
Liabilities to customers	0.0	0.0	1,958.6	3,997.4	0.0	-4,431.9	1,524.1
thereof intragroup liabilities	0.0	0.0	459.9	3,972.0	0.0	-4,431.9	0.0

* The SEE network and Hypo Italy were deconsolidated from Heta effective October 2014.

EUR m

Period 1.1. - 30.6.2014	SEE- Network	Hypo Italy	Holding	Asset Resolution	IFRS 5 Re- classification	Consolidat ion	Heta Group
Operating income	146.3	31.0	72.2	25.1	-177.3	-1,452.8	-1,355.4
Net interest income	113.4	30.2	2.1	40.2	-143.6	2.3	44.6
Net fee and commission income	31.3	2.9	-8.3	-3.2	-34.2	-0.1	-11.7
Other result	1.6	-2.1	78.5	-11.9	0.5	-1,455.0	-1,388.4
Operating expense	-112.0	-21.6	-71.1	-30.6	133.6	12.2	-89.5
Operating result – prior to risk provisions on loans and advances	34.3	9.4	1.1	-5.5	-43.7	-1,440.7	-1,445.0
Impairment of financial assets	-38.3	-34.2	-35.3	-140.7	72.5	2.4	-173.6
Impairment of non financial assets	-0.5	-0.4	-1.6	-19.7	0.8	-2.0	-23.3
Result after tax from continued operation	-4.3	-17.9	-36.5	-168.1	22.3	-1,439.9	-1,644.6
Result after tax from discontinued operations	0.0	0.0	0.0	0.0	-22.3	3.3	-18.9
Result after tax	-4.3	-17.9	-36.5	-168.1	0.0	-1,436.7	-1,663.5
Segment assets	8,451.3	2,628.1	10,544.2	4,809.6	n/a*	-1,279.8	25,153.4
Loans and advances to customers	6,007.7	2,446.9	4,091.0	5,342.8	n/a*	-81.2	17,807.2
Liabilities to customers	3,865.3	365.3	1,557.4	25.5	n/a*	-93.6	5,719.9
thereof intragroup liabilities	111.2	13.3	0.0	1.5	n/a*	-1.5	124.5

*Previous year: The IFRS 5 reclassification column is used to transfer the current result of the discontinued business area (SEE network and Hypo Italy Segment) from the current result to the result for the period after taxes from discontinued business areas. In the segment reporting to the Group Board, the current result of the deconsolidated companies has been shown in the current result, not in the result from discontinued areas of business. According to the standard, an adjustment has to be made in the income statement but not in the balance sheet.

(8) Interest and similar income

EUR m

	1.1. - 30.6.2015	1.1. - 30.6.2014*
Interest income	275.5	267.7
from loans and advances to credit institutions	8.2	39.4
from loans and advances to customers	105.8	108.2
from bonds, treasury bills and other fixed-interest securities	77.8	17.1
from derivative financial instruments, net	82.5	100.3
Other interest income	1.2	2.7
Current income	11.6	23.9
from finance leasing	11.6	23.9
Total	287.1	291.7

*Previous year's values have been adjusted for the first half of 2014. For further information please refer to Note (6) Adjustment of previous year's values.

(9) Interest and similar expenses

EUR m

	1.1. - 30.6.2015	1.1. - 30.6.2014*
Interest expenses	-225.4	-220.7
for liabilities to credit institutions	-56.7	-48.4
for liabilities to customers	-30.0	-31.3
for debt securities in issue	-100.6	-115.7
for subordinated capital	-29.6	-26.0
from derivative financial instruments, net	0.0	0.8
for other liabilities	-8.5	-0.1
Similar expenses	-26.4	-26.4
Total	-251.8	-247.1

*Previous year's values have been adjusted for the first half of 2014. For further information please refer to Note (6) Adjustment of previous year's values.

(10) Fee and commission income

EUR m

	1.1. - 30.6.2015	1.1. - 30.6.2014*
Credit business	0.8	2.4
Securities and custodian business	0.0	0.0
Bank transfers including payment transactions	0.0	0.1
Other financial services	0.4	0.4
Total	1.2	3.0

*Previous year's values have been adjusted for the first half of 2014. For further information please refer to Note (6) Adjustment of previous year's values.

(11) Fee and commission expenses

EUR m

	1.1. - 30.6.2015	1.1. - 30.6.2014*
Credit business	-10.2	-13.5
Securities and custodian business	-0.2	-0.4
Bank transfers including payment transactions	-0.1	-0.2
Other financial services	-0.7	-0.6
Total	-11.2	-14.6

*Previous year's values have been adjusted for the first half of 2014. For further information please refer to Note (6) Adjustment of previous year's values.

The commission expenses also include the fee to be paid to the Republic of Austria for the assumption of a EUR 200 million guarantee in the amount of EUR -9.9 million (1 January to 30 June 2014: EUR -9.9 million).

(12) Gains/losses on financial instruments that are not measured at fair value

EUR m

	1.1. - 30.6.2015	1.1. - 30.6.2014*
Result from fin. investments – available for sale	0.8	3.6
Result from fin. investments – held to maturity	0.0	0.0
Result from fin. investments – at cost	0.3	1.7
Total	1.1	5.4

*Previous year's values have been adjusted for the first half of 2014. For further information please refer to Note (6) Adjustment of previous year's values.

(13) Result from the application of the HaaSanG

EUR m

	30.6.2015
Recognition of subordinated liabilities	-824.6
Recognition of liabilities against BayernLB	-884.4
Total	-1,709.0

Due to the ruling by the Constitutional Court of Austria of 3 July 2015, the liabilities of approx. EUR 1.6 billion (nominal value) which in 2014 had been treated as expired and had been derecognized through profit and loss had to be re-entered into the balance sheet as liabilities as at 30 June 2015. For further information please refer to Note (51.2) Ruling by the Austrian Constitutional Court on HaaSanG

The Hypo Alpe Adria Restructuring Act (HaaSanG) entered into force on 1 August 2014 and defined the Austrian Financial Market Authority (FMA) as competent authority for the implementation of the restructuring measures provided by the act. Upon the publication of the Austrian Financial Market Authority's (FMA) regulation (HaaSanV) on 7 August 2014 Heta's liabilities as listed in the Austrian Financial Market Authority (FMA) regulation have been terminated or were deferred by law, i.e. any repayments, interest or other side fees owed by the company – if applicable – were automatically reduced to zero. Payment day for certain "disputed liabilities" pursuant to HaaSanG was deferred until at least 30 June 2019. Liabilities of a total of approx. EUR 1.6 billion expired of which EUR 0.8 billion consisted of subordinate liabilities held by third-party investors and EUR 0.8 billion of liabilities towards Bayerische Landesbank (BayernLB).

After the Constitutional Court of Austria on 3 July 2015 (published on 28 July 2015) completely revoked the HaaSanG and the HaaSanV based on this legal foundation without providing an appeals deadline, the liabilities qualified as expired and effectively de-recognized at fair value through profit and loss in 2014 were again re-entered into the balance sheet, and the provisions of EUR 0.9 billion created in 2014 in connection with the first-instance ruling by the Regional Court Munich I (BayernLB Eigenkapital Gesetz (EKEG proceedings) of 8 May 2015 have been released through P&L. All in all as of 30 June 2015 the negative effect on Heta's income statement and thus also on its equity totalled approx. EUR -0.8 billion (nominal value) plus interest claims with respect to the subordinated creditors.

As of 28 August 2015 Heta has to date been served 34 civil actions in which creditors challenge the constitutionality of the HaaSanG jointly with the HaaSanV and demand the validity of the claims to be confirmed and payment to be made. The object

of all civil suits pending at the record date is the question of the constitutional conformity of the respective norms. The Constitutional Court's decision revoking the law and the respective regulation issued will restrict the subject matter of the proceedings to the applicability of the payment moratorium in law for Heta since 1 March 2015 for the respective liabilities.

Despite the decision of the Constitutional Court at present no payments are being made towards the liabilities originally established by the HaaSanG, as by now they are subject to the payment moratorium since imposed by the resolution authority. The interest claims, however, continue to be carried forward and are shown as liabilities. The BaSAG and the payment moratorium imposed on its basis by the Austrian Financial Market Authority (FMA) did not constitute the subject matter of the Constitutional Court's decision. In one pending referral request the referring court also raised the unconstitutionality of § 162 para 6 BaSAG. Heta immediately contacted the resolution authority to discuss the effects on the pending civil proceedings and further steps. It is expected that the civil proceedings will now be continued at the initiative of the claimants unless an amicable agreement is reached on the interruption of these proceedings until a decision is reached on a possible wind-down measure by the Austrian Financial Market Authority (FMA). Another option would be an interruption of the proceedings on a request by the resolution authority based on § 59 para 1 BaSAG..

(14) Result from trading

EUR m

	1.1. - 30.6.2015	1.1. - 30.6.2014*
Foreign exchange transactions	-135.2	3.5
Total	-135.2	3.5

*Previous year's values have been adjusted for the first half of 2014. For further information please refer to Note (6) Adjustment of previous year's values.

The result from trading includes a result from foreign exchange related transactions in the amount of EUR -182.6 million (1 January to 30 June 2014: EUR 9.7 million) mainly as a result of the appreciation of the Swiss Franc in 2014.

(15) Result from financial investments – designated at fair value through profit or loss

EUR m

	1.1. - 30.6.2015	1.1. - 30.6.2014
Result from financial assets and related derivatives	0.2	5.0
from loans and advances to customers and credit institutions	0.2	1.2
from equity instruments	-0.2	-0.3
from debt instruments	0.2	4.2
from treasury bills	0.0	-0.1
Result from long-term financial liabilities and related derivatives	63.9	34.4
from debt securities in issue	17.7	9.7
from subordinated capital	46.2	24.7
Current income from shares and other not fixed interest securities	0.0	0.1
Total	64.1	39.6

(16) Operative income from investment properties

EUR m

	1.1. - 30.6.2015	1.1. - 30.6.2014*
Rental income	26.7	24.8
Depreciation	-12.9	-11.1
Other expenses	-2.1	-3.3
Total	11.8	10.5

*Previous year's values have been adjusted for the first half of 2014. For further information please refer to Note (6) Adjustment of previous year's values

(17) Other operating results

EUR m

	1.1. - 30.6.2015	1.1. - 30.6.2014*
Other income	980.8	19.6
Other expenses	-396.1	-1,468.6
Total	584.6	-1,449.1
Result from operate lease assets	1.0	0.9
Other rental income	0.1	0.1
Net capital gains/losses from the sale of intangible and tangible assets	0.0	-0.2
Result from emergency acquisitions and repossessed asset	-1.8	-0.3
Result from allocation/release of other provisions	2.5	3.6
Other tax expenses (incl. bank tax except income tax)	-1.9	3.3
Expenses from complete or partial sale of fully consolidated companies	0.0	-1.0
Restructuring expenses	0.0	-1.4
Income from assets classified as held for sale and disposal groups	0.9	0.0
Other result	583.8	-1,454.1
of which income from release of provision for anticipated claims by creditors	886.5	0.0
thereof damage compensation payment	-70.3	0.0
Total	584.6	-1,449.1

* Previous year's values have been adjusted for the first half of 2014. For further information please refer to Note (6) Adjustment of previous year's values

The result from assets classified as held for sale and disposal groups comes from the valuation of two held for sale hotels and from the profit on the sale of an aircraft.

The remaining other result during the first half of 2015 includes the income from release of provisions made for anticipated claims by creditors in the amount of EUR -886.5 million in 2014. As a result of the re-recognition of the liabilities under the HaaSanG, impairing the current income statement at EUR -1,709.0 million, the provision formed had to be completely released. An amount of EUR 70.3 million was allocated to the provisions for expected damages claims.

The remaining other result during the first six months of 2014 included provisions in the amount of EUR -1,440.7 million in connection with the then still expected loss of the SEE network and the Italian subsidiary bank to the Republic and HBI Bundesholding AG. Regarding the findings of OePR concerning the consolidated interim report per 30 June 2014, reference is made to Note (54) Status of the audit procedure of Oesterreichische Prüfstelle für Rechnungslegung (OePR).

(18) Impairment of financial assets

The impairment of financial assets includes the following:

EUR m

	1.1. - 30.6.2015	1.1. - 30.6.2014*
Impairment financial assets – at cost	135.0	-172.6
Allocations	-100.3	-267.8
Releases	229.9	106.2
Receipts from loans and advances previously impaired	7.2	3.6
Directly recognised impairment losses	-1.7	-14.7
Impairment financial assets – available for sale	-0.2	-1.0
Impairment financial assets – held to maturity	0.0	0.0
Total	134.8	-173.6

* Previous year's values have been adjusted for the first half of 2014. For further information please refer to Note (6) Adjustment of previous year's values

Of the releases from risk provisions on loans and advances in the amount of EUR 229.9 million, EUR 123.4 million relates to HBI.

(19) Other administrative expenses

EUR m

	1.1. - 30.6.2015	1.1. - 30.6.2014*
Infrastructure costs	-5.1	-4.2
IT- and telecommunications	-6.8	-6.6
Legal and advisory costs	-13.2	-9.0
Expense for audit and audit-related services	-1.6	-1.5
Expenses related to reorganisation and restructuring	-0.5	-1.9
Investigation of the past	-0.1	-3.8
Staff training cost	-0.3	-0.8
Administration expenses related to HBInt. Credit Management	0.0	-0.8
Other general administrative expenses	-7.5	-6.3
Total	-35.0	-35.0

* Previous year's values have been adjusted for the first half of 2014. For further information please refer to Note (6) Adjustment of previous year's values

Notes to the statement of financial position

(20) Loans and advances to credit institutions

20.1. Loans and advances to credit institutions – by region

EUR m

	30.6.2015	31.12.2014
Austria	1,104.0	1,374.5
Central and Eastern Europe (CEE)	116.2	93.8
Other countries	3,344.1	2,470.3
Total	4,564.3	3,938.5

(21) Loans and advances to customers

21.1. Loans and advances to customers – by type of business

EUR m

	30.6.2015	31.12.2014
Public sector	1,055.8	1,144.5
Corporate clients	6,945.2	7,171.2
Retail clients	409.9	423.3
Total	8,411.0	8,739.1

21.2. Loans and advances to customers – by region

EUR m

	30.6.2015	31.12.2014
Austria	916.8	962.2
Central and Eastern Europe (CEE)	6,290.0	6,464.2
Other countries	1,204.2	1,312.7
Total	8,411.0	8,739.1

(22) Risk provisions on loans and advances and provisions for credit risks

EUR m

	As at 1.1.2015	Foreign- exchange- differences	Allo- cations	Releases	Use	Other	Changes IFRS 5	Un- winding	As at 30.6.2015
Specific risk provisions	-6,768.6	-83.2	-90.9	203.9	98.7	0.0	0.0	57.3	-6,582.9
Portfolio-based risk provisions	-83.5	-0.2	-7.8	17.1	0.0	0.0	0.0	0.0	-74.3
Subtotal risk provisions on loans and advances	-6,852.1	-83.3	-98.7	221.0	98.7	0.0	0.0	57.3	-6,657.2
Provisions for credit commitments and guarantees	-44.5	0.0	-1.6	8.9	0.8	0.0	0.0	0.0	-36.4
Total	-6,896.5	-83.3	-100.3	229.9	99.5	0.0	0.0	57.3	-6,693.6

The increase in foreign exchange differences is the result of the abolition of the Swiss Franc threshold in January 2015 and the subsequent appreciation of the Swiss Franc against the Euro.

EUR m

	As at 1.1.2014	Foreign- exchange- differences	Allo- cations	Releases	Use	Other	Changes IFRS 5	Un- winding	As at 30.6.2014
Specific risk provisions	-3,797.7	-16.1	-382.6	135.3	156.7	-22.0	138.7	74.9	-3,712.8
Portfolio-based risk provisions	-76.9	-0.3	-11.1	16.2	0.0	0.0	1.1	0.0	-70.9
Subtotal risk provisions on loans and advances	-3,874.6	-16.4	-393.7	151.5	156.7	-22.0	139.8	74.9	-3,783.7
Provisions for credit commitments and guarantees	-42.1	0.0	-7.9	14.7	7.4	-0.4	0.0	0.0	-28.3
Total	-3,916.7	-16.4	-401.6	166.2	164.1	-22.4	139.8	74.9	-3,812.0

(23) Derivative financial instruments

EUR m

	30.6.2015	31.12.2014
Positive market value of derivative financial instruments – trading	15.8	16.6
Positive market value of derivative financial instruments – banking book	739.4	939.7
Total	755.2	956.3

(24) Financial investments – designated at fair value through profit or loss

EUR m

	30.6.2015	31.12.2014
Loans and advances to customers and credit institutions	275.9	288.6
Bonds and other fixed-interest securities	190.0	192.3
Shares and other non-fixed-interest securities	8.5	8.4
Total	474.4	489.2

(25) Financial investments – available for sale

EUR m

	30.6.2015	31.12.2014
Bonds and other fixed-interest securities	645.4	1,068.9
Shares and other non-fixed-interest securities	19.2	19.8
Participations without intention for sale (< 20%)	0.0	0.0
Other participations (associated companies 20% -50%)	0.0	0.0
Shares in affiliated, non-consolidated companies (> 50%)	9.3	9.3
Loans and advances to customers/credit institutions	0.2	8.1
Total	674.1	1,106.1

(26) Investment properties

EUR m

	30.6.2015	31.12.2014
Investment property leased out	450.4	454.0
Vacant Investment property	336.1	330.8
Prepayments/asset under construction	5.0	4.8
Total	791.5	789.6

(27) Assets classified as held for sale

EUR m

	30.6.2015	31.12.2014
Loans and advances to credit institutions	8.0	9.0
Loans and advances to customers	0.6	0.6
Impairment on financial instruments – at cost (risk provision)	-0.6	-0.6
Other financial investments (investment properties)	1.5	1.3
Intangible assets	0.2	0.2
Tangible assets	40.8	59.1
Tax assets	0.0	0.0
Other assets	33.1	30.3
Total	83.5	99.8

The item Assets classified as held for sale to be listed separately pursuant to IFRS 5 as at 30 June 2015 includes the assets that will very probably be sold in the course of the next twelve months. These include two properties used as hotels. The remaining assets and debts of the Serbian IT-company ZAJEDNIËKI INFORMACIONI SISTEM DOO BEOGRAD as well as various other assets are also held for sale. The segment reporting shows the respective assets in the Holding segment.

(28) Liabilities to credit institutions – by region**28.1. Liabilities to credit institutions –by region**

EUR m

	30.6.2015*	31.12.2014
Austria	90.2	152.4
Central and Eastern Europe (CEE)	20.1	15.2
Other countries	3,407.4	2,677.7
Total	3,517.7	2,845.3

* The liabilities covered by the moratorium are still shown in the balance sheet subject to currency and interest. A possible creditor participation as well as the amount and time of repayment will be defined by the resolution authority (FMA) exercising its rights as sole decision maker pursuant to the BaSAG.

In the financial year 2014 the liabilities of Heta towards its former majority shareholder covered by the Hypo Alpe Adria Restructuring Act (HaaSanG) in the amount of EUR 0.8 billion (nominal value) were derecognised through profit and loss. Based on the decision by the Constitutional Court (VfGH) of 3 July 2015 by which the HaaSanG and the subsequent regulation (HaaSanV) were fully revoked, these liabilities were re-recognised through profit and loss as at 30 June 2015. In the income statement for 2015 the expenditures in connection with the re-recognition of these items are shown under "Result from the application of the HaaSanG".

(29) Liabilities to customers**29.1. Liabilities to customers – by type of customer**

EUR m

	30.6.2015*	31.12.2014
Saving deposits	0.0	0.0
Demand and time deposits	1,524.1	1,575.5
from public sector	83.6	84.5
from corporate clients	1,439.5	1,489.0
from retail clients	1.0	2.0
Total	1,524.1	1,575.5

*The liabilities covered by the moratorium are still shown in the balance sheet subject to currency and interest. A possible creditor participation as well as the amount and time of repayment will be defined by the resolution authority (FMA) exercising its rights as sole decision maker pursuant to the BaSAG.

29.2. Liabilities to customers – by regions

EUR m

	30.6.2015	31.12.2014
Austria	37.3	53.7
Central and Eastern Europe (CEE)	15.7	14.9
Other countries	1,471.1	1,507.0
Total	1,524.1	1,575.5

(30) Liabilities evidenced by certificates

EUR m

	30.6.2015*	31.12.2014
Issued bonds	7,646.4	7,575.1
Liabilities issued by the "Pfandbriefstelle"	1,204.7	1,175.7
Other liabilities evidenced by certificates	0.0	0.0
Total	8,851.1	8,750.8

*The liabilities covered by the moratorium are still shown in the balance sheet subject to currency and interest. A possible creditor participation as well as the amount and time of repayment will be defined by the resolution authority (FMA) exercising its rights as sole decision maker pursuant to the BaSAG.

(31) Derivative financial instruments

EUR m

	30.6.2015	31.12.2014
Negative market value of derivative financial instruments – trading	16.1	17.7
Negative market value of derivative financial instruments – banking book	556.8	772.1
Total	572.9	789.8

(32) Provisions

EUR m

	30.6.2015	31.12.2014
Pensions	6.0	5.8
Severance payments	7.5	8.9
Provisions for anniversary payments	0.7	0.9
Provisions for credit commitments and guarantees	36.3	44.5
Restructuring provisions as per IAS 37.70	27.9	29.1
Other provisions	633.7	1,356.7
of which provision for anticipated claims by creditors	0.0	886.5
of which provision in connection with the sale of SEE-network	450.5	301.0
of which provision for damage compensation payment	100.0	0.0
Total	712.1	1,445.9

As at 31 December 2014 in connection with the ruling by the Regional Court of Munich I of 8 May 2015 provisions in the amount of EUR 886.5 million were made for the pending utilisation by the creditors. As a consequence of the decision by the Constitutional Court of 3 July 2015 which led to the re-recognition of the liabilities under the HaaSanG and the HaaSanV through profit and loss, no further provisions of this kind are required.

The proceeds from the release of this provision are shown in 2015 under the item other operating result and in the income statement therefore partly compensate the negative effect from the re-recognition of these liabilities through profit and loss.

(33) Liabilities included in disposal groups classified as held for sale

EUR m

	30.6.2015	31.12.2014
Liabilities to credit institutions	0.7	1.2
Provisions	0.2	0.2
Tax liabilities	0.1	0.1
Other liabilities	5.0	2.7
Total	6.0	4.1

(34) Other liabilities

EUR m

	30.6.2015	31.12.2014
Deferred expenses	31.2	23.2
Accruals und other obligations	175.9	107.1
Total	207.1	130.4

(35) Subordinated capital

EUR m

	30.6.2015*	31.12.2014
Subordinated liabilities	1,972.0	1,155.2
Supplementary capital	0.2	0.2
Total	1,972.2	1,155.4

* The liabilities covered by the moratorium are still shown in the balance sheet subject to currency and interest. A possible creditor participation as well as the amount and time of repayment will be defined by the resolution authority (FMA) exercising its rights as sole decision maker pursuant to the BaSAG.

In the financial year 2014 Heta's liabilities towards third parties covered by the HaaSanG in the amount of EUR 0.8 billion (nominal value) were derecognised through profit and loss. On the basis of the decision by the Constitutional Court (VfGH) of 3 July 2015 which fully revoked the HaaSanG and the subsequent regulation (HaaSanV) on 30 June 2015 these liabilities were re-recognised through profit and loss. In the income statement the expenditures in connection with the re-recognition of these items are shown under "Result from the application of the HaaSanG".

(36) Hybrid capital

EUR m

	30.6.2015	31.12.2014
Hybrid capital	0.0	0.4
Total	0.0	0.4

Risk report

(37) Current portfolio development

During the first half of 2015 the total exposure (gross value of receivables before risk provisions) was reduced to EUR 18.4 billion (approx. a EUR 0.7 billion reduction). The non-performing loan portfolio (NPL) within Heta during the first six months continues to decline. During the first six months the total exposure of non-performing loans totaled approx. EUR 6.7 billion.

(38) Transformation from a commercial bank into a wind-down unit –Heta Implementation Program

To secure an orderly, active and best possible portfolio wind-down the former bank structures must be adapted to the new legal framework and a tailored organisational structure must be implemented (Target Operating model). The Heta Implementation Program aims to establish a stable, functioning and flexible control structure and infrastructure. It also aims to optimise the wind-down and sale capacity in order to guarantee a professional and smooth wind-down procedure.

(39) Exceptional events during the first half of 2015

Some extraordinary events occurred during the first half of 2015. These are presented under Note (1) Important events.

(40) Risk provisions

A follow-on valuation based on the gone-concern approach was conducted per 30 June 2015 to establish the risk provisions. This method, already applied in the Asset Quality Review, is described in detail in the Annual Financial Report as at 31 December 2014. The assumptions and parameters have not changed in comparison with the ones on 31 December 2014.

At the time of recording on 30 June 2015 the risk provisions totaled EUR -6.7 billion and showed a decline in the amount of EUR 0.2 billion in comparison with the provisions on 31 December 2014.

(41) Methods for establishing risk provisions

The same method as at year-end 2014 was used for calculating the portfolio risk provisions (PRPs) and the specific risk provisions for non-significant receivables (SRPci).

(42) Collateral monitoring

Group collateral monitoring in the responsibility of Group Case Operations (GCO) is based on the electronic registration of all securities. As the supervisory unit in the group, the GCO uses reports to control compliance with the required guidelines and time schedules for all security assessments. Controls include the prescribed monitoring activities by security category, the topicality of the ratings, the liquidity in the market, and the required internal valuation records.

Real estate securities represent 45% of the securities recognised as intrinsically valuable, and the remainder are warrants and guarantees (27.9%), liabilities (19.0%) and other securities (8,1%). For all commercial real estate with a market value above EUR 1.0 million individual valuations apply. For all real-estate-securities with a market value of less than EUR 1.0 million, a separate statistical tool is used. A group wide „collateral workflow“ process has been implemented guaranteeing a standardised process for ensuring that valuations are up to date.

(43) Operative risk and internal control system

In the first half of 2015 the focus in Operational Risk (OpRisk) was on the analysis of the activities carried out in the past for developing risk prevention methods and recording operative risks in individual subsidiary companies. Weaknesses and improvement potentials in connection with the subsidiary companies are identified and the existing processes are adjusted accordingly.

New OpRisk policies and manuals were rolled out groupwide and also implemented by the subsidiary companies.

In the first half of 2015 the internal control system was adjusted to the new processes of the wind-down unit to ensure compliance with the wind-down targets. A full year plan for 2015 for the internal control system was also drawn up. The new core processes are already being analysed and evaluated and control mechanisms are being implemented.

(44) Legal risks

Comments on the pending proceedings of Heta and its subsidiary companies are included in Note (51) Important proceedings. Potential losses from these proceedings can have major negative impacts on the liquidity situation of Heta.

(45) Tax risks in connection with tax reviews

The tax reviews carried out in Austria and in some group countries in recent years by the respective fiscal authorities are now largely concluded. Subsequent additional tax demands where the legal interpretation of the Heta Group coincides with that of the tax authority have largely been satisfied or appropriate provisions have been formed in the Interim Financial Report as at 30 June 2015. Heta has launched appeals against tax review results on which legal opinions diverge and provisions based on the likelihood of successful appeal are booked.

In connection with the sale of the Austrian subsidiary bank Hypo Group Alpe Adria AG (HGAA) the Heta Group has also assumed fiscal guarantees at terms and conditions customary for external customers.

The resulting amount of expected utilisation has been established by an expert and adequate provisions have been made in the Interim Consolidated Financial Statements as at 30 June 2015.

Supplementary information

(46) Contingent liabilities and other off-balance sheet liabilities

The following off-balance sheet liabilities existed on the balance sheet date:

EUR m

	30.6.2015	31.12.2014*
Contingent liabilities	169.8	220.5
from bills of exchange transferred for settlement	0.0	0.0
from credit guarantees	152.9	180.0
from letters of credit	0.0	18.5
from other guarantees	5.3	5.8
from other contingent liabilities	11.7	16.2
Other liabilities	250.9	365.5
from irrevocable credit commitments	167.3	290.3
from other liabilities	83.6	75.2
Total	420.7	585.9

*) Previous year's values have been adjusted due to errors.

(47) Loans and advances and financial liabilities designated at fair value

The use of the fair-value-option produces the following valuations in the individual balance sheet items:

EUR m

	30.6.2015	31.12.2014
Loans and advances to customers and credit institutions	275.9	288.6
Bonds and other fixed-interest securities	190.0	192.3
Shares and other non-fixed-interest securities	8.5	8.4
Total	474.4	489.2
Liabilities to credit institutions	175.6	198.0
Liabilities to customers	1.8	3.0
Liabilities evidenced by certificates	202.8	226.1
Subordinated capital	3.0	3.3
Hybrid capital	0.0	0.4
Total	383.1	430.9

(48) Fair value disclosures

The fair value is the price to be paid in a proper business transaction between market participants on the record date for the sale of a net asset or for a debt transfer. In using the market prices of comparative financial instruments as well as in defining the best market pursuant to IFRS 13.16, Heta's wind-down obligation was taken into consideration. Based on the origin of a fair value the following fair value hierarchy applies:

- Quoted prices in active markets (level I)

The fair value of financial instruments traded in active markets can best be assessed through quoted prices, provided these represent real market values/prices used in regular transactions. This particularly applies to publicly listed equity instruments, foreign capital instruments traded in the inter-bank market, and publicly traded derivatives.

- Value determined using observable parameters (level II)

If no price for individual financial instruments can be established in the stock market, the fair value must be determined on the basis of comparative financial instruments or through recognised measurement models with the help of observable prices or parameters. This category includes the majority of OTC derivatives and not publicly listed foreign capital instruments.

- Value determined using non-observable parameters (level III)

This category includes financial instruments for which no observable stock prices or prices exist. The fair value is therefore established using measurement models appropriate for the respective financial instrument. This model is based on assumptions and ratings by the managements subject to the price transparency and the complexity of the financial instrument.

The end of the reporting period is agreed as the deadline for the re-grouping between the different steps within the fair-value-hierarchy.

- Equity instruments

Equity instruments are shown in level I if prices are determined in an active market. If no market prices are available level III applies. Amortised cost is used for equity instruments if the fair value cannot be safely determined. Equity instruments assessed at purchase costs are depreciated if the book value is significantly higher than the market value or if the gap exists over a longer period.

- Derivatives

The fair value of derivatives that are not options is established by discounting the respective cash-flow. If this valuation technique is based on observable input factors, level II applies. For non-observable essential input factors level III applies. The fair value of structured financial products takes account of the type of embedded derivative using an assessment technique, and subject to the input factors leads to classification in levels II or III.

- Fixed-interest receivables and liabilities

Fixed-interest bearing receivables, liabilities and securities are assessed subject to the liquidity in the respective market. If liquid titles are assessed at market value, they are shown in level I. If no active market exists the fair value is established on the basis of risk premium curves. Classification depends on the proximity to the risk premium curve used. Level III applies if a significant non-observable risk premium is used. A price development based on either a lower frequency or from just one single source leads to classification in level III.

- Hedge Accounting

For hedge accounting Heta exclusively uses fair-value-hedges to secure the market value of financial instruments. Claims with a hedging relationship under IAS 39 are shown in the balance sheet by their hedged fair value, i.e. the book value plus the change in the market value for the hedged part of the claim. The main purpose of the hedging relationship is to minimise the market value risk from interest rate fluctuations.

Due to Heta's excessive indebtedness as at 31 December 2014, and the announcement by the company's owners that it will not provide any further funds, the company was no longer able to honour its respective claims due for payment. Taking into account the decision by the Austrian Financial Market Authority (FMA) of 1 March 2015 deferring the due date of all liabilities under BaSAG, as at 31 May 2015 liabilities in hedging relationships could no longer be considered as being in an efficient hedging relationship as defined by IAS 39 (hedge accounting). For this reason the hedging relationships for all of Heta's liabilities in the financial year 2014 were dissolved and the derivative operations are continued as so-called stand-alone-derivatives. The effects resulting from the dissolution of the hedging relationships, mainly the basic adjustments affected as of this date, are distributed over the contractual term of the underlying transactions.

Hedging relationships in connection with active underlying transactions (in particular securities and liabilities) were dissolved as at 31 December 2014, if the term to maturity of the underlying transaction was more than five years. The limitation of the term to maturity was in accordance with the period for the complete portfolio wind-down, i.e. up to 2020. Such derivatives are now shown as stand-alone-derivatives at the respective market value in the balance sheet.

48.1. Fair Value of financial instruments carried at fair value

48.1.1. MEASUREMENT TECHNIQUES USED FOR ESTABLISHING THE FAIR VALUES OF LEVEL II AND LEVEL III ITEMS

Recognised measurement models defined by IFRS 13 include the market-based approach, the cost-based approach, and the income-based approach. The market-based approach is based on identical or comparable assets and debts. Under the income-based approach the future payment flows or expenses or yield are discounted as at the record date. The fair value thus established reflects the current market expectations of future amounts. This particularly includes present value models as well as option price models used for assessing financial instruments or payment flows with option character. The cost-based approach is not applied.

No separate fair value assessments were undertaken for financial instruments with a short term to maturity for which the book value represents an adequate approximate value for the fair value to be established.

The values of level III items are partly established externally but are either based on a lesser frequency or on one single source. If possible the plausibility of the values is enhanced through repeated third party valuations.

The following assessment techniques are applied for items assessed internally on the basis of models:

- Present value of future cash flows

Positions on level II and III not traded in active markets but with known payment flow times and volumes are assessed at the present values of the future payment flows. A risk premium is taken into account for the discount. For level II instruments all input factors can be observed, whereas at level III some parameters cannot be directly observed.

- Option valuation models

The level III items in the balance sheet include payment flows of volumes coupled to various market variables such as swap-rates, stock market indices, or FX rates or of a non-determinable date. Recognised interest and option measurement models are used for assessing such payment flows calibrated daily with market data (prices, swaption prices, foreign currency exchange rates).

48.1.2. NON OBSERVABLE INPUT FACTORS FOR LEVEL-III-ITEMS

- Volatilities and correlations

Volatilities are important input parameters of all measurement models for option assessments. Recognised market data models are used for assessing volatilities. If models are associated with more than one market variable, correlations also need to be assessed and taken into account.

- Risk premiums

Credit risk premiums are a measure for assessing an issuer's default risk. They include information on the expected loss in the event of the issuer's default, and as such reflect the importance of the loss and default probability. For some issuers risk premiums can be observed directly on the market. If no single-name-CDS-curves exist for issuers the risk premiums must be assessed on the basis of the similarity with other issuers or on the basis of the issuer's nationality and sector. This applies to the Heta risk premium.

Heta's wind-down goals were considered under the AQR by adjusting the risk premium of the IFRS level-III-items. For this purpose a synthetic curve was used consisting of the country risk, the internal rating and a liquidity discount.

- Country risk

Some countries have an additional issuer risk factor which is also taken into account for the fair value assessment. A country risk premium calculated from the country CDS curve is applied for this purpose.

- Internal rating

The issuer default risk is determined by the group's internal rating scale.

- Liquidity discount

In a non-liquid market a liquidity discount is added to the discount curve to reflect Heta's wind-down goals.

- Loss severity (loss given default)

The loss severity can never be directly established prior to a company's default. The loss severity is assessed on the basis of historic data.

- Probability of default

The risk premiums and loss severity are used to assess default probabilities to be used for possible fair value adjustments. The bandwidths for non-observable input factors are as follows as at 30 June 2015:

financial instrument	input parameters	range
derivatives	LGD	40%
	PD	0.15% - 100%
securities and loans	credit spread	0 bp - 4,945 bp
country risk	credit spread	0 bp - 394 bp
internal rating	PD	0.00% - 25.00%
liquidity discount	credit spread	150 bp - 250 bp
loss severity	LGD	24% - 45%
derivatives and securities	volatility	15% - 156%

48.1.3. FAIR VALUE ADJUSTMENTS

- The valuation adjustments for the counterparty default risk (credit valuation adjustment, CVA) and for the own default risk (Debt valuation adjustment, DVA)

The credit valuation adjustment (CVA) and the debt valuation adjustment (DVA) are shown for all OTC derivative items. Calculation is based on a Monte-Carlo simulation of future replacement values (exposure) with the effects of CSA agreements (Credit Support Annex) considered for each path. This produces a distribution of the replacement values at any point-of-time in the future. For identifying the CVA the unconditional expectation values from the positive exposure paths are multiplied and discounted with the counterparty's marginal default risks. DVA assessment on the other hand uses the multiplication and discounting of the unconditional expectation values from the negative exposure paths with the bank's own marginal default risks.

For counterparties with a collaterals contract the CVA and the DVA must be calculated on portfolio level. The calculation considers contractual parameters such as minimum transfer amount, threshold, roundings and netting. The allocation of the portfolio-CVA to individual items uses the relative CVA approach. The portfolio CVA is distributed in proportion with the individual CVAs. The full CVA item is used for unsecured items. This item uses the CVA on the individual item level. Default risks are established using a waterfall principle. Default risks are first deducted from CDS curves. If no single name curves exist synthetic curves are used consisting of country-specific curves and an internal rating.

- OIS discounting

Heta includes basis spread impacts through the use of different interest curves in its derivative assessment. Diverse interest curves (multi curve framework) are used to calculate forward rates and discount factors. Overnight-indexed-swap rates are used for discounting as a result of the current market standards for the assessment of guaranteed OTC derivatives. A cross-currency-basis-spread is used for foreign currency swaps with collateral and cashflows in different currencies.

48.1.4. SENSITIVITIES IN LEVEL-III-POSITIONS

The value assessment of financial instruments allocated to level III is based on non-observable input factors. The value attributed to these non-observable factors can be deducted from a bandwidth of alternatives and is subject to assumptions and management estimates. The factor values are chosen within the possible bandwidth as at the 30 June 2015 record date subject to price transparency and complexity of the financial instrument as to best reflect the market conditions. To establish sensitivities within the measurement of the fair value against changes in the non-observable input factors the factors were moved to the ends of these bandwidths. The credit spread was identified as an essential non-observable input factor in assessing the level-III items.

The increase and reduction of the credit spread produced the following effects on the results as at 30 June 2015:

EUR m

30.6.2015	Fair value - drawn all unobservable input parameters to the lowest end of the range	Fair value - drawn all unobservable input parameters to the highest end of the range
Assets		
Financial investments – designated at fair value through profit or loss	-18.5	16.4
Total	-18.5	16.4
Liabilities		
Liabilities to credit institutions	-2.1	2.1
Liabilities to customers	-0.1	0.1
Liabilities evidenced by certificates	-2.0	2.0
Subordinated capital	-0.0	0.0
Total	-4.3	4.2

The increase and reduction of the credit spread produced the following effects on the results as at 31 December 2014:

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 highest end of the range
Assets		
Financial investments – designated at fair value through profit or loss	-20.2	18.0
Total	-20.2	18.0
Liabilities		
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
Total	-7.6	6.8

48.1.5. FAIR VALUE LEVEL

The following table shows the allocation of the financial instruments entered at fair value to the respective level pursuant to the fair-value hierarchy. See Note (48) Fair value .

EUR m

30.6.2015	Level I - from active market	Level II - based on market assumptions	Level III - based on non- market assumptions	Total
Assets				
Derivative financial instruments	0.0	690.6	64.6	755.2
Financial investments – designated at fair value through profit or loss	0.0	50.7	423.7	474.4
Financial investments – available for sale	499.7	75.0	99.4	674.1
Total	499.7	816.3	587.6	1,903.7
Liabilities				
Liabilities to credit institutions	0.0	0.0	175.6	175.6
Liabilities to customers	0.0	0.0	1.8	1.8
Liabilities evidenced by certificates	0.0	90.4	112.4	202.8
Derivative financial instruments	0.0	541.0	32.0	572.9
Subordinated capital	0.0	0.0	3.0	3.0
Hybrid capital	0.0	0.0	0.0	0.0
Total	0.0	631.4	324.7	956.1

EUR m

31.12.2014	Level I - from active market	Level II - based on market assumptions	Level III - based on non- market assumptions	Total
Assets				
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
Total	685.7	1,025.4	840.6	2,551.6
Liabilities				
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
Total	0.4	821.3	399.0	1,220.7

The transition of the financial instruments of category level III is shown in the following table:

EUR m

30.6.2015	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 (-)
Assets									
Trading assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Derivative financial instruments	79.6	-15.1	0.0	0.0	0.0	0.0	0.0	0.0	64.6
Financial investments – designated at fair value through profit or loss	487.4	-59.1	0.0	0.0	-1.5	0.0	0.0	-3.2	423.7
Financial investments – available for sale	273.5	0.3	0.2	0.0	-184.9	18.1	0.0	-7.8	99.4
Total	840.6	-73.9	0.2	0.0	-186.4	18.1	0.0	-11.0	587.6
Liabilities									
Liabilities to credit institutions	198.0	-22.5	0.0	0.0	0.0	0.0	0.0	0.0	175.6
Liabilities to customers	3.0	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	1.8
Liabilities evidenced by certificates	148.5	-36.1	0.0	0.0	0.0	0.0	0.0	0.0	112.4
Derivative financial instruments	46.3	-14.2	0.0	0.0	0.0	0.0	0.0	-0.1	32.0
Subordinated capital	3.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	3.0
Total	399.1	-74.3	0.0	0.0	0.0	0.0	0.0	-0.1	324.7

As at 30 June 2015 financial assets – available for sale in the amount of EUR 6.8 million were restructured from level I to level II as well as EUR 18.1 million from level II to level III as the availability of third party market price quotations had declined.

The cashflows deferred by virtue of the decision by the resolution authority of 1 March 2015 were also considered at the assessment of the fair value. The „Total gains/losses“ column includes both yield and expenditures from financial instruments on the books on 30 June 2015 as well as from financial instruments disposed of during the financial year 2015. The gains and losses for derivative financial instruments are shown in the result from financial assets – designated at fair value through profit and loss, in the result from hedge accounting as well as in the result from trading, the remaining items are shown in the profit and loss account and the equity in line with their category.

The financial instruments in the books as at 30 June 2015 produce a loss of EUR -7.6million (1 January to 30 June 2014 adjusted value: EUR 204.4 million in profit) shown in the result from financial assets – designated at fair value through profit and loss, the result from hedge accounting as well as the result from trading.

As at 31 December 2014 the transition of the assets and liabilities shown in level III was as follows:

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 (-)
Assets									
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
Total	796.6	-64.4	2.4	275.6	-147.6	3.0	0.0	-25.0	840.6
Liabilities									
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
Total	623.8	-204.8	0.0	0.0	-20.0	0.0	0.0	0.1	399.1

48.2. Fair value of financial instruments and assets not shown at fair value in the balance sheet

The following table contrasts the book values of the financial instruments and assets not shown at fair value in the balance sheet with the respective fair values:

EUR m

30.6.2015	Carrying amount	Fair value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non-market assumptions
Assets						
Loans and advances to credit institutions	3,889.2	3,889.0	-0.2	117.5	0.0	3,771.5
Loans and advances to customers	2,463.7	2,266.3	-197.5	0.0	0.0	2,266.3
Other financial investments – investment properties	791.5	815.6	24.1	0.0	0.0	815.6
Assets classified as held for sale	83.5	83.5	0.0	0.0	0.0	83.5
Other receivables	62.1	66.1	4.0	0.0	0.0	66.1
Total	7,290.1	7,120.5	-169.6	117.5	0.0	7,003.0
Liabilities						
Liabilities to credit institutions	3,342.2	3,283.8	58.3	0.0	0.0	3,283.8
Liabilities to customers	1,522.3	994.3	528.1	0.0	0.0	994.3
Liabilities evidenced by certificates	8,648.3	5,402.8	3,245.5	0.0	0.0	5,402.8
Subordinated capital	1,969.2	917.1	1,052.1	0.0	0.0	917.1
Other liabilities	24.3	24.3	0.0	0.0	0.0	24.3
Total	15,506.2	10,622.2	4,884.0	0.0	0.0	10,622.2

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
Assets						
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*	789.6	799.7	10.1	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
Total	6,806.3	6,637.8	-168.5	0.0	0.0	6,637.8
Liabilities						
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
Total	13,912.3	11,852.5	2,059.8	0.1	0.0	11,852.5

*amount excluding prepayment

The fair value of receivables and liabilities is established on the basis of the present value of future payment flows. The payment flows deferred by virtue of the resolution authority's decision of 1 March 2015 have also been considered in the fair value assessment.

The amount of the risk premiums for receivables depends on the debtor's internal or external rating, a country risk premium, and a liquidity discount in illiquid markets. For liabilities the own credit spread is also considered in the discount factor. The inherent model risk and the illiquidity of the items were additionally considered subject to adjustment factors.

The fair value of investment properties is determined through market based estimates generally calculated by professional experts. If no market estimate exists the fair value is estimated in an earning capacity method. The fair value of assets held for sale is established on the basis of existing purchase price offers.

(49) Related parties disclosures

The business operations with related companies and related persons at the respective record date are shown in the balance sheet as follows:

EUR m

	Parent	Affiliated companies	Joint Ventures	Key management personnel	Hypo Alpe-Adria-Bank S.p.A., Udine	HYP0 GROUP ALPE ADRIA
30.6.2015						
Assets	86.5	35.9	37.1	0.0	597.5	1,112.3
Loans and advances to credit institutions	0.0	0.0	0.0	0.0	1,293.8	1,102.6
Loans and advances to customers	86.5	109.2	44.4	0.0	0.0	0.1
Risk provisions on loans and advances	0.0	-84.8	-7.3	0.0	-697.0	0.0
Other assets	0.0	11.5	0.0	0.0	0.7	9.6
Liabilities	224.0	0.5	0.7	0.0	0.0	52.1
Liabilities to customers	0.0	0.4	0.7	0.0	0.0	0.0
Provisions	193.4	0.0	0.0	0.0	0.0	0.0
Other financial liabilities	30.5	0.0	0.0	0.0	0.0	0.0
Subordinated capital	0.0	0.0	0.0	0.0	0.0	2.0
Liabilities arising from guarantees	0.0	0.0	0.0	0.0	0.2	247.3
Guarantees issued by the group for related party	0.0	0.0	0.0	0.0	0.2	119.4
Guarantees received by the group from related party	0.0	0.0	0.0	0.0	0.0	127.9

EUR m

	Parent	Affiliated companies	Joint Ventures	Key management personnel	Hypo Alpe-Adria-Bank S.p.A., Udine	HYP0 GROUP ALPE ADRIA
as at 31.12.2014						
Assets	62.3	45.2	38.0	0.0	414.0	984.5
Loans and advances to credit institutions	0.0	0.0	0.0	0.0	1,231.3	984.5
Loans and advances to customers	62.3	104.3	45.3	0.0	0.0	0.0
Risk provisions on loans and advances	0.0	-70.6	-7.3	0.0	-817.2	0.0
Other assets	0.0	11.5	0.0	0.0	0.0	0.0
Liabilities	31.3	0.4	0.8	0.3	0.0	97.3
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
Liabilities arising from guarantees	0.0	0.0	0.0	0.0	0.0	158.4
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

Key management personnel are defined as the Executive Board members and managing directors of the subsidiary companies as well as the first and second levels of management of Heta Asset Resolution AG. Relationships with other related parties are included as well.

The relationships with companies included at equity are shown in the table under affiliated companies. In the financial year 2015 expenditures in the amount of EUR -0.5 million (2014: EUR -38.1 million) for bad or doubtful receivables towards related companies was recorded (non consolidated company participations owned by Heta).

The conditions for refinancing lines to former group companies, which continue to be treated as related parties, are between 33 and 125 basis points surcharge on the respective benchmark interest rate.

A number of business and guarantee relationships exist with the Republic of Austria (sole owner) in its capacity as owner of Heta as well as of HGAA and of HBI. At the balance sheet date business relations of a customary extent exist with companies that are publicly owned.

In addition to the standard dues from ordinary business activities payable to the Republic of Austria (which as sole owner has a controlling position over the company) and legal entities directly attributable to the Republic of Austria, the following expenditures have been recorded:

EUR m

	1.1. - 30.6.2015	1.1. - 31.12.2014
Fees for Government Guaranteed subordinated bonds	-26.4	-53.3
Fees for a hedging instrument in connection with SEE-sale	-147.5	-2.0
Fees for Guarantees	-9.9	-17.6
Profit-sharing for sale SEE network	0.0	-44.0
Total	-183.8	-116.9

The guarantee fees regarding the government guaranteed subordinated bond as well as the loan guarantees are subject to the moratorium imposed by the financial market authority have ceased to be paid since 1 March 2015; this has no impact on the recognition as expenditures and the accrual of the fees to be paid. The guarantee fee for the guarantees assumed by the Republic of Austria in connection with the sale of the SEE network were fully recognised at fair value through profit and loss as at 30 June 2015 in the amount of the future payments (until 2022): payments are made as from August 2015. The amount of the share in the proceeds recognised at fair value through profit and loss in 2014 in connection with the sale of the SEE network to FIMBAG, totalling EUR 44.0 million, was paid to FIMBAG in July 2015.

(50) Guarantee by the State of Carinthia

The statutory liability of the state of Carinthia takes the form of statutory deficiency guarantee pursuant to § 1356 General Civil Code (ABGB) covering all Heta liabilities entered into before 3 April 2003 as well as all liabilities originating during the period from 3 April 2003 to 1 April 2007 with a term to maturity not beyond 30 September 2017. No state guarantees exist for liabilities originating after 1 April 2007. The liabilities are governed by the Kärntner Landesholding-law (K-LHG).

The Supervising Commissioner (Aufsichtskommissär) of the Carinthian state holding continues to enjoy the required access to the respective information from the company.

As shown under Note (1) Important events, certain Heta liabilities covered by the HaaSanG as well as the Austrian Financial Market Authority (FMA) regulation (HaaSanV) of 7 August 2014 were derecognized through profit and loss as the liabilities were terminated. This concerned subordinated liabilities at EUR 0.8 billion (nominal value) covered by guarantees of the state of Carinthia. Following the decision by the Constitutional Court of Austria these were re-recognized through profit and loss as at 30 June 2015.

Taking into account the decision by the Constitutional Court of 3 July 2015 at the record date of 30 June 2015 the guarantee volumes of the state of Carinthia are as follows:

EUR m

	30.6.2015	31.12.2014
Heta Asset Resolution AG	11,141.4	10,168.7
Total	11,141.4	10,168.7

(51) Important proceedings

51.1. EU State aid investigation

The EU state aid investigation into the former Hypo Alpe-Adria-Bank International AG was concluded by the decision of the Commission of the European Union (EU Commission) of 3 September 2013.

The requested sale of the banking network in South Eastern Europe (SEE network, HGAA) by EU Commission followed on 17 July 2015 (closing) and hence within the term defined by the EU Commission for the closing of a sale (deadline defined before the end of the year 2015). The state aid aspects of the transaction have been approved by the EU Commission before the closing.

Heta's business purpose continues to be the wind-down of its assets with the restrictions provided in the Commission's decision of September 2013 still in place. As far as the wind-down portion is concerned, therefore, in addition to a prohibition on new transactions and the principle of a capital and value-friendly wind-down, requirements on the restructuring and business adjustment of individual commitments, as well as requirements regarding the sale of assets, apply in particular. Compli-

ance with the provisions of the Commission's decision is regularly monitored by an independent Monitoring Trustee and separately reported on to the European Commission in quarterly reports.

51.2. Ruling by the Austrian Constitutional Court on HaaSanG

The Hypo Alpe Adria Restructuring Act (HaaSanG) entered into force on 1 August 2014 and defined the Austrian Financial Market Authority (FMA) as competent authority for the implementation of the restructuring measures provided by the act. Upon the publication of the Austrian Financial Market Authority's (FMA) regulation (HaaSanV) on 7 August 2014 Heta's liabilities as listed in the Austrian Financial Market Authority (FMA) regulation have been terminated or were deferred by law, i.e. any repayments, interest or other side fees owed by the company – if applicable – were automatically reduced to zero. Payment day for certain “disputed liabilities” pursuant to HaaSanG was deferred until at least 30 June 2019. Liabilities of a total of approx. EUR 1.6 billion expired of which EUR 0.8 billion consisted of subordinate liabilities held by third-party investors and EUR 0.8 billion of liabilities towards Bayerische Landesbank (BayernLB).

After the Constitutional Court of Austria on 3 July 2015 (published on 28 July 2015) completely revoked the HaaSanG and the HaaSanV based on this legal foundation without providing an appeals deadline, the liabilities qualified as expired and effectively de-recognized at fair value through profit and loss in 2014 were again re-entered into the balance sheet, and the provisions of EUR 0.9 billion created in 2014 in connection with the first-instance ruling by the Regional Court Munich I (BayernLB Eigenkapital Gesetz (EKEG proceedings) of 8 May 2015 have been released through P&L. All in all as of 30 June 2015 the negative effect on Heta's income statement and thus also on its equity totalled approx. EUR -0.8 billion (nominal value) plus interest claims with respect to the subordinated creditors.

As of 28 August 2015 Heta has to date been served 34 civil actions in which creditors challenge the constitutionality of the HaaSanG jointly with the HaaSanV and demand the validity of the claims to be confirmed and payment to be made. The object of all civil suits pending at the record date is the question of the constitutional conformity of the respective norms. The Constitutional Court's decision revoking the law and the respective regulation issued will restrict the subject matter of the proceedings to the applicability of the payment moratorium in law for Heta since 1 March 2015 for the respective liabilities.

Despite the decision of the Constitutional Court at present no payments are being made towards the liabilities originally established by the HaaSanG, as by now they are subject to the payment moratorium since imposed by the resolution authority. The interest claims, however, continue to be carried forward and are shown as liabilities. The BaSAG and the payment moratorium imposed on its basis by the Austrian Financial Market Authority (FMA) did not constitute the subject matter of the Constitutional Court's decision. In one pending referral request the referring court also raised the unconstitutionality of § 162 para 6 BaSAG. Heta immediately contacted the resolution authority to discuss the effects on the pending civil proceedings and further steps. It is expected that the civil proceedings will now be continued at the initiative of the claimants unless an amicable agreement is reached on the interruption of these proceedings until a decision is reached on a possible wind-down measure by the Austrian Financial Market Authority (FMA). Another option would be an interruption of the proceedings on a request by the resolution authority based on § 59 para 1 BaSAG.

51.3. Proceedings in connection with Bayerische Landesbank

Bayerische Landesbank (BayernLB), the former majority shareholder of Hypo Alpe-Adria-Bank International AG (now Heta), at the end of 2012 brought an action before the Regional Court Munich I regarding the loans which from the perspective of the then Hypo Alpe Adria are covered by the Austrian EKEG, and for which therefore neither interest payments nor repayments must be made, demanding a declaratory judgment which later was converted to a suit for performance. The action was comprehensively disputed by the then Hypo Alpe-Adria Bank International AG and challenged the order requested in its entirety, pleading repayments in the course of the proceedings through five counterclaims of a total of approx. EUR 4.8 billion.

The Regional Court Munich I in an oral session on 8 May 2015 orally announced the judgment of first instance. The written ruling was served on Heta's lawyers in charge of the proceedings on 2 June 2015. In the ruling, which is not yet legally binding, the court for the most part confirmed the order sought by BayernLB, ordering Heta to pay an amount of (i) EUR 1.03 billion plus interest thereon in the amount of EUR 17.1 million as well as interest in the amount of 5 percent above the respective base rate (but at least 5% p.a. since 1 January 2014) and since 21 June 2014 (ii) CHF 1.29 billion plus interest thereon in the amount of CHF 15.2 million as well as interest in the amount of 5 percent above the respective base rate (but at least 5% p.a. since 1 January 2014) and (iii) EUR 1.4 million plus interest, and fully rejected Heta's counterclaims (repayment claims). The court pleaded non competence only with respect to one CHF 300 million bond. The court also ascertained that all damages caused to BayernLB through the non-payment or late payment of the loans must be reimbursed. In order to obtain an enforceable decision with regard to damages claims BayernLB would have to bring a suit for performance. The declaratory judgment issued with the ruling of the Munich regional court, however, restricts the court's evaluation scope in the event of a subsequent performance suit to the question of whether the damages claimed are damages within the meaning of the court's finding and whether the amount has been correctly calculated.

The reasons given by the court basically stated that Heta had failed to provide proof of the “crisis” as defined by the EKEG; the court rejected both the application of the HaaSanG and measures and claims based thereon pursuant to German law, and

also the application of the decision by the Austrian Financial Market Authority (FMA) of 1 March 2015 issued on the basis of the BaSAG, by which in particular the claims of BayernLB constituting the subject matter of the suit were made subject to a moratorium up to 31 May 2016.

As a consequence of the ruling of first instance provisions of an approximate amount of EUR 0.8 billion (nominal value) had been formed in the Consolidated Annual Financial Report as at 31 December 2014 for the liabilities that had expired pursuant to the HaaSanG. Meanwhile the Constitutional Court of Austria has revoked the HaaSanG and the liabilities have again been re-recognized at fair value through profit and loss. The provisions made have been released accordingly.

An appeal has been submitted to the Higher Regional Court of Munich on 19 June 2015 in order to meet the deadline. In agreement with BayernLB the deadline for submitting the grounds of appeal has been extended to 19 November 2015 – also as a consequence of the conclusion of a Memorandum of Understanding (MoU) signed in the meantime between the Republic of Austria and the Free State of Bavaria.

Under German law the remedy of the appeal has no suspensive effect. BayernLB, subject to providing the guarantees required under German procedural law and the ruling of the Regional Court Munich I, can proceed with executing Heta's net assets by virtue of the ruling. Heta would then have to take legal remedies against the execution on its assets, making reference to the moratorium pursuant to BaSAG. Within the field of application of BaSAG (§ 59 (2) BaSAG), the resolution authority could apply for the suspension of court measures).

51.4. Ruling by the Regional Court Munich I on equity substitution loans of Bayerische Landesbank

Bayerische Landesbank (BayernLB), the former majority shareholder of Hypo Alpe-Adria-Bank International AG (now Heta), at the end of 2012 brought an action before the Regional Court Munich I regarding the loans which according to the then Hypo Alpe Adria are covered by the Austrian EKEG [Equity Substitution Act] and for which therefore neither interest payments nor repayments must be made, demanding a declaratory judgment which later was converted to a suit for performance. The then Hypo Alpe-Adria Bank International AG brought a comprehensive response and challenged the requested order in its entirety, pleading repayments in the course of the proceedings through five counterclaims of a total of approx. EUR 4.8 billion.

The Regional Court Munich I in an oral session on 8 May 2015 orally announced the judgment of first instance. The written ruling was served on Heta's lawyers in charge of the proceedings on 2 June 2015. In the ruling, which is not yet legally binding, the court for the most part confirmed the order sought by BayernLB, ordering Heta to pay an amount of (i) EUR 1.03 billion plus interest thereon in the amount of EUR 17.1 million as well as interest in the amount of 5 percent above the respective base rate (but at least 5% p.a. since 1 January 2014) and since 21 June 2014 (ii) CHF 1.29 billion plus interest thereon in the amount of CHF 15.2 million as well as interest in the amount of 5 percent above the respective base rate (but at least 5% p.a. since 1 January 2014) and (iii) EUR 1.4 million plus interest, and fully rejected Heta's counterclaims (repayment claims). The court pleaded non competence only with respect to one CHF 300 million bond. The court also found that all damages caused to BayernLB through the non-payment or late payment of the loans must be reimbursed. In order to obtain an enforceable decision with regard to damages claims BayernLB would have to bring a suit for performance. The declaratory judgment issued with the ruling of the Munich regional court, however, restricts the court's evaluation scope, in the event of a subsequent performance suit, to the question of whether the damages claimed are damages within the meaning of the court's finding and whether the amount has been correctly calculated.

The reasons given by the court basically stated that Heta had failed to provide proof of the "crisis" as defined by the EKEG; the court rejected both the application of the HaaSanG and measures and claims based thereon pursuant to German law, and also the application of the decision by the Austrian Financial Market Authority (FMA) of 1 March 2015 issued on the basis of the BaSAG, by which in particular the claims of BayernLB constituting the subject matter of the suit were made subject to a moratorium up to 31 May 2016.

As a consequence of the ruling of first instance provisions of an approximate amount of EUR 0.9 billion (nominal value) had been formed in the Consolidated Annual Financial Report as at 31 December 2014 for the liabilities that had expired pursuant to the HaaSanG. Meanwhile the Constitutional Court of Austria has revoked the HaaSanG and the liabilities have again been re-recognized at fair value through profit and loss. The provisions made have accordingly been released.

An appeal has been submitted to the Higher Regional Court of Munich on 19 June 2015 in order to meet the deadline. In agreement with BayernLB the deadline for submitting the grounds of appeal has been extended to 19 November 2015 – also as a consequence of the conclusion of a Memorandum of Understanding (MoU) signed in the meantime between the Republic of Austria and the Free State of Bavaria.

Under German law the remedy of the appeal has no suspensive effect. BayernLB, subject to providing the guarantees required under German procedural law and the ruling of the Regional Court Munich I, can proceed with executing Heta's net assets by virtue of the ruling. Heta would then have to take legal remedies against the execution on its assets, making reference to the moratorium pursuant to BaSAG. Within the field of application of BaSAG (§ 59 para 2 BaSAG), the resolution authority could apply for the suspension of court measures).

51.5. Proceedings in connection with the moratorium imposed in connection with the BaSAG

As at 28 of August 2015 Heta was served with four actions brought by investors in Germany for payment of bonds not paid out on the original payment day due to the moratorium imposed on 1 March 2015. As is known from the media further lawsuits have already been brought before German courts or will be brought in the future.

In addition Heta was also notified by the state of Carinthia and the Kärntner Landesholding (KLH) of a dispute in connection with two actions filed by an investor against the state of Carinthia and the Kärntner Landesholding (KLH) in connection with the state guarantee related to the bonds affected by the moratorium, which have since been closed. The decisions are expected shortly.

In the proceedings regarding the Austrian Equity Substitution Act (EKEG) between Heta and BayernLB, the court also failed to recognize in Germany the latest measures taken by the Austrian legislator and the supervisory authorities in connection with the Heta wind-down and did not take into account the moratorium imposed by the decision of the resolution authority pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) mainly due to formal arguments. For further details please refer to Note (51.3) Ruling by the Constitutional Court of Austria concerning the HaaSanG.

The Federal Act on the Recovery and Resolution of Banks (BaSAG) and the payment moratorium issued by virtue of a decision by the Austrian Financial Market Authority (FMA) was not the subject matter of the decision by the Austrian Constitutional Court. In a submission request still pending before the Austrian Constitutional Court the submitting court, however, also raised the matter of the unconstitutionality of § 162 para 6 of the Federal Act on the Recovery and Resolution of Banks (BaSAG). No decision by the Constitutional Court is as yet available on this request.

51.6. Other proceedings

51.6.1. PROCEEDINGS IN CONNECTION WITH THE REPUBLIC OF AUSTRIA AND BAYERNLB

In a claim for performance brought before the Commercial Court of Vienna shortly before the end of 2014, the Republic of Austria, represented by the Austrian Attorney General's Office, requested the adjustment of the share purchase agreement (so-called emergency nationalization agreement) and the underlying term sheets concluded between the Republic of Austria and Bayerische Landesbank (BayernLB). The principal claim for relief is for the payment of an amount of approximately EUR 3.5 billion by BayernLB to the Republic of Austria. In addition the revocation of certain stipulations of the share purchase agreement and the term sheets underlying the share purchase agreement, particularly the provision regulating a guarantee obligation by the Republic of Austria towards BayernLB for Heta refinancing lines, is also requested. In addition to the principal claim a series of alternative claims are also made in the event that the court fails to approve the principal claim, including the annulment of the emergency nationalisation agreement.

BayernLB is the first defendant while Heta is the second defendant. The main reason provided for the claim is that BayernLB had deceived the Republic of Austria with respect to the true capital requirements of the former Hypo Alpe-Adria-Bank International AG at the time of the emergency nationalisation. In principle none of the requests is directed specifically against Heta. The alternative claim for revocation of the share purchase agreement would have negative effects on Heta as they would also at the same time retroactively revoke the capital- and liquidity measures taken at the time by BayernLB for the benefit of the then Hypo Alpe-Adria-Bank International AG.

The action was served on Heta on 5 January 2015. The statement of defense was submitted in time on 2 February 2015. This proceeding again is part of the intended general settlement between the Republic of Austria and the Free State of Bavaria and could be terminated with each party paying its own legal costs.

51.6.2. PROCEEDINGS IN CONNECTION WITH CREDIT CASES AND PARTICIPATIONS

51.6.2.1. Alpe Adria Privatbank Liechtenstein in Liquidation

Since the end of 2012 intensive forensic examinations have been going at the group company Alpe Adria Privatbank Liechtenstein in liquidation (AAP). In cooperation with the competent authorities in Liechtenstein and Austria, suspicions and facts with connections to Liechtenstein are being assessed to allow the verification and pursuit of any further claims for damages for Heta. The respectively required interface between Heta and AAP in Liquidation was set up in cooperation with the Liechtenstein Financial Market Authority and the liquidator by mid-2013.

These investigations have so far produced more than 70 reported suspicions submitted to the FIU/General Prosecutor's Office Liechtenstein from where the facts related to Austria are forwarded to the local authorities. The assessment of the cases in Liechtenstein in connection with an analysis of the past was also continued in 2015. Plans exist to complete the company's liquidation by the end of 2015.

51.6.2.2. Anadi Financial Holdings arbitration suit

On 30 June 2015 Heta was served an arbitration suit by Anadi Financial Holdings Pte. Ltd, the purchaser of the former Hypo Alpe-Adria-Bank AG, Klagenfurt, now Austrian Anadi Bank AG. It claims damages of up to EUR 100 million due to various presumably false statements and insufficient disclosure by Heta and its representatives regarding the object of the sale and

the liabilities/duties connected with the acquisition of the company, in particular the guarantees towards the Pfandbriefstelle. In the purchase agreement concluded between Heta and the Anadi Financial Holdings Pte. Ltd for the sale of the shares in the then Hypo Alpe-Adria-Bank AG the competence of the International Arbitral Centre established at the Chamber of Commerce of Vienna according to the Vienna Rules was agreed. On 13 August 2015 Heta submitted the respective counterclaim fully rejecting the claimant's claims and nominating its arbitrator. The arbitrator nominated by Heta and the arbitrator nominated by Anadia Financial Holdings must then agree on a third arbitrator who acts as chairman in the case before the arbitration can start. If no agreement can be reached, the chairman will be appointed by the Arbitral Centre. The arbitration proceedings are not open to the public.

51.6.2.3. Actions brought for loans in foreign currencies and variable interest clauses

In Serbia, Croatia, Bosnia and Herzegovina and Montenegro bank customers and bodies representing bank customers initiated claims against (former) group companies of the then Hypo Alpe-Adria-Bank International AG. They allege that rules in certain loan agreements regarding an increase of interest rates do not comply with the law and should therefore be declared void and that interest rate adjustments are not in line with the terms of the contract. In some cases it is also claimed that the contract clause providing for a coupling with the CHF reference rate should be amended to the effect that the EUR reference rate should be used instead. In Croatia the local Heta company was also served an action and some complaints as well as inquiries on CHF and/or the adjustment of interest rates.

The current state of the proceedings is highly diverse in the respective countries – mainly Croatia, Bosnia and Herzegovina, Serbia and Montenegro – regarding the number and the progress of the individual proceedings. In some countries – such as Croatia and Montenegro class actions and lawsuits were filed by interest groups against former group companies, in other countries – e.g. Serbia, a class action of this kind against the former Serbian subsidiary bank has been rejected as inadmissible. The situation in Bosnia and Herzegovina (federation) and in the Republika Srpska is characterised by a large number of individual claims. The individual national legislators and national supervisory authorities have also taken up this topic.

The new consumer protection act that came into force in Croatia as from 1 January 2014 had effects on the assessment of consumer loans defining in particular criteria to be observed in the setting of interest rates and methods for calculating maximum interest rates. In Serbia the national bank issued recommendations to be implemented by the banks, which serve as a basis for granting certain reliefs to the affected borrowers.

The leasing companies which are still part of Heta group and the local wind-down units in the above mentioned countries are also partly affected by the developments mentioned above, mainly because they took over loan agreements from the respective former subsidiary banks under the so-called „brush“ transactions implemented for streamlining the portfolio of the former subsidiary banks.

In addition the leasing companies also have a separate portfolio of leasing contracts with variable interest adjustment clauses.

51.6.2.4. Other proceedings

At the end of 2010, a borrower brought an action against the former subsidiary bank Hypo Alpe-Adria-Bank d.d., Zagreb (HBC) and Heta. The action was duly served on Heta only in November 2012. The plaintiff states that the project related to the loan transaction, the funding of a hotel in Croatia, should have received further funding/financing sufficient for its completion, beyond the credit lines approved. The plaintiff's claims are aimed both at compensation for damages as well as lost earnings; the value in dispute totals approximately EUR 130 million. Heta assumes that the action is completely unfounded due to the prior infringement of the contract at the borrower's fault, i.e. the improper use of funds which led to the termination of the credit lines. The statement of defense was submitted in time. The attempt to acquire the Heta-pledged shares in two companies holding the majority in the plaintiff company or to acquire direct shares in the plaintiff company by way of an execution has already failed three times in a row due to different remedies and other measures taken by the plaintiff against Heta.

Since the 1st quarter of 2013 a claim for damages brought by a Cypriot company against the group company Heta Asset Resolution d.o.o. Beograd in the amount of approx. EUR 22.5 million has been pending before an arbitration court in Belgrade. The claim centres on the non-compliance with contractual duties from a shareholder agreement concluded between the parties regarding a company agreement of a Serbian special-purpose company. The Cypriot company claims that the business purpose of this special-purpose company – i.e. the construction of a commercial property in Serbia, the funding of the construction of the property plus the subsequent sale of the property, could not be achieved due to many years of delay in the fulfilment of obligations. At the beginning of October 2014 the court proposed to the contracting parties to start negotiations for an (non-prejudicial) amicable settlement. Since the amicable settlement negotiations finally failed, an arbitration verdict was issued on 30 January 2015 imposing a damages payment in the amount of EUR 2.74 million on the group company. An action for a decree of annulment of the arbitration verdict and a demand for a temporary injunction were brought before the Commercial Court of Belgrade on 27 February 2015. Based on the arbitration award, execution proceedings were initiated under which Heta funds were transferred into the claimant's bank account. This demand for a ban on the transfer of funds

abroad was approved in the second instance, but the decision was revoked following an appeal brought by the claimant and was referred back to the first instance for a new decision.

In a legal dispute between former minority shareholders of Slavenska Banka d.d., Osijek which was taken over by the then Hypo Alpe-Adria-Bank International AG at the end of the 1990s and was subsequently merged with Hypo Alpe-Adria-Bank d.d., Zagreb and the former company, the Supreme Court of Croatia in March 2014 confirmed the appeal by six minority shareholders. The proceedings centre on the question of the legal admissibility of the price gap between the price paid by the then Hypo Alpe-Adria-Bank International AG to these minority shareholders and the price paid to the Republic of Croatia for its shares. The judgments of the previous instances were revoked and referred back to the court of first instance for a new decision. The respective proceedings have in some cases been pending for more than ten years. At the time of the deal the price gap between the purchase price paid to the minority shareholders and the price paid to the Republic of Croatia was legally admissible. In the meantime, however, this law has been declared unconstitutional. After a first preparatory session in June 2014 a hearing followed in October 2014 with instructions for the plaintiffs to submit further documents. Heta assumes that the claims of the minority shareholders are already statute-barred except for the claims of those shareholders who had their appeals upheld. If the court agrees with the six plaintiffs Heta would have to pay the price gap plus interest of approx. EUR 1.5 million.

A Croatian non-governmental organisation (NGO) takes the view that a loan agreement concluded between the former Hypo Alpe-Adria-Bank International AG and a Croatian company is null and void and that rights of lien registered as collateral for monies need to be cancelled. The absence of a license of the former Hypo Alpe-Adria-Bank International AG for carrying out banking operations in Croatia is given as reason for the claim of approximately EUR 6 million. The claim filed in Croatia has now also been formally served. Heta has obtained an external legal opinion on the claim which confirms the contrary. A statement of defense has been submitted in time. As insolvency proceedings have in the meantime been initiated against the Croatian company, the matter is suspended until an insolvency administrator is appointed. Heta has been informed that at least one further action by this non-governmental organisation is to be served.

Three Croatian companies filed a claim against Heta and Hypo Alpe-Adria-Bank d.d. Zagreb (HBC), 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 HBC 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.

A Croatian company in 2006 signed a loan agreement with Heta regarding the financing of a real estate project. At the end of 2014 the company sued Heta stating that they had been deceived by Heta as well as HBC about other fundings earlier promised by Heta and HBC. For this reason the real estate project had never materialised. The company further claims that misunderstandings existed related to important parts of the loan agreement so that in the end both the loan agreement as well as the appertaining collateral agreements had to be regarded as null and void. A statement of defense has been brought by Heta in time.

Several buyers of residential units of a project claim damages as they were not aware that their properties were encumbered by mortgages for Heta. 13 such proceedings are currently pending. Again an interim injunction has been applied for to ban any further sales.

A borrower with rights of use in a property owned by the Republic of Serbia granted Heta a mortgage. Following the initiation of the execution proceedings the Republic of Serbia now claims that an execution is inadmissible as the property is publicly owned.

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 customer is filing a lawsuit based on the nullity of loan contracts and pledge agreements, arguing the illegality of the interest adjustment clause, that the interest rate had been calculated incorrectly, that a forced conversion had been against the law, and that a clause according to which payment transfers had to be made through Hypo banks infringes competition legislation.

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 investor. The litigation case is based on the question as to whether the defects have been rectified and whether 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.

51.6.3. PROCEEDINGS IN CONNECTION WITH INVESTORS

In April 2012 an investor filed an action at the Regional Court of Klagenfurt against the former Hypo Alpe-Adria-Bank International AG making claims for damages, warranty, and declaratory relief. The plaintiff in particular requests the repayment of the nominal value (plus statutory default interest) of a supplementary capital bond of the former Hypo Alpe-Adria-Bank International AG redeemed at zero in April 2011 (at maturity) as a consequence of the statutory loss allocation under § 23 para (7) (3) Austrian Banking Act (in the respectively applicable version). The plaintiff also requests payment of the interest accrued for the bond between April 2009 and April 2011 plus statutory default interest.

From Heta's point-of-view the redemption of the bond at zero at the final maturity date was performed properly and thereof any claims from legal disputes are expected to be unjustified. As a consequence of a repeated change of judges the first session was scheduled for December 2013 at the Regional Court of Klagenfurt. At this session it was decided to delegate the case to the Commercial Court of Vienna. The first hearing at the Commercial Court of Vienna took place on 29 July 2014 discussing mainly the further outline of the proceedings. The next hearing originally scheduled for the beginning of January 2015 where witnesses should have been heard was initially postponed to April 2015. Due to yet another temporary change of judge the next hearing was unanimously postponed to 23 February 2016.

51.6.4. PROCEEDING INVOLVING THE FORMER OWNERS

On 21 March 2012 the then Hypo Alpe-Adria-Bank International AG brought an action against the former shareholders HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS), HYPO-BANK BURGENLAND Aktiengesellschaft, Kärntner Landes- and Hypothekenbank-Holding and Berlin & Co Capital S.á.r.l. as well as a total of nine former Executive Board and Supervisory Board members (so-called „special dividend/Consultants“-lawsuit). The value in dispute totals EUR 50.1 million, including EUR 50.0 million under an action for performance and EUR 0.1 million under a declaratory action. Claims are made in connection with the unjustified distribution of an alinear special dividend to the mentioned shareholders in 2008 for the financial year 2007 which was unjustified from the point-of-view of the then Hypo Alpe-Adria-Bank International AG. 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. The preliminary hearing of the proceeding took place in the first quarter of 2014, evidence proceedings started in spring 2014. In July 2014 amicable settlements could be concluded with the first and second former shareholders as well as two former members of company organs for a total approx. EUR 19 million (approx. 75% of the value in dispute) including approx. EUR 18 million still in flow in the course of 2014. The remaining EUR 1.6 million currently still in a trust account will be returned to Heta in autumn 2015 provided that the MAPS is not insolvent. The proceedings against the other defendants were continued with a restricted total value in dispute of approx. EUR 27 million. On 11th November 2014 the public prosecutor's office of Klagenfurt initiated criminal investigations in connection with the distribution of the special dividend.

Compared with the civil law proceedings the circle of defendants was expanded by two representatives of BayernLB as well as under the Federation Responsibility Act (VbVG) by Kärntner Landesholding (KLH), HYPO ALPE ADRIA Mitarbeiter Privatstiftung (MAPS), Hypo Bank Burgenland, Berlin & Co Capital S.á.r.l. and BayernLB.

The civil law proceedings were interrupted until the conclusion of the criminal proceedings by a decision of 1 December 2014. In February 2015 Heta submitted an appeal to the Higher Regional Court of Graz to prevent a fragmentation of the proceedings and to achieve an early continuation. On 14 July 2015 the Supreme Regional Court of Graz as appeal court fully confirmed the decision of 1 December 2014 by the Regional Court of Klagenfurt through which the Regional Court of Klagenfurt had interrupted the proceedings 22 Cg 36/12d („Consultants“-lawsuit) pursuant to § 191 para 1 ZPO until the legally valid termination of the respective investigations by the Klagenfurt public prosecutor's office under reference 10 St 273/09g and a possible subsequent principal trial. Hence further developments in the criminal proceedings must be expected.

(52) Essential agreements

52.1. Memorandum of Understanding (MoU) between the Republic of Austria and the Free State of Bavaria

On 7 July 2015 both the Austrian as well as the German ministries of finance announced that a Memorandum of Understanding (MoU) had been signed between the Republic of Austria and the Free State of Bavaria constituting the possible basis for reconciling all claims between BayernLB on the one hand and Heta, the Republic of Austria and Kärntner Landesholding on the other hand.

The closing of the MoU by the Republic of Austria and the Free State of Bavaria initiated a process also inviting Heta to evaluate and decide whether it wished to approve a general settlement of the existing legal proceedings on the basis of this MoU. The Heta bodies therefore must evaluate whether they can conclude a settlement regarding the proceedings with effect on Heta as specified in the MoU. This particularly concerns the termination of the EKEG proceedings with BayernLB and the

termination of the action for error brought by the Republic of Austria against BayernLB and Heta (see Note (51.6.1) proceedings in connection with the Republic of Austria and BayernLB). The MoU defines the „settlement amount“ for the EKEG-proceedings at EUR 2.4 billion. In addition, the claims of BayernLB against Heta are specified as non-subordinate unsecured claims (i.e. senior unsecured) and Heta's counterclaims pending in court are also settled. With this settlement amount of EUR 2.4 billion BayernLB will rank *pari passu* in right of payment with all other existing non-subordinate creditors in the Heta wind-down procedure (whether pursuant to BaSAG or in an insolvency).

The agreement on the implementation of the MoU (Memorandum of Understanding implementation agreement) shall as a whole be made no later than by 31 October 2015. A commission chaired by Dr. Irmgard Griss will evaluate the acceptability of the implementation of the MoU from the perspective of the Republic of Austria. This commission will not evaluate a possible amicable settlement between BayernLB and Heta.

In cooperation with Austrian and German legal experts, the Heta organs are currently intensively reviewing the preconditions for concluding an amicable settlement and the respective effects on Heta. From today's position it can be assumed that in the event of a positive decision by the Heta organs and the resolution authority a settlement could be concluded until beginning of November.

52.2. Agreement with the Republic and HBI-Bundesholding AG on the capitalisation and liquidity supply of Hypo Alpe-Adria-Bank S.p.A.

In compliance with the legal provisions of the GSA and the HBI-Federal Holding Act, by virtue of the share purchase agreement of 8 September 2014 Heta transferred all of its shares in Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) to HBI-Bundesholding AG (HBI-BH). In addition to temporarily preserving Heta's existing funding for the benefit of HBI totalling approximately EUR 1.7 billion (nominal value) of the re-financing lines under the carve-out, Heta had also obligated itself to provide a so-called "emergency liquidity facility" of up to EUR 300 million to HBI in the event of customer deposits being withdrawn.

As a result of the BaSAG moratorium in force since 1 March 2015, Heta could no longer comply with its contractual obligation for providing an emergency liquidity facility, and this caused a continuous deterioration of HBI's liquidity situation as it could not compensate for the continuous deposit drain without external assistance. In addition in its local financial statements as at 31 December 2014, presented in June 2015, HBI recorded high additional risk provisions on loans and advances leading to a shortfall in the minimum core capital ratio (Tier 1 Ratio). The share purchase agreement concluded with HBI-BH envisaged that as of the closing date of the agreement HBI-BH would be responsible for maintaining the Tier 1 minimum capital ratio of HBI as specified by the supervisory authority (currently 11.5%), but in light of the increased risk provisions of HBI in regard to Heta, HBI-BH pleaded warranty claims arising from the share purchase agreement. In addition it pointed to the non fulfilment of the duty to provide the Emergency Liquidity Facility.

On the basis of the fact that HBI-BH itself does not have sufficient means and no conclusive assessment was possible concerning whether and in what amount the owner of HBI-BH, the Republic of Austria, would undertake capital measures in order to provide HBI-BH with corresponding funds, there was a threat that regulatory wind-down procedures by the supervisory authorities would be instituted by Banca d'Italia on the basis that the equity requirements had not been met.

Adequate risk provisions were made in the Heta consolidated statement as at 31 December 2014, on the basis of wind-down proceedings against HBI by the supervisory authority.

In order to prevent a wind-down of this kind by supervisory authorities in Italy, which would have led to substantially higher losses for Heta with respect to its refinancing lines on 23 June 2015, Heta, following a detailed internal and external, legal and economic analysis of the legal options under the share purchase agreement concluded a binding term sheet with the Republic of Austria and HBI-BH on the further financing and the equity base of HBI. The agreements in the term sheet also aim at achieving a higher repayment rate for the funds tied up in HBI. The resolution authority subjected the agreement to a first review and subsequently announced that the authority would raise no objections against the agreement. The term sheet provides for liquidity and contributions to HBI by HBI-BH and debt waivers by Heta, which is still the biggest creditor interested in a maximum repayment of its still outstanding refinancing lines. HBI-BH provided HBI with EUR 196 million in equity (EUR 100 million) and one subordinated loan (EUR 96 million). Heta committed itself to provide a loan amount to EUR 100 million which can only be drawn by HBI subject to the prior use of funds of HBI-BH and proof of adequate further liquidity requirement for the repayment of customer deposits and the repayment of liabilities from bonds issued by HBI. The new Heta loan is to be restored to Heta in priority over all other claims of HBI-BH and other existing financing of Heta, including financing provided to HBI. Heta also agreed to renounce on up to EUR 630 million with respect to the historically existing refinancing line against HBI in the amount of EUR 1.7 billion (nominal value) to cover the capital requirement arising through the accelerated wind-down and to allow HBI to fulfill its equity requirements.

In June 2015 Heta renounced on a tranche of EUR 280 million in receivables from HBI. This prevented wind-down proceedings against HBI by the supervisory authorities. From a legal perspective the renunciation against HBI had to be final. From an economic perspective, Heta is compensated by a better-fortune agreement. In return for the waiver of debt from the refinancing lines by Heta, HBI-BH must pass on to Heta any financial advantage from or in connection with its position as

shareholder, provider of equity or third-party capital provider including payments from the equity contribution made by HBI-BH and the granted new loan up to the amount of the waivers issued by Heta (better-fortune agreement). To secure the claims from the better-fortune agreement and to guarantee the repayment of the re-financing lines as well as the new loan to Heta, HBI-BH in addition also pledged its shares in HBI as well as all current and future claims against HBI for the benefit of Heta. All claims by HBI-BH against HBI of any kind whatsoever are subordinate to the claims of Heta (including those under the better-fortune agreement) and other creditors of HBI. As part of its shareholder rights HBI-BH must guarantee that HBI, following the repayment of the remaining refinancing lines after the waiver, releases a maximum amount of excessive liquidity to HBI-BH and distributes profits to allow HBI-BH to fulfill its obligations towards Heta under the better-fortune agreement. Unless expressly regulated otherwise, any still existing claims between Heta, the Federal Government and HBI-BH arising from or in connection with the share purchase agreement are finally settled by this agreement.

The value of the financing line provided by Heta as at 30 June 2015 substantially increased through the considerable capital and liquidity contributions provided by HBI's owner, HBI-BH. The consolidated interim financial report showed a release of risk provisions through P&L of a total of EUR 123.4 million, while the claims waiver of EUR 280 million had no effect on the income statement for the first half of 2015.

52.3. Asset guarantee agreement with the Republic of Austria

On 28 December 2010 the Republic of Austria and the former Hypo Alpe-Adria-Bank International AG concluded an asset guarantee agreement on guarantees by the Republic as deficiency guarantor pursuant to § 1356 ABGB. The guarantee by the Republic refers to specifically defined claims of a part of the portfolio of the former Hypo Alpe-Adria-Bank International AG and is limited to EUR 200 million („maximum guarantee threshold“). A fee of 10% p.a. calculated from the nominal amount of the guaranteed part of the claim was agreed in return for the assumption of the guarantee by the Republic of Austria.

With effect as of 30 June 2015 the Republic's liability as deficiency guarantor pursuant to § 1346 ABGB was extended by concluding an addendum to 30 June 2017. In the context of the extension, certain previously guaranteed claims were replaced by other already existing Heta liabilities. The maximum liability of EUR 200 million and the provisions on the fee to be paid remain unchanged. Furthermore payment modalities were adapted and the process for verifying the drawing requirements was redefined. In the process of the extension of the asset guarantee the possibility for claiming utilisation was also changed to the effect that it was possible only from May 2014. To date claims of a total nominal value of approx. EUR 49 million have been used. So far the Republic of Austria has not yet made any payments since the competent units in the Ministry of Finance (BMF) have requested further information and in one particular case the BMF currently considers that the requirements for drawing are not yet fulfilled. Heta takes the view that at the time the drawing took place the preconditions for utilisation were fulfilled, and is in contact with the BMF. By virtue of a decision by the resolution authority of 1 March 2015 Heta's fee payment obligation was deferred to 31 May 2016. The BMF now considers that the going concern of the asset guarantee now depends on the full payment of the fees and that non-payment constitutes no claim under the asset guarantee. Independently thereof a review of the utilisation submitted in autumn 2014 showed that the complex guidelines and procedural provisions for entering the guaranteed claims, their restructuring and the utilisation of the asset guarantee will cause material objections on the part of the BMF that will call the existence of the preconditions for a payout into question. For this reason the approach of the asset guarantee with a value of EUR 36 million for cases of utilisation before the adoption of the decision, was confirmed as at 30 June 2015. Meanwhile, in a loan case for which the BMF so far has not recognised the drawing, a further drawing has been made. Preparations for further drawings are currently under way.

52.4. Closing of the sales agreement for reprivatising the SEE network

17 July 2015 Heta and the consortium of bidders consisting of US Fund Advent International (Advent) and the European Bank for Reconstruction and Development (EBRD) closed the share purchase contract of 22 December 2014 on the sale of all stocks in Hypo Group Alpe Adria AG (SEE Network) (closing). The closing followed a so-called "pre-closing" on 30 June 2015 at which the parties confirmed the existence and fulfillment of all essential closing conditions. The remaining deferring conditions were confirmed at the final closing. At the pre-closing the resolution authority also cleared the way for an implementation of the closing through a non-prohibition. With respect to the details of the share purchase agreement of 22 December 2014 reference is made to the presentation in note (9.2) SEE network in Heta's Annual Financial Report 2014.

Certain changes to the transaction and funding documents were agreed with the buyers before the closing. The changes concern technical aspects, particularly the implementation of the above mentioned pre-closing mechanism and commercial aspects, including reducing the maximum total volume of corporate loans from EUR 800 million to EUR 600 million, which until March 2016 can be transferred to Heta in so-called "purchaser brush"-transactions, and provisions against losses with respect to one HGAA non performing retail portfolio of EUR 100 million of up to EUR 75 million (net exposure). The implementation of these amendments to the transaction and financing documents also required a new power of attorney by FIMBAG as (then) shareholder of Hypo Group Alpe Adria AG, which was duly issued.

In the course of this new issuing of the power of attorney, Heta and FIMBAG as parties to the carve-out agreement as well as Heta and the Republic of Austria as issuer of a hedging instrument for the benefit of the buyer of the SEE network came to a

final agreement on the components of purchase price (subject to the actual utilization for risk exemptions, guarantees and other commitments in favour of the buyer, i.e. between EUR 0 and EUR 248 million to be paid to FIMBAG), profit sharing (EUR 44 million paid to FIMBAG in July 2015), and fee for the hedging instrument (1.27% p.a. to be paid to the Republic of Austria, current valuation basis EUR 1.7 billion) as stipulated in the carve-out agreement of 30 October 2014. Under the current agreement the amount of the fee is subject to the outstanding guarantees of the Republic of Austria under the hedging instrument. In the event of a change in the risk situation for the Republic of Austria, Heta and the Republic of Austria with the support of an independent expert will try to reach an agreement on a possible cut in the fee of currently 1.27% annually. A full provision of a total of approx. EUR 148 million was made for the fee incurred on the basis of the currently applicable agreement on the term of the underlying SEE purchase agreement (i.e. until 2022), because of the obligation to provide such acceptance of liability as a precondition for closing.

The post-closing project organization, which has been communicated to both the Supervisory Board as well as the resolution authority, basically concentrates on the agendas defined in the purchase agreement with the buyers, particularly in regard to the existing refinancing lines extended to HGAA and concerning liabilities under guarantees and exemptions. The "purchaser brush" is also handled within this structure. The project structure guarantees that the essential and relevant information and necessary reports are received by the addressees.

(53) Employees

	30.6.2015	31.12.2014
Employees at closing date (Full Time Equivalent – FTE)	1,734	1,805
Employees average (FTE)	1,726	1,927

(54) Status of the audit procedure of Oesterreichische Prüfstelle für Rechnungslegung (OePR)

The audit conducted in 2013 by the Austrian Financial Reporting Enforcement Panel (OePR/AFREP) was completed on 10 April 2015 with the announcement of the results. Regarding the interim financial report published at 30 June 2014 the OePR concluded that the credit risk provisions had been too low by at least EUR 3.8 million and that considering the effect on the results the provisions shown had been too high by EUR 1.2 billion as according to the OePR the preconditions for the provisions for an expected loss from sales did not exist at 30 June 2014. In as far as admitted by the relevant IFRS standards the assets of the SEE network would instead have had to be reassessed.

According to the view of OePR the loss to be shown as at 30 June 2014 would have been far lower than the one actually shown as a result of the provisions in the amount of the expected loss from sales. The respective reporting periods are adequately shown in the notes.

Since the Board takes the view that there was a provision obligation concerning the sale of the SEE network per 30 June 2014, on 27 April 2015 Heta informed OePR that it disagreed with the results of the audit. The proceedings are being continued by the FMA.

(55) Events after the reporting date

On 7 July 2015 both the Austrian and the Bavarian ministries of finance announced that the closing of a Memorandum of Understanding (MoU) by the Austrian and the Bavarian ministries of finance. Under the MoU a general settlement shall be achieved to end all ongoing court disputes. For further information please refer to Note (52.1) Memorandum of Understanding (MoU) between the Republic of Austria and the Free State of Bavaria.

The sales transaction of the SEE network (HGAA) was closed in good time on 17 July 2015 before the year-end deadline set by the European Commission. The new sole owner of Hypo Group Alpe Adria AG is AI Lake (Luxembourg) S.a.r.l., an investment company solely owned by Advent International and EBRD. For further details please go to Note (52.4) Closing of the sales agreement for reprivatizing the SEE network.

On 28 July 2015 the Constitutional Court (VfGH) of the Republic of Austria published the decision of 3 July 2015, G 239/2014 fully revoking the Hypo Alpe Adria Restructuring Act (HaaSanG). For further details please go to Note (51.2) Ruling by the Constitutional Court on HaaSanG.

On 31 July 2015 Dr. Rainer Jakubowski announced that with effect as from 31 July 2015 he resigned from his position as member of the company's Board at his own request to pursue other professional perspectives in the future.

Klagenfurt am Wörthersee, 28 August 2015
Heta Asset Resolution AG

THE BOARD

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

Mag. Alexander Tscherteu
(Member)

Mag. Martin Handrich
(Member)

Statement by all legal representatives

We confirm to the best of our knowledge that the interim 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 interim group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the interim consolidated financial statements, of the principal risks and uncertainties for the remaining six months of the financial year, and of the major related party transactions to be disclosed.

Klagenfurt am Wörthersee, 28 August 2015
Heta Asset Resolution AG

THE BOARD

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

Mag. Alexander Tscherteu
(Member)

Mag. Martin Handrich
(Member)

Imprint

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and responsible for the content

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Forward looking information and prognoses are based on the information and data available at the time of the establishment of the Interim Financial Report (28 August 2015). Any changes after this date might impact the information and/or predictions made in the Interim Financial Report. We have drawn up this report with the greatest of care and the data upon which it is based has been checked. Rounding errors or mistakes in transmission, typesetting or printing cannot, however, be ruled out. The English version of the Annual Report is a translation. Only the German is the authentic language version. All uses of the third person pronoun in the masculine form in this Interim Financial Report Annual Report that were used in the interests of better legibility also cover the feminine form. The Interim Financial Report was produced in-house using the „Fire.sys“ software.