

## **Annual Financial Report 2016**

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

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### Please note

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

# Report according to UGB/BWG

## HETA ASSET RESOLUTION AG

# Management Report 2016 Heta Asset Resolution AG

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

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

## 1. Overview of Heta Asset Resolution AG

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

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

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

Wind-down Entity (GSA), to continue to enter into banking or leasing transactions that serve this purpose. According to section 3 (4) Federal Act on the Creation of a Wind-down Entity (GSA), Heta is subject to some of the provisions of the Austrian Banking Act (BWG) and accordingly has assumed certain reporting and notification duties vis-a-vis the Austrian National Bank (OeNB) and the Financial Market Authority (FMA). The Financial Market Authority (FMA) continues to be the regulatory authority in charge, which pursuant to section 8 Federal Act on the Creation of a Wind-down Entity (GSA) is obliged to verify compliance with the applicable provisions of the Austrian Banking Act (BWG).

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

During the conversion process into a wind-down unit according to the Federal Act on the Creation of a Wind-down Entity (GSA), the company conducted a group-wide Asset Quality Review (AQR), which reflected the requirements for the fastest possible portfolio wind-down process. Following the announcement on 27 February 2015 of a capital shortfall of between EUR -4.0 billion and EUR -7.6 billion, which was identified during the course of the Asset Quality Review (AQR), the Republic of Austria informed Heta that it would no longer receive any capital or liquidity support. In view of these circumstances, the Financial Market Authority (FMA) in its capacity as resolution authority announced a decision pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) on 1 March 2015. The decision had the effect of placing a moratorium on all of Heta's "eligible liabilities" until 31 May 2016 in preparation for the application of the instrument involving the "bail-in" of creditors.

On 10 April 2016, the Financial Market Authority (FMA) issued an administrative decision about the challenge procedure ("Vorstellungsbescheid") that both confirmed and replaced Emergency Administrative Decision I. Also on 10 April 2016, the Financial Market Authority (FMA) announced another decision containing wind-down measures relating to Heta ("Emergency Administrative Decision II"). For additional details, please see section 3.1 Financial Market Authority's (FMA) emergency administrative decisions pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG).

As at 31 December 2016, Heta has its subsidiaries in Austria, Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Bulgaria, Germany and Hungary. The company had 1,015 employees (FTEs) at the end of the year 2016, 336 fewer employees than in the previous year (1,351).

## 2. General economic conditions

The recovery process under way in industrial nations gained in strength during the course of 2016. The situation in the emerging economies also stabilised. At this time, the global economy is undergoing a moderate recovery phase, whereby the economy in the Euro zone is registering steady growth. Compared to the time before the crisis, however, the global economy is growing at a slower rate.

At this time, the global economy is characterised by a series of uncertainties. They include uncertainty regarding the future economic policy direction of the US, the imminent exit of the UK from the EU, the increasingly nationalistic trends inside the EU and its neighbouring countries (e.g. Turkey), and a difficult geo-political situation (tensions between Russia and the EU, civil war in Syria, IS terror) and refugee movements.

During the year 2016, the GDP of the Euro zone grew by approximately 1.7%. The inflation rate in 2016 is forecast at 0.3% - a rate that is also accompanied by expectations of higher inflation for the years 2018 and 2019. Historically low base rates result in asset purchases and provide a stimulus for lenders. In addition, private consumption also benefits from lower energy prices and an improved labour market.

In the countries that are key to Heta's activities, primarily Austria, Croatia, Slovenia and Italy, but also Serbia and Bosnia and Herzegovina, there were several significant developments in 2016 which also had an effect on Heta's activities in the various countries.

The Austrian GDP is expected to grow by 1.4% in 2016. This growth is carried by private consumption which benefits from the income tax reform that went into effect in January 2016, among other things. Moreover, a growth of 1.5% is forecast for the years 2017 to 2019. The government debt ratio in Austria rose to approximately 86.2% of GDP. Another problem in terms of 2016 developments was the situation in the labour market, as the unemployment rate increased to 6.1%.

In 2016, the GDP is expected to grow by 2.6% in Croatia. This development is due to an improved labour market, the positive trend in the industrial and retail sectors, as well as the strong growth in tourism (confirmed new record holiday season). The unemployment rate also declined slightly during 2016 to 13.4%. The risks for the Croatian economy include the outcome from the wage negotiations with the public sector and the conflict with the banking sector - particularly those on the basis of the Croatian legislation regarding the compulsory conversion of CHF loans, and the current comprehensive tax reform. Such measures weaken the ability of banks to provide important momentum for another potential upturn by providing business financing.

Slovenia registered a stable growth rate of 0.5% in the first and second quarter of 2016, with a GDP growth of 2.2% projected for the entire year. Higher stocks, exports and private consumption contributed to this result, while in-

vestment expenditures declined. The latter was caused by the strong decline in public investments (due to the end of investments from EU funds), which were only partially compensated by solid private investments. Risk factors include government debt levels and the lack of reform efforts with regard to restructuring.

With a projected growth rate of only 0.7% in 2016, Italy is among the countries with decidedly below-average growth, although the rate for 2016 is also indicative of a slight upward trend, which is also manifested in the positive trend of confidence indices at the corporate and consumer level. Larger healthy companies can finance their investments themselves, and take advantage of the improved refinancing options available in the market. A higher employment rate also has a positive effect on disposal incomes and thus increases private consumption. The reduction in the corporate income tax and new public incentives should contribute to the recovery of investments in capital assets and innovation. Italy's level of debt, however, is supposed to grow to 133% in 2016, and then stabilise at that level in 2017.

Serbia experienced solid growth of 2.9% in the first half of 2016, with the GDP expected to reach 2.7% for the entire year. The economic upturn is based on fundamental effects, low oil prices and increased confidence due to the reforms that were implemented, along with financial consolidation measures. Nevertheless, the Serbian economy continues to face a series of significant challenges on account of the critical situation in the labour market (with an unemployment rate of 16.5%), continued and significant financial risks and uncertainty factors relating to various business scenarios, as well as high government debt and significant refinancing requirements and interest payments with regard to the sensitive fluctuations in foreign currencies. In addition, important structural reforms pertaining to financial policies were only partially implemented, and must be expanded to return public finances to a healthier level.

Bosnia and Herzegovina also report a positive growth of approximately 2.4% in 2016. Political unrest and a delayed tranche from the International Monetary Fund (IMF) led to delays in large investments during the first nine months of 2016. The required funds were obtained by issuing five- and three-year bonds in the home market, with slightly higher interest rates. Private consumption offers a positive outlook due to higher employment, growth in real wages and higher transfers into the country.

Several positive aspects, such as improved tax income, savings in public expenditures and a positive outlook for the country's important export markets, could provide some hope with regard to sustained economic stability. But in fact, the catch-up requirements of this decentralised-governed country are still considerable, as evidenced by the reform requirements of the IMF, which only allocated one out of two tranches in 2016.

Therefore the main risks depend to a great degree on the IMF (and other international financial institutions), since the

tranches can only be obtained if the strict IMF directives are met. (Sources: OECD, OeNB, Eurostat, European Commission)

### 3. Important events in the 2016 financial year

#### 3.1. Financial Market Authority's (FMA) emergency administrative decisions pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG)

##### 3.1.1. Contents of the emergency administrative decisions

In order to ensure that the objective of the "quickest possible wind-down of the portfolio" as set out in the Federal Act on the Creation of a Wind-down Entity (GSA) is reflected in the measurement approaches, Heta performed a comprehensive measurement of the assets that are relevant with regard to the wind-down of the portfolio, a so-called "Asset Quality Review (AQR)", at the end of 2014. After the first interim results of the group-wide AQR, which with regard to Heta's annual financial statements for 31 December 2014 pursuant to the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) indicated a capital shortfall ranging from EUR 4.0 billion to EUR 7.6 billion, which was above the state aid range approved by the EU Commission, became known in February 2015, the Republic of Austria, in its capacity as Heta's owner, let it be known that it no longer wished to take any more measures on Heta's behalf pursuant to the Financial Market Stability Act (FinStaG).

As a consequence, on 1 March 2015 the Financial Market Authority (FMA) issued an emergency administrative decision (Emergency Administrative Decision I) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG), which subjected all of Heta's "eligible liabilities" to a moratorium until 31 May 2016 in preparation for the application of the so-called "bail-in" of creditors instrument.

On 10 April 2016, the Financial Market Authority (FMA) issued an emergency administrative decision about the challenge procedure ("Vorstellungsbescheid") that both confirmed and replaced Emergency Administrative Decision I. Objections against this decision could be submitted to the Federal Administrative Court within a four week period starting on 10 April 2016. The decisions were published on the Financial Market Authority (FMA) website, and can be found at <https://www.fma.gv.at/en/resolution-of-heta-asset-resolution-ag/>. In addition, they can also be obtained from Heta's website at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Ad hoc releases 2015 respectively 2016).

Also on 10 April 2016, the Financial Market Authority (FMA) announced another decision containing wind-down measures relating to Heta ("Emergency Administrative Decision II"). With this emergency administrative decision, the following wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) were applied to Heta with immediate effect:

1. Reduction of common equity tier 1 and supplementary capital to zero;
2. "Bail-in" of creditors, in particular:
  - Reduction of subordinated "eligible liabilities" as at 1 March 2015 including the respective interest accrued up to 28 February 2015 to zero;
  - Reduction of non-subordinated "eligible liabilities" as at 1 March 2015 including the respective interest accrued up to 28 February 2015 to 46.02%;
  - Reduction of the nominal values or outstanding residual amounts of "eligible liabilities" arising from court proceedings against Heta or of the other disputed "eligible liabilities", including those with regard to the facts which were already established as of 1 March 2015, even though the occurrence or amount is uncertain, to 46.02%, including the respective interest accrued up to 28 February 2015;
3. Change in interest rates: reduction in the interest rate on "eligible liabilities" of Heta as at 1 March 2015 to 0%;
4. Change in maturity dates: Change in scheduled maturity dates for all "eligible liabilities" to the date of the decision to dissolve the company pursuant to section 84 (9) of the Federal Act on the Recovery and Resolution of Banks (BaSAG), but not later than 31 December 2023;
5. Cancellation of rights associated with the shares and titles of ownership, exercise of control and management; and rights associated with the shares and titles of ownership by the Financial Market Authority (FMA).

The Emergency Administrative Decision II can be found at <https://www.fma.gv.at/en/resolution-of-heta-asset-resolution-ag/> and on Heta's website at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Ad hoc releases 2016). An appeal against the Financial Market Authority's (FMA) Emergency Administrative Decision II could have been submitted within three months after it was released (10 April 2016), although this would not have had any suspensory effect. A decision by the Financial Market Authority (FMA) on the appeals has not been made available at this time.

Both emergency administrative decisions are based on the Federal Act on the Recovery and Resolution of Banks (BaSAG), by which the Bank Recovery and Resolution Directive (BRRD) was implemented in Austria. This has the effect that the decisions must also be recognised in all EU member states.

##### 3.1.2. Implementation of Emergency Administrative Decision II

The "bail-in" of creditors as outlined in Emergency Administrative Decision II - particularly the reduction in "eligible liabilities" and changes to interest rates and due dates - was implemented by Heta with the assistance of external advi-



sors and in coordination with the Financial Market Authority (FMA). This became necessary because the first-time application of the Federal Act on the Recovery and Resolution of Banks (BaSAG) led to numerous legal questions and accounting-related issues.

In very few individual cases, Emergency Administrative Decision II could not be implemented in the financial statements in accordance with the decision, particularly because the emergency administrative decision, in terms of its approach, uses 1 March 2015 as a basis (retroactively). Due to the fact that the daily due accounts in Emergency Administrative Decision I were not explicitly shown as “eligible liabilities” but are nevertheless covered by the “bail-in” of creditors pursuant to item 2.5. of Emergency Administrative Decision II, the implementation of the haircut required that the affected creditors were informed of their inclusion in the “bail-in” of creditors via information or recovery letters.

Based on item II 3.1., Emergency Administrative Decision II also includes a reduction in the nominal value or outstanding remaining amount of the “eligible liabilities” from court proceedings against Heta, or Heta's other disputed “eligible liabilities”. With regard to this particular item, Emergency Administrative Decision II also includes a non-conclusive listing of pending legal proceedings against Heta. At this time, Heta is involved in two proceedings in Croatia and one in Austria, which conflict with the impact of Emergency Administrative Decision II. No legally binding decisions are available to date. Some of the proceedings affected by the emergency administrative decision are pending in other EU countries. These cases are associated with the risk that the impact of the emergency administrative decision and hence the Federal Act on the Recovery and Resolution of Banks (BaSAG) might not be recognised in other EU states due to a lack of a basis under European law. This risk has not materialised to date. Heta has informed all of the lawyers working on the cases of the impact of Emergency Administrative Decision II in view of the court proceedings, so that objections may be raised during the proceedings in a timely manner.

According to item II 2.4 in Emergency Administrative Decision II, the “bail-in” of creditors measure also covers taxes and duties. With regard to this item, Emergency Administrative Decision II was implemented in consideration of the deviations from the decision itself, since some of the data basis on which Emergency Administrative Decision II was issued and the data basis that existed at the time the measures were implemented have already resulted in new insights. Particularly with regard to the question of whether liabilities from wage-related taxes and fees as at 1 March 2015 are affected by the “bail-in” of creditors pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) as “eligible liabilities”, the Financial Market Authority (FMA) found that an exemption pursuant to section 86 (2) line 7 A Federal Act on the Recovery and Resolution of Banks (BaSAG) does not apply to these taxes and fees. As a result, the wage-

related tax claims against the Austrian authorities were entered on the asset side of the balance sheet, and the authorities were informed accordingly via recovery and information letters.

With a report to the Financial Market Authority (FMA), Heta has provided comprehensive information about the implementation of Emergency Administrative Decision II and the deviations that have been identified.

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

On the basis of the statutory authorisation pursuant to section 2a of the Financial Market Stability Act (FinStaG), the Kärntner Ausgleichszahlungs-Fonds (K-AF) on 20 January 2016 submitted offers for those Heta debt instruments for which the State of Carinthia and also the Kärntner Landes- und Hypothekenbank - Holding (KLH) have assumed a guarantee. The offers required the approval of at least two-thirds of the affected creditors of non-subordinated and subordinated debt instruments. On 14 March 2016, the Kärntner Ausgleichszahlungs-Fonds (K-AF) announced that the creditors of the debt instruments had not accepted the offer.

The Republic of Austria and a significant number of creditors of Heta's state-guaranteed debt instruments signed a Memorandum of Understanding (MoU) on 18 May 2016, in which the parties confirmed their common intention to achieve an amicable agreement regarding the restructuring of Heta's state-guaranteed liabilities. Heta itself was not a party to the MoU, and was not involved in the negotiations.

On 6 September 2016, the Kärntner Ausgleichszahlungs-Fonds (K-AF) submitted a new public offer for those Heta debt instruments for which the State of Carinthia, the public law institution “Kärntner Beteiligungsverwaltung” and the fund “Sondervermögen Kärnten” as the legal successors of the Kärntner Landesholding (KLH), have assumed deficiency guarantees directly on the basis of a directive under Carinthian state law. The deadline for acceptance ended on 7 October 2016. The final results were announced on 12 October 2016: the offer was accepted by the required majority of creditors. In total, the offer was accepted by creditors who together represent 98.71% of the accumulated outstanding total nominal amounts of all debt instruments covered by the offer. This includes 99.55% of the outstanding total nominal amounts of non-subordinated debt instruments and 89.42% of the outstanding total nominal amounts of subordinated debt instruments. Accordingly, Heta was informed of the full pledging of all debt instruments acquired by the Kärntner Ausgleichszahlungs-Fonds (K-AF) including existing and future claims vis-a-vis the Abbaumanagementgesellschaft des Bundes (ABBAG). Taking into account the Kärntner Ausgleichszahlungs-Fonds' (K-AF) ownership of Heta liabilities, a nominal amount of approximately EUR 46.5 million (around EUR 21.4 million nominal after the haircut) of non-subordinated liabilities and a nominal amount of approximately EUR 1,094.4 million of subordinated liabilities

(nominal of EUR 0 million after the haircut) are in the hands of third-party creditors.

The repurchase offers of the Kärntner Ausgleichszahlungs-Fonds (K-AF) and the successful acceptance of the offer in October 2016 do not have a direct effect on Heta's annual financial statements for 31 December 2016, since they only pertain to the level between Heta's creditors and the Kärntner Ausgleichszahlungs-Fonds (K-AF) and thus are outside of Heta's sphere.

The successful acceptance of the offer has had the effect of significantly improving Heta's activity area, and has greatly reduced the threat from creditors who refused to recognise the wind-down measures of the Financial Market Authority (FMA), or contested the same in the courts. That is because those creditors who accepted the repurchase offer had to submit a comprehensive waiver in favour of Heta, according to which they waived, unconditionally and with irrevocable effect, all present and future claims (including all claims to interest, costs and cost decisions), lawsuits and actionable claims. As a result, all creditor proceedings against Heta (except five) have been terminated. This also has the effect of significantly reducing the risk of Heta becoming insolvent (see section 3.3.7 Possible consequences of a judgement against Heta in connection with the Federal Act on the Recovery and Resolution of Banks (BaSAG)).

### 3.3. Status of Heta's main proceedings

#### 3.3.1. Proceedings in connection with Emergency Administrative Decision I and II

In mid-2016, eleven lawsuits were pending at the Regional Court of Frankfurt am Main (Frankfurt Regional Court) by investors in Germany for payment of bonds and applicable interests, which were not paid on the original payment day as a result of the moratorium. The lawsuits related to bonds with a nominal amount of EUR 2.2 billion and CHF 33.0 million. The plaintiffs disputed the recognition of the measures taken by the Financial Market Authority (FMA) according to the Federal Act on the Recovery and Resolution of Banks (BaSAG), and, contrary to the "bail-in" of creditors and deferral ordered in the emergency administrative decisions, demanded full payment.

According to German law, judgements by courts of first instance may be declared provisionally enforceable against collateral (section 709 Code of Civil Procedure (ZPO)), which led to the risk that plaintiffs would already apply for enforcement on the basis of a judgement by a court of first instance. Since the beginning of the proceedings, Heta, referring to the need to clarify the basic question under European law - namely whether Heta falls under the scope of the Bank Recovery and Resolution Directive (BRRD) - requested that the court proceedings pending at the Frankfurt Regional Court are suspended until a decision is handed down by the European Court of Justice (ECJ). The Financial Market Authority (FMA) also submitted applications to the competent Frankfurt Regional Court pursuant to section 59 (1) Federal

Act on the Recovery and Resolution of Banks (BaSAG), requesting the suspension of all pending court proceedings or alternatively the preliminary enforcement measures, or to make a submission to the European Court of Justice (ECJ) (see section 3.3.4 Proceedings before the European Court of Justice (ECJ)).

On 21 June 2016, the Frankfurt Regional Court suspended its original decision to announce a ruling and submitted the legal questions regarding the applicability of the BRRD to Heta and the recognition of the wind-down measures in other member states, which must be assessed from the viewpoint of European law, to the European Court of Justice (ECJ) as a preliminary question.

As a result of the creditors' successful acceptance of the repurchase offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF), all eleven proceedings in front of the Frankfurt Regional Court were successfully terminated in late fall 2016 with mutual cancellation of costs. The Frankfurt Regional Court also withdrew its submission of questions to the European Court of Justice (ECJ). The court subsequently suspended the submission proceedings.

During the first six months of 2016, other thirtyfour lawsuits were pending against Heta in Austria in connection with the subordinated debt instruments that are affected by the Hypo Alpe Adria Restructuring Act (HaaSanG). The Emergency Administrative Decisions I and II were also the subject of these lawsuits. With the decision of the Constitutional Court of Austria (VfGH), which repealed the Hypo Alpe Adria Restructuring Act (HaaSanG) and the regulation issued under the act, the disputed issue in the proceedings was restricted to the applicability of the payment moratorium (which has been in place since 1 March 2015) to Heta, and the applicability of the wind-down measures ordered in the meantime pursuant to Emergency Administrative Decision II. One of these proceedings also resulted in a submission to the European Court of Justice (ECJ) in May 2016.

As a result of the acceptance of the repurchase offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF), twenty-nine of the thirtyfour proceedings were successfully terminated with mutual cancellation of costs. The submission to the European Court of Justice (ECJ) was also withdrawn (see section 3.3.4 Proceedings before the European Court of Justice (ECJ)).

Only five plaintiffs have not accepted the offer from the Kärntner Ausgleichszahlungs-Fonds (K-AF); they will continue the lawsuits against the State of Carinthia and the legal successors of the Kärntner Landesholding (KLH). However, a "simple suspension" has been agreed for these five proceedings.

#### 3.3.2. Proceedings in connection with the deficiency guarantee by the State of Carinthia

Three legal proceedings were initiated against Heta by the State of Carinthia and the Kärntner Landesholding (KLH) in relation to legal proceedings initiated by investors against



the State of Carinthia and the Kärntner Landesholding (KLH) on the basis of the deficiency guarantee ordered by state law in connection with the bonds affected by the moratorium. Heta initially joined these proceedings on the side of the state and the Kärntner Landes- und Hypothekenbank - Holding (KLH) as an intervenor.

Two proceedings resulted in a judgement of the first instance against the plaintiff. The plaintiff has appealed these decisions. The plaintiff also lost both proceedings at the appeal stage before the Higher Regional Court (OLG), and subsequently attempted to bring about a decision by the Supreme Court (OGH) by way of a further appeal. Because of changes in the facts and the legal situation, Heta decided to withdraw as an intervenor in these two proceedings in 2016. Both proceedings were terminated at the end of 2016 as a result of the acceptance of the offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF). The third proceeding was suspended in the spring of 2016, and also ended with the plaintiff's acceptance of the offer.

### 3.3.3. Austrian Equity Substituting Capital Act (EKEG) proceedings

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

On 18 May 2016, Heta received an order from the Munich Higher Regional Court (OLG München) in which the court is considering, on the basis of the applicable Federal Act on the Recovery and Resolution of Banks (BaSAG) and Emergency Administrative Decision II issued in the meantime by the Financial Market Authority (FMA) on 10 April 2016, to interrupt the proceedings and to withdraw recognition of the mutual need for legal protection due to the Memorandum of Understanding (MoU) concluded between the Republic of Austria and the Free State of Bavaria. Both Heta and BayernLB have objected to an interruption of the proceedings. The Munich Higher Regional Court has not yet commented on the sub-missions of the parties. For details, see note 41.1 Proceeding with Bayerische Landesbank (BayernLB) and Memorandum of Understanding (MoU) in the Notes.

### 3.3.4. Proceedings before the European Court of Justice (ECJ)

Both the Vienna Commercial Court and the 12th civil division of the Frankfurt Regional Court submitted to the European Court of Justice (ECJ), in line with "preliminary ruling procedure", various questions regarding the applicability of the Bank Recovery and Resolution Directive (BRRD) and the applicability of the haircut to Heta, and regarding the recognition of these measures in other member states. In another proceeding in which the Financial Market Authority (FMA) rather than Heta is a participant, the Austrian Federal Administrative Court (BVwG) has also initiated a preliminary ruling procedure and has approached the European Court of Justice (ECJ) with the question regarding the personal/time-related application scope of the BRRD. The preliminary ruling procedures by the Vienna commercial court and the Austrian Federal Administrative Court (BVwG) have in the meantime been combined by the European Court of Justice (ECJ) into one single proceeding.

Preliminary ruling procedures are not used for a concrete review of measures or laws implemented by the member states. Rather, the relevant EU regulations provide the courts in the member states with the opportunity, or an obligation, to submit concrete individual questions about EU law that are relevant to the case to the European Court of Justice (ECJ), so it may decide on the relevant interpretation. Thus the European Court of Justice (ECJ) does not make decisions regarding the existence or non-existence of claims, but rather provides "instructions" regarding the interpretation of issues under EU law, which represent preliminary questions in a legal dispute. National courts that have submitted such questions must then take the questions that have been answered by the European Court of Justice (ECJ) into account when making their decisions.

Based on the creditors' acceptance of the Kärntner Ausgleichszahlungs-Fonds (K-AF) repurchase offer and the associated termination of the proceedings before the Frankfurt Regional Court, the Vienna Commercial Court and the Austrian Federal Administrative Court (BVwG), on which the submission proceedings are based, all preliminary decision proceedings before the European Court of Justice (ECJ) were terminated in the fall of 2016.

### 3.3.5. Proceedings before the Constitutional Court of Austria (VfGH)

Two of the three submitted BaSAG-related party applications to the Constitutional Court of Austria (VfGH) regarding a review of the constitutionality of the law and the admissibility of including Heta under this law were dismissed by the Constitutional Court of Austria (VfGH) in the fall of 2015. As a result of the submissions that have been made to the European Court of Justice (ECJ), the Constitutional Court of Austria (VfGH) has suspended its decision regarding the third application until such time as the European Court of Justice (ECJ) hands down its decision. This proceeding was in the

end terminated due to the affected investor's acceptance of the Kärntner Ausgleichszahlungs-Fonds (K-AF) offer.

### 3.3.6. Proceedings in connection with the implementation of Emergency Administrative Decision II

The question regarding the impact and recognition of Emergency Administrative Decision II is the subject of proceedings before the Vienna Commercial Court (HG Wien). A lawsuit has been filed against Heta for payment from an issued guarantee, which Heta believes to be included under the wind-down measures and may not be serviced at this time pursuant to Emergency Administrative Decision II. In Croatia, Heta is a party to proceedings concerning the question of the impact of the decision in relation to a cost decision made by a court (at Heta's expense) which was handed down before the emergency administrative decision was issued. For details, see section 3.1.2 Implementation of Emergency Administrative Decision II.

### 3.3.7. Possible consequences of a judgement against Heta in connection with the Federal Act on the Recovery and Resolution of Banks (BaSAG)

A judgement ordering Heta to pay the liabilities affected by these legal disputes and a possible compulsory enforcement in favour of various creditors would run counter to the wind-down measures ordered by the Financial Market Authority (FMA) with Emergency Administrative Decision II. For this reason, Heta will not only fight any potential judgements handed down by a court of first instance in order to settle the recognition of the Federal Act on the Recovery and Resolution of Banks (BaSAG), but will also initiate all available legal remedies to defend against enforcement measures.

Such a treatment of individual creditors could oppose the principle of equal treatment of creditors under the Federal Act on the Recovery and Resolution of Banks (BaSAG), the (balanced) assumption of losses by the creditors and ensuring that creditors are not put in a worse position as compared to liquidation measures taken in the course of insolvency.

The wind-down measures applied in Emergency Administrative Decision II aim to prevent a situation in which Heta becomes insolvent during the wind-down timetable. Over-indebtedness as a reason for insolvency does not apply to Heta pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA). An application for insolvency can only be filed by the Financial Market Authority (FMA).

## 3.4. Business relationships with the former SEE network

The 2016 financial year was characterised by the implementation and termination of Heta's obligations and liabilities in the context of the share purchase agreement from 22 December 2014 regarding the disposition of Heta's former banking and leasing network in South-Eastern Europe (SEE network, Hypo Group Alpe Adria AG (now: Addiko Bank AG))

to Advent International and the European Bank for Reconstruction and Development (EBRD).

### Settlement first quarter 2016

In the first quarter of 2016, Heta and the sole shareholder of Hypo Group Alpe Adria AG (now: Addiko Bank AG) came to an agreement regarding the settlement of all foreign currency and interest hedges agreed in the 22 December 2014 share purchase agreement (exemptions for credit and legal risks mainly from CHF loans), as well as other outstanding issues connected to the share purchase agreement. In essence, the agreement stipulated that the buyer waives the relevant exemptions and Heta in turn waives the CHF denominated credit lines in the amount of EUR 325.0 million vis-a-vis Addiko Bank. The waiver of exemptions also had the effect of reducing Heta's liability for the remaining exemptions and the Republic of Austria's liability under the hedging instrument provided to the buyer. The reduction in the liability under the hedging instrument thus also led to a reduction in the fee that Heta paid to the Republic for providing the hedging instrument.

The agreement was conditional on Addiko Bank AG paying the CHF denominated credit lines at a value of EUR 150.0 million back to Heta. The funds were paid back in March 2016. This did not result in any income-related effects in 2016 because Heta's waiver concerning the credit lines was already provided for in the 31 December 2015 financial statements.

### Other portfolio adjustments

On the basis of the share purchase agreement from 22 December 2014 the buyer of the SEE network had the right to sell certain assets of the SEE banks and leasing companies (consisting mostly of non-performing loan and leasing receivables, properties and other assets from the disposal of collateral) to Heta or Heta group companies ("Purchaser Brush" option). In implementing the "Purchaser Brush" option, assets with a net carrying amount of around EUR 275.0 million were purchased from Heta and its group companies and transferred at the carrying amounts pursuant to the 2014 consolidated statement of financial position. Finally, in implementing the "Purchaser Brush" option, Heta in compliance with the requirements under the share purchase agreement from December 2014, compensated Addiko Bank AG with approximately EUR 62.0 million for loss in value for non-transferable assets by applying the amount against existing credit lines. As per the agreement, Heta reimbursed the Addiko Group for the transaction and ancillary costs that were incurred.

### Early repayment of Heta financing lines against discount; termination of interdependencies

On 23 December 2016, Heta, the sole shareholder of Addiko Bank AG and the bank itself concluded another settlement agreement. It gave Addiko Bank AG the option to conclu-

sively settle the remaining complex mutual claims, rights and obligations of the parties under the share purchase agreement from 22 December 2014, in particular existing and future rights of recourse, against the early repayment of the entire remaining Heta refinancing line with a discount. The agreement also included a waiver by the buyer and sole shareholder of Addiko Bank AG for all claims under the guarantee instrument of the Republic of Austria, which is further reduced significantly vis-a-vis the Republic of Austria, and will be entirely done away with following the expiry of certain deadlines. Only Heta's obligations under exemptions in connection with two legal disputes initiated by borrowers of the Addiko Group are excluded from the agreement. Sufficient provisions had already been built for the potential burden for Heta from these remaining exemptions.

Specifically, Addiko Bank AG was able to exercise the option by 30 April 2017 through the early repayment of all remaining Heta financing lines at a discount of less than a quarter on the existing financing lines. The discount corresponds at minimum with the counter value of the remaining claims, rights and receivables of the buyer and Addiko Bank against Heta from the share purchase agreement from December 2014 and was fully covered by existing provisions in the 2016 annual financial statements. On 6 February 2017, Addiko Bank AG exercised the option and repaid the remaining financing lines of just under one billion to Heta.

### 3.5. Changes in the governance structure and Supervisory Board

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

The resolution authority is entitled to extensive supervisory, controlling and reporting rights, which were implemented through a separate governance structure. Heta's new governance structure was developed in 2015 together with the authority, and the required changes to Heta's statutes and the by-laws for the Supervisory Board and Management Board were made in the same year. The resolution authority has the right to have its representatives attend the committee meetings of the company's executive bodies.

At the same time, the forensic investigation of the past as an explicit business purpose of Heta was deleted from the statutes in June 2015. However, it was agreed with the authority that the analysis of forensic cases, that have so far not been finalised in line with the forensic investigation of the past, will be continued taking into account efficiency and practical aspects, and that the investigation will subsequently be completed.

Since Emergency Administrative Decision II, the Financial Market Authority (FMA) also exercises all administrative rights associated with the shares, in particular the right to attend the general shareholders' meeting (section 102 and following of the Stock Corporation Act; AktG), the right to vote (section 12 AktG) and the right to receive information and make applications (section 118 and 119 AktG). The resulting changes to the statutes and the by-laws were implemented in June 2016. Also in June 2016, the statutes were also amended with regard to the option, provided for in Emergency Administrative Decision II, to distribute the sales proceeds at an earlier date. The Management Board is duly obliged, in consideration of the wind-down objectives and the requirements of an orderly wind-down procedure, to conduct a review within four weeks of the adoption of the annual financial statements as to whether existing assets may be distributed to creditors prior to the due date before the company is fully wound-down, and must - regardless of the result of this review - submit a report on this issue to the Financial Market Authority (FMA) and the next meeting of the Supervisory Board. If the Management Board finds that there are sufficient assets to justify such a distribution, it must report to the Financial Market Authority (FMA) and must submit a draft distribution to the general shareholders' meeting for approval.

Several new members were added to the Supervisory Board during the 2016 financial year. Mag. Regina Friedrich, Mag. Alois Hochegger, DI Bernhard Perner and Mag. Christine Sumper-Billinger, who supported Heta's progression from a regulated banking institution to a partial deregulated wind-down unit, left the Supervisory Board effective 29 June 2016. On 29 June 2016, Dr. Stefan Schmittmann and Mag. Regina Ovesny-Straka were appointed to serve as Deputy Chairman of the Supervisory Board and member of the Supervisory Board, respectively. At the extraordinary shareholders' meeting on 18 August 2016, the Financial Market Authority (FMA) appointed Dr. Karl F. Engelhart to the Supervisory Board. Dipl.-Kfm. Michael Mendel remains Chairman of the Supervisory Board.

## 4. Winding-down of investment companies and asset disposals

During the 2016 financial year, the wind-down process moved along very well on account of disposals of participations and loan portfolios. Most of the large transactions, for which internal preparations had already been made since 2015, were successfully completed during the course of the year.

### 4.1. Major individual transactions Disposal of Heta Asset Resolution Leasing DOOEL Skopije

Following the signing, which took place on 30 December 2015, the closing was successfully completed in June 2016

after the Macedonian finance ministry issued a license for the buyers. After completion of this transaction Heta has no more business activities in Macedonia.

#### **Disposal of Centrice Real Estate GmbH**

The public bidding process for Centrice Real Estate GmbH, which was managed by Portfolio Sales & Participation Transactions of Heta with a well-known international investment bank and an internationally experienced law firm, garnered considerable interest in the market. The disposal of the shares ("share deal"), which was successfully completed on 28 June 2016, was implemented at the sub-holding level and was comprised of seventeen direct and indirect investment companies, which managed a total of thirtyone performing properties from Slovenia, Croatia, Serbia, Bosnia and Herzegovina and Macedonia. All of the refinancing lines that had been provided to Centrice Real Estate GmbH and its subsidiaries were covered at the nominal value during the course of the disposal process.

#### **Disposal of "PATHFINDER" - Loan portfolios**

The "Pathfinder" project consists of loan portfolios with a total gross exposure of approximately EUR 272 million, consisting of secured loans from exclusively Croatian borrowers. Some of these loans were reported partially at Heta and partially at the local Croatian Heta companies, and were no longer serviced by the borrowers ("NPL" - non-performing loans). The tender commenced with the engagement of an international consultant and a well-known multinational law firm on 12 February 2016. Several binding offers were received following a competitive public bidding process. The second half of 2016 was characterised by intensive contract negotiations with the best bidders, which finally resulted in the closing of the transaction on 15 December 2016.

#### **Disposal of "DRAVA" - Loan portfolios**

Unsecured loan portfolios from Austria, Bosnia and Herzegovina, Croatia, Montenegro, Serbia and Slovenia with a gross exposure totalling approximately EUR 276 million were combined under the "Drava" project. The portfolios consisted of a total of approximately 3,600 loan agreements across all countries, almost all of which had been adjusted at the time of the disposal. The public tender started on 6 May 2016. The bidding process resulted in one best bidder who conducted the customary due diligence process in the summer of 2016. The contract negotiations were completed in the fall. The transactions were concluded on 21 December 2016 for all involved local Heta companies, with the exception of Bosnia and Herzegovina.

#### **Disposal of Heta Asset Resolution Italia S.r.l. (Project "FRIULI")**

The public tender for the Friuli project at the end of 2015 was met with a positive response in the market. The first six

months of 2016 were characterised by a competitive disposal process, which resulted in a best bidder and subsequent contract partner following numerous expressions of interest, a subsequent due diligence process, inspections and management interviews. The final share purchase agreement (SPA) was signed on 4 August 2016. The required official approvals for the buyer were issued by the Italian supervisory authority (Banca d'Italia) on 31 January 2017. The closing for the transaction took place on 21 February 2017; this means that Heta Asset Resolution Italia S.r.l. and its subsidiary Malpensa Gestioni S.r.l. will no longer be included in Heta's scope of consolidation in 2017.

#### **4.2. Other transactions**

The bidder process for a hotel resort in Croatia, which had been held for sale for some time, was suspended in September 2016. The partner, who had exclusivity at that time, did not submit a binding offer. A new strategy is currently being developed for this hotel resort.

The bidding process for the "ONYX" project was announced on 29 November 2016. This project concerns the disposal of the shares and portfolio of the Serbian Heta company HETA REAL ESTATE D.O.O. BELGRAD, as well as a portion of the portfolio of HETA ASSET RESOLUTION D.O.O. BEOGRAD, with a total loan gross exposure and property market values amounting to approximately EUR 289 million. A number of expressions of interest had been received by the end of 2016.

Various small investments and share packages were also successfully disposed of in 2016. The takeover by the Heineken Group facilitated the disposal of the 7.1% share package in the Slovenian company Pivovarna Lasko d.d., which also included the entire existing loan commitment of this group. The 19.98% share package in ZIF CROBIH d.d. was successfully sold in Bosnia and Herzegovina. The disposal of various hotel assets from an investment in Croatia was signed in May 2016 and finally closed and transferred in July 2016. The now empty investment company will be liquidated as planned.

#### **4.3. Liquidation of participations**

The wind-down of Heta is accompanied by the liquidation of its subsidiaries. The liquidation of Alpe Adria Privatbank i.L. was completed in the 2016 financial year. The liquidation of HYPO Consultants Holding GmbH i.L. started on 18 September 2016. The liquidation of additional investments is supposed to commence during the first six months of 2017. The former leasing companies are supposed to undergo an orderly liquidation process following the final wind-down of assets (loans/leasing receivables and real estate). To ensure the best possible preparations for these liquidations, pre-liquidation projects are being initiated on a staggered basis depending on the progress of the portfolio wind-down, which ensures the targeted preparation of the companies for a subsequent legal liquidation process. Such projects were



already implemented for Bulgaria and Hungary during the 2016 financial year, with Serbia and Germany to follow in the first half of 2017.

#### 4.4. Wind-down of remaining loan portfolio

Heta's credit and leasing portfolio consists mainly of non-performing financing, which are reported at the holding and the different local Heta companies. The portfolio is multi-layered and requires know-how of the various product categories, economic sectors and regions. This know-how was bundled in four exit management units, which are pushing ahead the wind-down process in the various regions with a focus on single asset transactions. Activities are targeted towards the optimum value that can be achieved in the medium term in compliance with transparent processes, rather than a focus on the short-term wind-down success or the maximum result in a financial year. If an asset is expected to yield a higher value over time, it will initially be kept in the portfolio.

A number of different strategies are employed for winding-down the portfolio: performing loans continue to be enforced, and the NPL portfolio is disposed of by way of enforcement, individual or portfolio transactions. A key instrument in this regard is Heta's own AAA platform, which offers transactions for sale through a central location.

In the 2016 financial year, the exit management units fully met their objectives with regard to the liquidation of assets. In this way, they were able to secure values even in volatile markets, and swiftly pushed ahead with the wind-down of the loan portfolio. The actually achieved wind-down result is above the original planning.

### 5. Wind-down plan pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA)

According to section 5 of the Federal Act on the Creation of a Wind-down Entity (GSA), the wind-down of the portfolio is to be conducted according to a wind-down plan drawn up by the Management Board and approved by the Supervisory Board. Due to the order requiring the wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG), which left open the further course of action adopted by the Financial Market Authority (FMA) with regard to the time period after 31 May 2016, Heta was forced to suspend the completion of the wind-down plan pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA) until such time as the future course of action was clarified. With regard to the completion of the wind-down plan, it therefore became legally necessary to wait and see whether and (if so) in which form the Financial Market Authority (FMA) creates the conditions for an orderly wind-down process by issuing a directive for wind-down measures. For this reason, Heta did not publish an official wind-down plan in 2015. In the meantime, Heta did however prepare

planning that met the legal requirements for the portfolio wind-down. These activities were given the name "mid-term plan", and were made publicly available in line with the company presentations published in October and December 2015 and in April 2016.

On 10 April 2016, the Financial Market Authority (FMA) issued Emergency Administrative Decision II which imposed wind-down measures with regard to Heta. This had the effect of creating, for the first time, a basis for the completion of the wind-down plan.

Emergency Administrative Decision II has far-reaching implications for the wind-down plan. The following planning-related simplified assumptions were made by Heta with regard to the repayment of the "eligible liabilities" pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG):

- It is assumed that the "eligible liabilities" covered under Emergency Administrative Decision II are not serviced over the course of the 2016 - 2020 wind-down period and are reduced to zero or 46.02% in accordance with the "bail-in" of creditors specified in the emergency administrative decision. Interest expenses attributable to these liabilities are set to zero as of 1 March 2015;
- The planned return flows from the reduction in Heta's assets increase Heta's cash liquidity position accordingly, since they are not used to repay "eligible liabilities" at an earlier date. In coordination with the Financial Market Authority (FMA), Heta generally invests its entire cash liquidity at the Austrian National Bank (OeNB). The wind-down plan assumes that it will continue to do so during the course of the wind-down;
- The possible earlier distribution of the proceeds from disposals as provided for in Emergency Administrative Decision II was not taken into account in the current wind-down plan, since a corresponding resolution by the Financial Market Authority (FMA) is not available;
- A steady reduction in assets (excluding cash liquidity) of approximately 80% by the end of 2018 remains the intended wind-down objective, starting from year-end 2014. To achieve the targets, receivables and real estate are to be sold to investors mainly through individual transactions;
- The claims against former group companies (Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) and Adiko Bank AG) were examined separately, since at the time the plan was prepared it had to be assumed that some of these would still be in place after 2020. Similarly, some finance lease receivables have terms that exceed the planning period and are not wound-down completely in the current wind-down plan.

The Heta Supervisory Board approved the finalised wind-down plan on 25 August 2016 and subsequently forwarded it to the Federal Minister of Finance and the Chancellor. Heta published the main contents of the wind-down plan on the same day.

Pursuant to section 5 (4) Federal Act on the Creation of a Wind-down Entity (GSA), the wind-down plan must be adjusted and re-submitted to the Supervisory Board for approval if the circumstances that are of relevance to the wind-down plan change. As a result of the current developments regarding the repayments of refinancing lines by Addiko Bank AG, the disposition of subsidiary Heta Asset Resolution Italia, S.r.l., and the insights gained during the preparation of these annual financial statements, circumstances have arisen that make it necessary to adjust the wind-down plan. The update of the wind-down plan is currently in preparation, and will be submitted to the Supervisory Board during the first six months of 2017. According to section 6 (1) of the Federal Act on the Creation of a Wind-down Entity (GSA), Heta's Supervisory Board is regularly informed of the progress of the disposals.

### 5.1. Development of results for 2016 compared to the wind-down plan (pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA) 2016 - 2020)

Total assets, not taking into account Heta's cash reserves (holding company), declined by EUR 1,534.6 million in the 2016 financial year. The wind-down in assets has exceeded the budget. Provisions were released to the assets side as a result of the successful transactions and imminent settlements, which had the effect of increasing total assets. Compared to the budget, the present annual financial statements report a EUR 460.1 million lower reduction in total assets without cash and balances at central banks.

Heta's actual wind-down performance is reflected in the development of cash and balances at central banks at the Austrian National Bank (OeNB). In 2016, it rose by EUR 1,891.5 million from EUR 4,273.4 million to EUR 6,164.9 million, and is EUR 588.9 million above the 2016 budget. The main drivers behind this increase include the repayments of refinancing lines of the group companies, the disposal of Centrice, the wind-down in the Treasury Portfolio (securities and treasury loans), the repayments of the refinancing lines of former subsidiaries HBI and Addiko Bank AG, as well as a reduction in cross-border loans at Heta itself.

Loans and advances to credit institutions declined by EUR 1,397.8 million (gross basis), mainly as a result of the aforementioned wind-down measures relating to HBI and Addiko Bank AG. Moreover, cash collaterals and short-term receivables and liabilities to credit institutions also declined considerably. Compared to the 2016 budget, the wind-down volume was EUR 211.4 million higher, mainly due to HBI.

Loans and advances to customers declined by EUR 1,631.6 million in the 2016 financial year (gross basis). This figure includes EUR 758.0 million for the refinancing lines

for the subsidiaries and Centrice Real Estate GmbH. The cross-border loan volume and treasury loans also fell by EUR 873.8 million (gross basis). Compared to the 2016 budget, the wind-down volume was EUR 218.6 million lower, which can be explained by the lower utilisation of risk provisions. An examination of the cash-in shows that the budget was out-performed by a wide margin.

Debt instruments of public authorities, securities and shares fell by a total of EUR 302.2 million, whereby most of this decrease is the result of contractual repayments. The 2016 budget was exceeded by EUR 114.9 million particularly due to the faster wind-down of securities.

During the course of the annual financial statements, shares in affiliated companies were adjusted by EUR 54.2 million to EUR 139.6 million. These adjustments had not been included in the 2016 budget, which is the reason why this item is EUR 67.1 million above the budget.

Other assets were reduced by EUR 98.9 million, mostly due to the reduction in interest deferrals for derivatives as a result of the swap closings in the 2016 financial year. The budget had assumed a slower (EUR 91.7 million lower) wind-down rate for other assets.

## 6. Other events

### 6.1. Company presentation for creditors

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

The emergency administrative decision issued on 1 March 2015 by the Financial Market Authority (FMA) as the resolution authority, which orders a moratorium ending on 31 May 2016 with regard to Heta's "eligible liabilities", created additional information requirements on the part of the creditors and investors affected by the moratorium. For this reason, the Management Board implemented a separate information platform specifically directed at creditors and investors in order to provide additional transparency and facilitate the dialogue with this group within the limits of what is permitted by law.

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

It is Heta's responsibility to make decisions regarding the date, form and contents of responses in compliance with the Federal Act on the Recovery and Resolution of Banks (BaSAG)



and the requirements of the resolution authority. No obligation exists or is established with respect to the provision of information to creditors or investors outside of statutory (or possibly contractual) obligations.

In an effort to provide additional transparency, Heta began to publish responses to questions submitted through the platform at [holding@heta-asset-resolution.com](mailto:holding@heta-asset-resolution.com) in the fall of 2015. The first "Information for creditors and investors" item was published on Heta's website on 20 October 2015.

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

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

On 10 April 2016, the Financial Market Authority (FMA) issued a second emergency administrative decision, which reduced Heta's non-subordinated liabilities to 46.02% of the nominal amount of "eligible liabilities" as at 1 March 2015 (including interest accrued up to 28 February 2015); it also set interest claims as of 1 March 2015 to zero. Subordinated liabilities were also set to zero.

Consequently, in an adapted company presentation on 25 April 2016, Heta highlighted the effects of this emergency administrative decision on the interim financial statements (UGB/BWG) for 1 March 2015. In a next step, the translation of the second emergency administrative decision to the balance sheet (separate financial statements according to UGB/BWG) for 31 December 2015 was prepared in a second company presentation for creditors on 29 April 2016.

A second credit information event on 5 August 2016 answered a lot of questions that may be of relevance to Heta's creditors.

This was followed by a company presentation on the wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) on 25 August 2016, which illustrated in particular the main parameters of the wind-down plan prepared by the Management Board, as well as the implementation of Emergency Administrative Decision II in Heta's semi-annual financial statements.

## 6.2. Guarantee agreement with the Republic of Austria

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

Guarantee commission payments were suspended on 1 March 2015 due to the moratorium imposed by the Financial Market Authority (FMA). Based on Emergency Administrative Decision II from 10 April 2016, both the guarantee fee not yet paid by 1 March 2015 as well as all future payment obligations under the guarantee commission were subjected to a haircut and thus were reduced to 46.02%. The claims by the Republic of Austria are deferred until latest 31 December 2023.

At this time the Republic of Austria has paid EUR 11.2 million to Heta.

Drawdowns from the guarantee totalled EUR 67.1 million by 31 December 2016. Additional drawdowns totalling EUR 83.8 million were made in January 2017.

A separate receivable from the Republic of Austria is added to the balance sheet for those cases that were drawn and not yet serviced by the Republic of Austria. As at 31 December 2016, the claim is EUR 55.9 million. A waiver until the end of 2017 was obtained from the Republic of Austria in order to prevent the limitation of possible claims in relation to the already drawn cases.

At this time, a settlement for terminating the agreement is being considered. To this end, discussions have been initiated with representatives of the Republic of Austria. Since Heta did not receive any additional payments from the Republic of Austria (with the exception of one payment), it can be expected that the Republic of Austria could object to making the remaining payments to Heta. It is conceivable that the resolution regime under the Federal Act on the Recovery and Resolution of Banks (BaSAG), the interpreta-

tion of various provisions under the guarantee itself, or the existence of drawdown preconditions in individual cases may be cited as reasons. Against this background, Heta has reassessed the recoverability of its claim against the Republic of Austria for the current annual financial statements. The initiated discussions regarding the settlement let the valuation in the 2016 financial statements seem adequate.

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

Heta Asset Resolution has an organisational structure that corresponds to the obligations of a wind-down unit. The structure is optimised in accordance with the reduction in portfolios and employees.

### **6.4. Parliamentary commission of enquiry**

The commission of enquiry for investigating the political responsibility for the events surrounding Hypo Group Alpe Adria (Hypo commission of enquiry) was established in February 2015. Its activities ended on 12 October 2016 when the final report was discussed in the Austrian National Council.

In June 2015, Heta received a request for the voluntary submission of certain files and documents from the Chairperson of the Hypo commission of enquiry.

In principle, Heta was not legally obliged to forward documents and information to the parliamentary commission of enquiry. In the interest of complete transparency, the executive bodies of Heta have signalled their willingness to respond to this request, whereby documents are forwarded in protection of the justified interests of the company (particularly those regarding on-going court and disposition proceedings) and its employees (data protection), and in adherence to bank secrecy. Because of the large volume of requested documents, the documents were submitted in parts. As part of the completed questioning of persons with information, Heta issued, at the request of the affected persons, declarations to release them from the confidentiality obligation that applies to former and active employees/advisors. The final report, which was released on 10 October 2016, describes the political responsibility with regard to three key phases (bank under majority ownership of the State (2000 - 2008); emergency nationalisation of the bank (2009); and the period under the ownership of the Republic of Austria (2010 - 2014)).

### **6.5. Rating**

In November 2011, the former Hypo Alpe-Adria-Bank International AG resigned its institutional rating. All state and federally guaranteed bonds, along with the Pfandbrief rating, were not affected by this step.

Heta redeemed the last outstanding Pfandbrief on 13 June 2016, and the Pfandbrief rating was subsequently put aside.

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

## 7. Heta economic results

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

In the 2016 financial year, Heta's total assets increased slightly by EUR 0.4 billion over the previous year, and total EUR 9.9 billion at the end of the year. This increase in total assets is due to the reversal of provisions that were created for assets in previous years, which were no longer required at this amount due to the successfully completed sale transactions and the extraordinary repayment of financing.

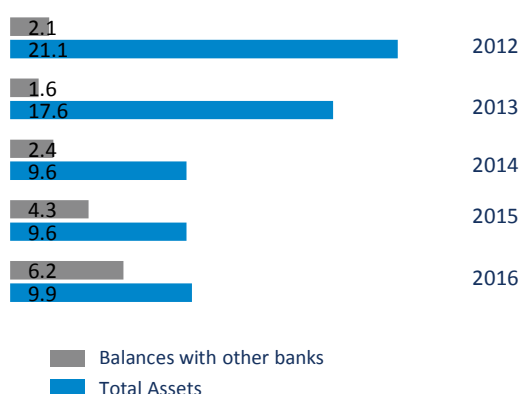
As a result of the payment moratorium, which was imposed by the Financial Market Authority (FMA) on 1 March 2015 and which stipulated that the majority of Heta's liabilities could no longer be serviced, Heta's total assets changed only slightly. The wind-down activities on the assets side led to the shift of short-, medium- and long-term loans and investments into cash and cash equivalents (cash and balances at central banks).

#### Total assets in EUR bn



The cash reserve (cash and balances at central banks) continued to increase by more than EUR 1.9 billion in the 2016 financial year, from EUR 4.3 billion to EUR 6.2 billion.

#### Total Assets / Balances with other banks in EUR bn



Inflows from the disposal of assets (gross proceeds less on-going costs related to business operations) of EUR 2.2 billion were accompanied by repayments of Pfandbriefe (cover pool)

not subject to the moratorium in the amount of EUR -0.3 billion.

The main drivers behind these inflows were the repayments of internal refinancing lines, the disposal of Centrice Real Estate GmbH (Centrice) in June 2016, the wind-down of the treasury portfolio (securities and treasury loans), repayments of the financing lines of the former subsidiaries Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) and the bank network in South-Eastern Europe that formerly belonged to the group (SEE, now Addiko Bank AG), and the retirement of Heta's cross-border loan portfolio.

Negative interest ranging from -0.3% to -0.4% was applied to the invested cash and balances at central banks in the 2016 financial year on account of the persistent low-interest phase.

Debt instruments of public authorities as well as bonds and other fixed-income securities are entirely classified as current assets, and fell from EUR 0.4 billion (2015) to EUR 0.1 billion (EUR -0.3 billion). During the course of the financial year, some of these items were repaid as per the contract or sold at an earlier date.

Loans and advances to credit institutions declined during the 2016 financial year from EUR 2.1 billion to EUR 1.7 billion, which corresponds to a reduction of EUR -0.4 billion or -17.6%. The decrease was mainly due to the repayment of refinancing lines of the former group companies HBI and Addiko Bank AG, measurement effects resulting from the reversal of risk provisions, and the reduction in cash collaterals for derivatives.

HBI repaid EUR 0.3 billion in refinancing lines to Heta during the financial year. The recoverability of the remaining refinancing lines was measured on the balance sheet date, taking into account the company's most recent business plan, whereby the risk provisions created in previous years (EUR -0.7 billion) were adjusted to EUR -0.4 billion. The main reason behind the reversal of the risk provision is the good progress that has been made in the effort to wind-down the former subsidiary bank (completion of initial portfolio sales).

The amount of refinancing lines provided to Addiko Bank AG declined during the 2016 financial year from EUR 2.1 billion to EUR 1.3 billion, whereby EUR -0.2 billion was repaid at an earlier date, EUR -0.3 billion was generated from Heta's waiver of receivables for foreign currency risks, and EUR -0.2 billion was generated from the earlier repayment of the assumption of Addiko Bank AG's receivables in Heta's subsidiaries. The risk provisions that were created for these refinancing lines therefore total EUR 0.3 billion at the end of 2016 (31 December 2015: EUR 1.2 billion). The main reason for the reduction in the risk provision is the contractual settlement for the earlier repayment of the refinancing lines to Heta that was agreed on 23 December 2016. The repayment was made on 6 February 2017, and had the effect of raising Heta's cash and balances at central banks by almost EUR 1 billion.

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

With a figure of EUR 1.7 billion, loans and advances to customers, which also include internal group financing lines to subsidiaries, were EUR -0.8 billion or -32.9% below the previous year's reference value (EUR 2.5 billion). Examined on a gross basis (nominal claim excluding risk provisions), this results in a significant decline of EUR -1.6 billion from EUR 4.9 billion to EUR 3.3 billion. The main drivers are the significant repayments of internal refinancing lines, the disposal of Centrice and the wind-down in Heta's cross-border loan portfolio. The portfolio sales "Drava" and "Pathfinder" also contribute to the reduction in this item.

Shares in affiliated companies remain virtually unchanged at EUR 0.1 billion. The liquidation of the former subsidiary in Liechtenstein (Alpen-Adria Privatbank i.L.), which was completed in December 2016, did not have a major effect on this item.

The value of other assets remains unchanged at EUR 0.2 billion.

The liabilities side in the financial year 2016 is characterised by the haircut. With Emergency Administrative Decision II from 10 April 2016, the wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) as listed in section 3.1.2 Implementation of Emergency Administrative Decision II were applied to Heta. The derecognition of "eligible liabilities" as a result of the "bail-in" of creditors reduced the amount of liabilities and provisions by EUR 9.4 billion.

In addition, Heta's issued and subordinated capital was reduced to zero. This had the effect of changing the entire presentation of the liabilities, since this process involved an exchange of liabilities. While liabilities decline as a result of their derecognition through profit or loss, the positive result from the derecognition is applied against the negative cumu-

lative result accrued in equity in previous years, which leads to the full equalisation of the negative equity. According to Emergency Administrative Decision II, equity also had to be reduced to zero.

Liabilities to credit institutions at EUR 1.1 billion were well below the reference value of the previous year (EUR 3.5 billion). In addition to the reduction in liabilities due to the application of Emergency Administrative Decision II, liabilities to customers were reorganised; this step was required after the Kärntner Ausgleichszahlungs-Fonds (K-AF) purchased bonds previously held by credit institutions.

As at 31 December 2016, liabilities to customers as well as liabilities evidenced by certificates totalled EUR 4.8 billion (2015: EUR 9.1 billion). The decrease of EUR -4.2 billion is mainly due to Emergency Administrative Decision II. It must be noted that the Pfandbrief liabilities, which were issued through Pfandbriefbank (Österreich) AG, were shown in a separate balance sheet item in 2015. Because of the State of Carinthia's repurchase programme, the titles, which were held by third parties, were transferred to the Kärntner Ausgleichszahlungs-Fonds (K-AF), and were therefore reorganised into the liabilities evidenced by certificates or liabilities to customers.

Provisions increased during the year under review, from EUR 2.9 billion to a total of EUR 3.8 billion. They include a provision for contingent liabilities related to resolution procedures in the amount of EUR 3.7 billion (2015: EUR 0 billion), which was recognised in connection with the application of the haircut. The provision was set at the amount of the difference by which assets (total assets) exceed reported liabilities and provisions (total liabilities).

Subordinated capital and equity were reduced to zero as per the emergency administrative decision.

EUR m

Assets	2016	2015	2014	2013	2012
Loans and advances to credit institutions	1,692	2,054	2,520	4,251	4,465
Loans and advances to customers	1,679	2,504	3,246	8,971	10,432
Fixed income securities, shares and investment funds	81	375	645	1,271	1,059
Shares in associated and affiliated companies	140	85	505	1,181	2,473
Balances with other banks	6,165	4,273	2,359	1,560	2,116
Other assets	156	265	334	353	513
<b>Total assets</b>	<b>9,913</b>	<b>9,556</b>	<b>9,609</b>	<b>17,587</b>	<b>21,058</b>

EUR m

Equity and Liabilities	2016	2015	2014	2013	2012
Equity	0	-7,479	-6,987	162	1,160
Funds for general banking risks	0	0	0	0	153
Liabilities to credit institutions	1,116	3,519	2,929	3,788	3,905
Liabilities to customers	938	1,481	1,668	1,630	1,681
Liabilities to Pfandbriefbank	0	1,245	0	0	0
Liabilities evidenced by certificates and subordinated capital	3,894	9,612	9,712	11,663	13,876
Other liabilities (incl. Provisions)	3,965	1,178	2,287	344	283
<b>Total equity and liabilities</b>	<b>9,913</b>	<b>9,556</b>	<b>9,609</b>	<b>17,587</b>	<b>21,058</b>

## 7.2. Development of results

In the 2016 financial year, the development of results at Heta was mainly characterised by Emergency Administrative Decision II, which applied a haircut to the “eligible liabilities” pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG). In addition, the profit from ordinary activities was also the result of decidedly positive effects from realised disposals and measurements.

Net interest income for the 2016 financial year amounted to EUR -70.2 million (2015: EUR -151.5 million), which represents an improvement of EUR +81.3 million. Interest income fell because of the progressive wind-down on the assets side (totalling EUR +424.8 million) to EUR +130.7 million. This drop is mainly due to the interest expenses for “eligible liabilities”, which only had to be recorded until 9 April 2016, as well as the wind-down in interest derivatives in the 2016 financial year, which leads to lower interest income compared to the previous year. Interest income includes EUR -19.7 million in negative interest paid to the central bank, as negative interest of -0.3% (January to mid-March 2016) and -0.4% p.a. (as of middle of March 2016) was applied to the cash held at the Austrian National Bank (OeNB). Interest expenses fell from EUR -576.3 million to EUR -200.8 million.

The item income from securities and participations increased by EUR +17.7 million over the previous year to EUR +18.6 million (2015: EUR +1.0 million), mainly due a distribution of dividends by Centrice in 2016.

Net fee and commission income, as the net balance of fee and commission income (EUR +1.1 million) and commission expenses (EUR -16.7 million), amounted to EUR -15.6 million (2015: EUR -91.3 million) in 2016, improving by EUR +75.7 million). This decrease was mainly the result of the implementation of Emergency Administrative Decision II.

The net income from financial transactions was positive at EUR +11.8 million (2015: EUR 56.3 million), and was mainly influenced by the foreign currency calculations (especially CHF).

Other operating income of EUR +104.6 million was +76.1 million above the value of the previous year (EUR +28.5 million). This income is mainly due to the cost transfer of services centrally provided for the group companies, and the reversal of provisions created in previous years (espe-

cially relating to provisions for legal proceedings in connection with the Federal Act on the Recovery and Resolution of Banks (BaSAG) and the reversal of the closing costs provision for expenditures in 2016).

Because of the increase in other income and the decrease in the negative interest results, operating income rose in the 2016 financial year from EUR -157.0 million to EUR +49.2 million, which represents an improvement of EUR +206.2 million.

Personnel expenses at Heta fell over the previous year's value (2015: EUR -41.3 million) to EUR -35.7 million. This decline was mainly due to the progressive reduction in the number of employees. This led to a significant reduction in the workforce by capacities from 428 (2015 annual average) to 356 (2016 annual average). The number of employees on the balance sheet date 31 December 2016 (by heads) was 336 (2015: 416).

The other administrative expenses of EUR -64.8 million are below the comparative figure for the previous year (2015: EUR -85.4 million), and are mainly due to the required provisions for the cost of lawyers and costs for litigation and legal proceedings. Other operating expenses for the financial year amounted to EUR -2.4 million (2015: EUR 0 million).

In total, the bank's operating result, as the net balance of operating income (EUR +49.2 million) and operating expenses (EUR -105.1 million), increased to EUR -55.9 million (2015: EUR -286.8 million).

The result from the measurement and disposal of financial assets, participations and investments in affiliated companies came to EUR 438.6 million (2015: EUR -3,118.2 million).

The measurement result (sum of result from the disposal and measurement of receivables and securities held as current assets, and the measurement and disposal of financial assets, participations and shares in affiliated companies) was decidedly positive in the 2016 financial year at EUR 1,419.1 million (2015: EUR 461.8 million).

EUR +494.8 million were due to the reversal of provisions for the former group subsidiary Addiko Bank AG. Most of the discount and provisions for the guarantee agreements with the Republic of Austria could be reversed as a result of the settlement agreed in December. In addition, the transfer of loans from Addiko Bank AG to group subsidiaries, which was applied during the first six months of 2016 in line with



the “Purchaser Brush”, also had a positive effect on the income statement, since not all of the provisions that were created for 31 December 2015 were actually required.

Another EUR +215.3 million are due to the reversal of risk provisions for refinancing lines to the former group subsidiary HBI. The provisions created in previous years had to be adjusted accordingly following the large repayments in 2016 and taking into account the updated and improved business plan for HBI.

In 2016, the termination of all derivative transactions on the liability side and all long-dated securities (securities with a term > 2020) on the asset side had a very positive effect on and made it possible to report a total of EUR +304.3 million in income (2015: EUR +64.7 million). The pending loss provision for negative market values from derivatives, which was created in previous years, was almost entirely reversed in 2016 as a result of the derivative closing.

In the 2016 financial year, the result from the securities portfolio was positive and amounted to approximately EUR +55.8 million (2015: EUR -29.0 million). This was mainly due to the improved rating for the State of Carinthia and the associated increase in the price of Carinthian bonds.

The result from the measurement of internal group financing lines and the measurement of participations is positive at EUR +251.6 million (2015: EUR -206.3 million). The progressive wind-down process and updated planning are responsible for the improved result in 2016.

The disposals of the two group companies Centrice Real Estate GmbH (closing in June 2016) and Heta Asset Resolution Italia S.r.l. (HARIT) (closing in February 2017) generated a total of EUR +34.8 million for the 2016 financial year, and also take into account provisions for warranties and guarantees.

The provisions for cross-border loans were also partially reversed following the progress that has been made with regard to the wind-down of the company's own loan portfolio.

The provision adjustments pursuant to section 57 (1) Austrian Banking Act (BWG) were reversed by an amount of approximately EUR +60.8 million to a figure of EUR 143.9 million (through profit or loss).

Taking into account all the above-mentioned effects, the result from ordinary activities was positive at EUR 1,363.2 million (2015: EUR +175.0 million).

The extraordinary result amounts to EUR +6,104.9 million (2015: EUR -655.6 million) and in 2016 is the result of the implementation of Emergency Administrative Decision II from 10 April 2016, and the allocation to the provision for contingent liabilities related to resolution procedures in the amount of EUR 3,171.5 million.

The corporate tax expenses for the financial year amounted to EUR +11.1 million (2015: EUR -8.9 million), and are mainly due to the tax apportionment of the domestic tax group and foreign withholding taxes.

After taking into account other taxes in the amount of EUR -0.3 million, the net income for the 2016 financial year was EUR 7,478.8 million (2015: EUR -491.6 million). Taking into account the amount generated from the reduction in equity (EUR 3,494.2 million), the net accumulated loss of EUR -10.973.0 million reported for 31 December 2015 was reduced to zero.

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

During the 2016 financial year, Heta's workforce fell from 416 employees as at 31 December 2015 to 336 employees on 31 December 2016; this drop was due to the capacity adjustments that had to be made during the course of the wind-down process.

### Employees Figures from 2012 to 2016



## 9. Public Corporate Governance Code

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

Concrete measures include the adaptation of the internal rules and procedures for the Supervisory Board and Management Board to the strict provisions of the Austrian Federal Public Corporate Governance Code (B-PCGK), which serve as the basis for the business practices of these executive bodies. On this basis, the provisions of the Austrian Federal Public Corporate Governance Code (B-PCKG) are gradually adopted as they are implemented in the respective statute-related documents of the various group companies.

As an additional consequence, Heta has also committed to report on compliance with the code on an annual basis. Compliance with the code's provisions is supposed to be audited by an external specialist every five years. This review (covering the 2015 financial year) was performed for the first time in 2016 by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. During the audit, KPMG did not identify any facts that are contrary to the information provided by Heta.



## 10. Risk report

Heta has operated as a partially-regulated wind-down unit, whose activities, authorisations and supervision are for the most part regulated by the Federal Law on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG), which went into force on 1 January 2015, since the end of October 2014. It aims to ensure the orderly and active resolution of its assets to the best possible advantage (portfolio wind-down). Only transactions that serve to fulfil the wind-down objectives are conducted. According to the Federal Act on the Creation of a Wind-down Entity (GSA), “proprietary transactions involving financial instruments are permitted at the wind-down unit for the purpose of controlling interest risk, currency risk, credit risk and liquidity risk within the scope of wind-down activities”. In addition, the wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) (see note (4) Wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA)) must also include “details on risk management that takes the wind-down objectives into account” (see note (2.2) Federal Act on the Creation of a Wind-down Entity (GSA)).

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

The obligation to report to the resolution authority Financial Markets Authority (Finanzmarktaufsicht; FMA), which has assumed the management and exercise of the administrative rights associated with the shares and ownership rights in Heta, is continually met.

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

Risk management activities focus mainly on risk controlling and also on measuring and monitoring the success of the wind-down activities.

In this context, Heta mainly bases its activities on the framework “COSO - ERM” (“Committee of Sponsoring Organizations of the Treadway Commission – Enterprise Risk Management”), which defines standards for risk management and internal control systems in modern companies.

The Austrian Federal Public Corporate Governance Code (Österreichische Bundes-Public-Corporate-Governance-Kodex; PCGK) (see section (9) Public Corporate Governance Code) forms another framework for the risk management activities.

### 10.1. Overview of risk management

Effective risk management constitutes a key factor for achieving Heta’s objectives. The main risk management activities consist of risk controlling as well as measuring and monitoring the success of the wind-down process. As a result of the special situation, as created by Emergency Administrative Decision II from 10 April 2016, the instruments for managing the liquidity and market risk with regard to changing prices in terms of an active risk management process are limited by the legal environment (Federal Act on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG)).

The primary objective of risk management is to ensure that activities fraught with risks are in alignment with the wind-down strategy and Heta’s risk appetite.

Heta’s risk management framework forms the systematic scope for defining the affinity for risk as well as directives and upper limits. It provides a total overview of all topic areas that are fraught with risk, and monitors compliance with the risk strategy.

The Heta risk management framework applies across the group and consists of the following main components:

- Risk steering and controlling,
- Risk appetite,
- Risk management instruments.

#### 10.1.1. Risk steering and controlling

Effective risk management begins with effective risk steering and controlling.

Heta possesses an established infrastructure for risk controlling, which consists of a market-independent Management Board segment as well as centralised risk management segments (Group Financial & Risk Controlling, Exit Supervision, Group Case Operations). The decision-making process is mainly centralised and is supported by a series of committees.

The risk management system monitors the main controlling activities, the internal control system and the management process in the operating divisions.

In addition to the key task of risk management outlined above, namely the task of monitoring a resolution process that is orderly, active and best possible, the process also includes other activities such as the measurement, monitoring and management of the wind-down of assets, individual risk management for counterparty default risks, processing of loans and risk controlling/monitoring of counterparty default, market, liquidity, operational and other risks at the portfolio level.

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

The Group Financial & Risk Controlling (GF&RC) pillar includes the following main functions:

- the identification of risks,
- the definition of risk policy guidelines,

- the measurement and monitoring of the portfolio wind-down process,
- the development and coordination of the planning process for the credit portfolio,
- the provision of risk methods and modeling,
- the implementation of risk analyses, risk limitation and monitoring as well as risk reporting.

The Exit Supervision pillar includes the following main functions:

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

The Group Case Operations (GCO) pillar includes the following main functions:

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

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

#### 10.1.2. Risk appetite

For the purpose of limiting Heta's risk accordingly, a new model for supporting the definition of risk appetite was integrated into the risk management framework. Risk tolerance is also determined on the basis of regular evaluations with division/department heads, and is subsequently approved by the Management Board.

The main objective with regard to risk appetite is to define that level of risk that may be considered acceptable with regard to the efforts that are undertaken to achieve the wind-down objectives.

Heta's risk management framework pursues an integrated risk management approach based on three pillars:

- Expected loss,
- Unexpected loss (RAP), and

- Stress scenarios.

#### 10.1.3. Risk management instruments

All effective risk management systems make use of certain techniques and instruments that are focused on the defined risk appetite and also the fulfilment of the wind-down strategy and planning.

##### 10.1.3.1. Wind-down strategy

The wind-down strategy represents the quantitative and qualitative claim. It acts as a guideline at the aggregate level in order to attain the strategic and financial objectives.

##### 10.1.3.2. Risk strategy

Heta controls and monitors its risks across all business segments with the aim of ensuring an orderly, active and best possible resolution. In this vein, Heta influences the business and risk policy of associated companies through division management at the holding and also through its representation in the executive bodies. Group-wide and uniform risk strategies, control processes and methods are implemented on subsidiary level.

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

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

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

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

In 2016, risk reporting was continuously adapted to Heta's situation as a wind-down unit.

##### 10.1.3.3. Internal directives

Internal directives define the measurement and handling of specific risk types. Similar to Working Instructions, they are also issued by the Management Board or the relevant committee.

Heta defines its specifications for risk management in the form of risk guidelines to ensure that risks are dealt with in a standardised manner. These guidelines are promptly adjusted to reflect organisational changes as well as changes to parts of the regulations, such as those related to processes, methods and procedures. The existing regulations are as-

essed at least once a year with regard to the need for updating.

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

#### 10.1.3.4. Limiting risk

Limits establish both the responsibilities for those core activities that are fraught with risk, as well as a catalogue of criteria under which transactions may be approved and implemented.

### 10.2. Key enhancements in 2016

Several major innovations in risk management took place in the 2016 financial year, which represent major success factors for Heta's risk controlling activities.

#### 10.2.1. IT-based controlling of loan portfolio

An IT tool that can be used to measure target achievements and deviations with regard to the loan portfolio's wind-down objectives was developed and introduced in cooperation with a well-known external software supplier.

In addition to offering the advantage of centralisation, the tool also offers considerable relief in terms of documenting the wind-down success for Heta.

#### 10.2.2. Redefining the framework for risk management (RAP)

The Risk Assessment Process (RAP) was developed to provide management with the opportunity to identify, assess and control possible uncertainties and the associated unexpected risks. In this way, precautionary measures may be developed to mitigate the effects of unexpected losses that may occur in the course of reaching the wind-down objectives.

The implementation of the risk assessment process consists of several steps and is based on the already noted COSO - ERM Framework:

- Identification of event,
- Assessment of risk,
- Risk response,
- Control measures,
- Controlling,
- Reporting.

The integrated approach involves all areas of the company, and is implemented from the bottom up to allow for the compilation and assessment of all possible risk events.

For example, the reference values risk buffer, risk appetite and risk tolerance can be derived from the results of the RAP.

Using this selected approach, most risk assessment activities are carried out concurrently in all areas of the organisation. Results are processed separately and finally aggregated in order to derive a total risk tolerance level to ensure the concept of "traffic light approach".

A risk matrix provides a combined overview of the risk tolerance and possible measures for minimising the risks associated with the potential incidents that have been identified and aggregated.

Heta manages and reports potential unexpected losses on the basis of the approved upper risk limits.

#### 10.2.3. Stress testing for assets

For the purpose of estimating the effects of various general conditions on Heta's assets, a project was implemented in 2016 with external support during the approval phase. The resulting portfolio model (HePoMo = Heta Portfolio Model) examines three scenarios each (best, base and worst) for the case of an orderly wind-down procedure pursuant to Federal Act on the Recovery and Resolution of Banks (BaSAG) and also for the scenario of an insolvency. The model comprises the entire loan portfolio, all real estate and moveable assets of Heta, the Treasury portfolio and the refinancing lines to HBI and Addiko Bank AG. The scenario of an expected and orderly wind-down procedure is based on Heta's business plan. Higher/lower resolution results are assumed for the best/worst case scenarios. The insolvency scenarios assume the immediate insolvency of Heta, which is associated with, among other things, a shorter liquidation period, higher price discounts and higher costs in the form of a higher discount rate.

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

The HIAT process is performed on a regular basis for the purpose of calculating the required risk provisions. The "Gone Concern" assumption as well as the major strategic objective of the quickest and best possible wind-down of the portfolio was addressed at the end of 2016.

To ensure the highest level of accuracy, 75% of the entire loan portfolio was assessed on an individual transaction basis.

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

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

The guidelines for the measurement of loans and real estate, which were developed in 2014 with the involvement of an auditing company as an independent expert, were adjusted to the current situation in 2016. The measurement parameters were defined on the basis of sound expert estimates. These parameters formed the basis for the subsequent measurement of loans and real estate by Heta.

A so-called “Realisable Sales Value” (RSV) was calculated for the measurement of loans. This value represents the best possible estimate of the sales value of assets in saturated markets as at 31 December 2016, which can be achieved in line with a proper and professional resolution process during a limited time frame.

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

- Loan Cash Flow Valuation Approach,
- Collateral Valuation Approach.

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

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

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

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

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

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

#### **10.2.5. Refining the methodology for controlling real estate risks (moveable assets and real estate)**

The controlling of real estate risks was picked up and refined as part of a group project. Specifically, a process, system and documentation were developed for analysing, monitoring and reporting real estate risks, which consist of the following key areas:

- Fluctuation of market values compared to the net carrying amount,
- Risk assessment (rating),
- Review of the defined wind-down strategy for the individual asset over the significance threshold,
- Stress and back-testing.

### **10.3. Risk types**

#### **10.3.1. Credit risk (counterparty default risk)**

The material credit risk (Net Exposure) was continuously reduced in the 2016 financial year through the reduction in assets.

##### **10.3.1.1. Definition**

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

Counterparty default risks also include the risk types concentration and participation risks.

### 10.3.1.2. General requirements

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

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

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

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

### 10.3.1.3. Risk measurement

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

### 10.3.1.4. Risk limitation

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

In the banking segment, limits are allocated and monitored by an independent unit in GF&RC. Limit breaches are immediately reported to the Chief Financial and Risk Officer (CFRO) and the Management Board.

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

Another important instrument in limiting risk at Heta refers to the collection and crediting of generally accepted collaterals. Processing and measurement activities are set out in group-wide standards (see Risk report (10.3.5.1) Ongoing evaluation of real estate and other collateral). Framework contracts for netting out mutual risks (close-out netting) are usually agreed on for the derivatives business. There are collateral agreements in place for certain business partners, which limit the default risk with individual counterparties to an agreed maximum amount and provide an entitlement to request additional collateral if the amount is exceeded.

### 10.3.1.5. Portfolio overview - Credit risk

The figures presented in the credit risk report reflect gross exposure, which consists of the on-balance-sheet and off-

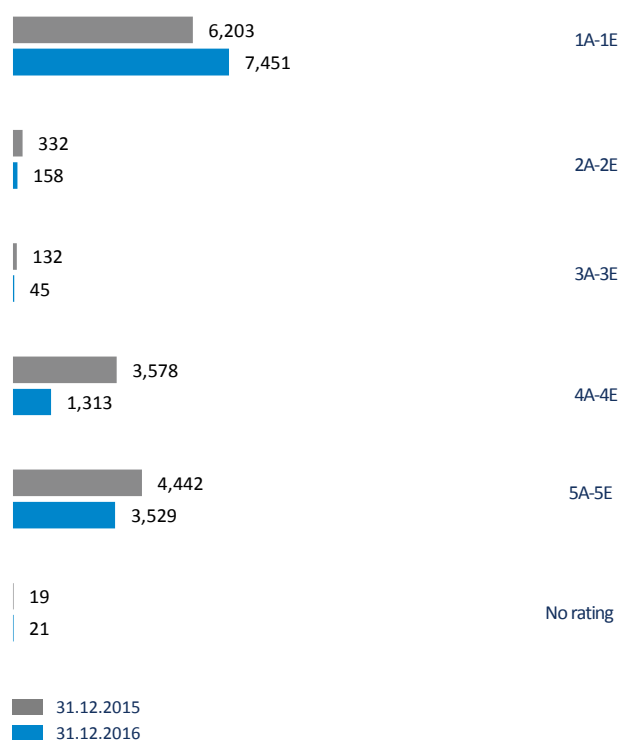
balance-sheet components and does not take into account hedging positions and netting agreements.

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

Roughly 61% of the gross exposure (44% in previous year) has a rating ranging from 1A to 2E (best to moderate creditworthiness). This exposure relates mainly to receivables from banks and public institutions, particularly the investment at the Austrian National Bank (OeNB). An improvement in the credit rating for the State of Carinthia had the effect of shifting the exposures from rating class 4A-4E to rating class 1A-1E.

#### Exposure by rating class

in EUR m





### Gross exposure by size category of the transactions

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

The largest share of the EUR 12.1 billion figure in the range > EUR 10 million exposure (EUR 14.0 billion in the previous year) is attributable to banks (particularly the investment at the OeNB) and the public sector.

The presentation is based on the “group of affiliated clients”:

Size classes by gross exposure	EUR m	
	31.12.2016	31.12.2015
< 500,000	12	16
500,000-1,000,000	11	15
1,000,000-2,500,000	68	118
2,500,000-5,000,000	132	154
5,000,000-10,000,000	241	379
10,000,000-25,000,000	455	690
25,000,000-50,000,000	570	839
50,000,000-100,000,000	458	796
100,000,000-500,000,000	1,301	2,119
> 500,000,000	9,270	9,580
<b>Total</b>	<b>12,518</b>	<b>14,705</b>

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

Financial assets against financial institutions or public entities which are not overdue and not impaired:

Rating class	EUR m			
	31.12.2016		31.12.2015	
	Gross Exposure	Collateral	Gross Exposure	Collateral
1A-1E	7,451	0	6,187	0
2A-2E	134	31	284	34
3A-3E	3	3	36	6
4A-4E	1,268	0	2,857	0
5A-5E	35	0	50	0
No rating	21	0	0	0
<b>Total</b>	<b>8,912</b>	<b>34</b>	<b>9,415</b>	<b>40</b>

Note: The Realisable Sales Value (RSV) is used as the collateral value.

Financial assets against other customers which are not overdue and not impaired:

Rating class	EUR m			
	31.12.2016		31.12.2015	
	Gross Exposure	Collateral	Gross Exposure	Collateral
1A-1E	0	0	8	0
2A-2E	24	22	44	17
3A-3E	42	37	96	70
4A-4E	13	9	45	2
5A-5E	4	0	21	0
No rating	0	0	18	0
<b>Total</b>	<b>84</b>	<b>69</b>	<b>232</b>	<b>89</b>

Note: The Realisable Sales Value (RSV) is used as the collateral value.



## Financial assets which are overdue but not impaired:

Classes of loans and advances	EUR m		EUR m	
	Gross Exposure	31.12.2016 Collateral	Gross Exposure	31.12.2015 Collateral
<b>Financial investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
- overdue to 30 days	0	0	0	0
<b>Loans and advances to credit institutions</b>	<b>33</b>	<b>0</b>	<b>8</b>	<b>0</b>
- overdue to 30 days	33	0	0	0
- overdue 31 to 60 days	0	0	0	0
- overdue 61 to 90 days	0	0	0	0
- overdue 91 to 180 days	0	0	0	0
- overdue 181 to 365 days	0	0	8	0
- overdue over one year	0	0	0	0
<b>Loans and advances to customers</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>4</b>
- overdue to 30 days	0	0	0	2
- overdue 31 to 60 days	0	0	0	0
- overdue 61 to 90 days	0	0	0	0
- overdue 91 to 180 days	0	0	3	0
- overdue 181 to 365 days	0	0	0	0
- overdue over one year	0	0	3	2
<b>Total</b>	<b>33</b>	<b>0</b>	<b>14</b>	<b>4</b>

## Financial assets which are impaired:

	EUR m			EUR m		
	Exposure	Collateral	31.12.2016 Provisions	Exposure	Collateral	31.12.2015 Provisions
Financial investments	0	0	0	0	0	0
Loans and advances to credit institutions	985	545	440	1,377	719	658
Loans and advances to customers	2,505	902	1,603	3,667	1,272	2,395
<b>Total</b>	<b>3,490</b>	<b>1,447</b>	<b>2,043</b>	<b>5,044</b>	<b>1,991</b>	<b>3,053</b>

Note: The RSV, limited to the net exposure, is used as the collateral value.

### 10.3.1.7. Participation risk

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

Prior to 2009, Heta (either directly or through a subsidiary) had invested in companies that either served to expand its business spectrum, provided services for the bank or functioned as purely financial holdings to achieve its business objectives. The year 2016 was characterised by the ongoing restructuring measures at Heta leading to portfolio rationalisation and to resolution in individual cases (see note (5) Winding-down of investment companies and asset sales).

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

### 10.3.1.8. Concentration risk

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

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

- Counterparty default concentrations,
- Geographic concentrations,

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

### 10.3.2. Market price risk

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

The previously mentioned "Key changes pertaining to risk management" must be noted with regard to the effects on the market risk - particularly the liquidation of stand-alone derivatives, the winding-down of individual investment companies and the open currency position. Heta's special situation, which was noted at the beginning, makes it more difficult to measure the interest change and market

price risks, as well as active risk management, in light of the limited market access.

#### 10.3.2.1. Definition

Market price risks comprise potential losses from changes in market prices. Heta classifies market price risks according to the risk factors into interest rate-, credit spread-, foreign currency- and share price risks, as well as risks from alternative investments.

#### 10.3.2.2. Risk measurement

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

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

#### 10.3.2.3. Risk limitation

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

#### 10.3.2.4. Risk controlling and monitoring

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

#### 10.3.2.5. Overview – market risk

The main risks in terms of the market risk are:

- Interest rate risk and
- Foreign currency risk.

#### 10.3.2.6. Interest rate risk

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

The interest change risk (banking book and trading book) at Heta on the basis of the VaR is EUR 3.5 million as per 31 December 2016 (31 December 2015: EUR 1.4 million). An increase in the interest change risk during the 2016 financial year (due to the removal of interest payments on Heta's debt instruments (Emergency Administrative Decision II from 10 April 2016) was mitigated by the wind-down of assets.

#### 10.3.2.7. Foreign currency risk

The main risk driver in terms of Heta's foreign currency risk is the Swiss Franc (CHF). At this time, the foreign currency risk cannot be entirely excluded due to restricted access to the market using foreign currency derivatives.

The foreign currency risk at Heta on the basis of the VaR is EUR 6.8 million as per 31 December 2016 (31 December 2015: EUR 13.0 million). The haircuts applied to debt instruments denominated in foreign currency on the basis of Emergency Administrative Decision II had the effect of significantly reducing the foreign currency risk compared to the previous year, although it still represents the main risk driver in Heta's market risk.

#### 10.3.3. Liquidity risk

The wind-down measures under Emergency Administrative Decision II (deferral, exemption from interest and reduction of "eligible liabilities") had a positive effect on Heta's structural liquidity risk (see note (2.4) Emergency administrative decisions by the Financial Markets Authority (FMA) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG)). From the current point of view, Heta is refinanced adequately throughout the duration of the wind-down horizon.

Proceeds generated by Heta and the repayments of refinancing lines of the subsidiaries are deposited at the Austrian National Bank (OeNB), with the result that the liquidity reserves rose significantly compared to the previous year.

##### 10.3.3.1. Definition

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

##### 10.3.3.2. Risk measurement

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

The liquidity coverage potential quantifies - in terms of amounts and time factors - the ability of the wind-down unit to provide liquid resources at the earliest date. The main components of the wind-down unit's liquidity coverage

potential consist of highly liquid securities and credit balances at the Austrian National Bank (OeNB).

##### 10.3.3.3. Risk controlling

Liquidity reserves are held to cover Heta's potential short-term payment obligations. The cash flow statement serves as the basis for liquidity risk controlling. Gaps that occur are compared to the liquidity coverage potential. Liquidity reserves are controlled within the limits of the options available to a wind-down unit, and in this process are regularly subjected to a review and stress situations.

##### 10.3.3.4. Risk monitoring

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

##### 10.3.3.5. Overview - Liquidity situation

Heta's liquidity situation in the year 2016 was characterised by over-liquidity as a result of the haircut and the prolongation of the debt instruments in Emergency Administrative Decision II from 10 April 2016; it was the result of on-going income generated from interest payments and repayments, but mainly the liquidation of the loan, real estate and securities portfolio. At the end of the year, the liquidity surplus was EUR 6,204 million. No capital market activities were carried out in 2016.

##### 10.3.4. Operational risk

The operational risk ("OpRisk") refers to the risk of losses resulting from inadequate or failed internal processes, systems, people or external factors.

Heta is exposed to potential losses from various operational risks, including organisational risks from internal processes, theft and fraud, failure to comply with regulatory requirements, operational disruptions, violations of internal confidentiality regulations, as well as risks in connection to outsourced tasks or damages to physical assets.

The operational risk can never be fully eliminated and requires active management to minimise the impact with regard to financial losses and reputational damage, as well as costs resulting from the violation of regulatory requirements.

The operational risk must be regularly surveyed, evaluated and managed in order to ensure the effectiveness and efficiency of wind-down activities, the credibility of reporting as well as conformity with the laws and compliance with all regulations.

##### 10.3.4.1. OpRisk controlling and management

Operational risk is actively managed in line with a risk committee that is based on a comprehensive catalogue of direc-

tives, working instructions and other written instructions. The OpRisk Committee (OpRC) is concerned with all OpRisk-relevant situations, and is also responsible for maintaining a total overview of OpRisk management activities. Decisions and consultations regarding the assessment of risks and the development of measures to minimise risks and controlling of the same, along with monitoring effectiveness, are made by the OpRC.

In order to ensure the uniform and transparent management of operational risks across the group, Heta introduced the DORO concept (Decentralized Operational Risk Officer), which was rolled out in every subsidiary. The DOROs report all “operational risk events” (which have been designated as material) directly to the Group Operational Risk Officer (GORO).

The DOROs attended a standardised training program to ensure a uniform level of understanding in the entire group.

The OpRisk Report provides an overview of OpRisk events, the resulting loss developments and an overview of the OpRisk-relevant reference values in the processes. Prompt and comprehensive OpRisk reporting increases risk transparency and allows for the proactive management of OpRisk exposures. Working instructions were prepared and rolled out in the group. A key instruction concerns the use of loss databases for the systematic collection of operational risks at the local level (events with damages exceeding EUR 5,000 are reported to the group). Reports are submitted to the OpRC and the Heta Management Board in the case of significant losses (losses of EUR 100,000 and more).

Upper management is informed of significant operational damages via additional ad-hoc reports (damage threshold EUR 100,000).

Group Legal and Group Compliance handle and manage process risks using a common platform.

#### 10.3.4.2. ICS

The internal control system (ICS) comprises the planning and coordination of all measures and activities in line with the business processes that are used to secure assets, verify the reliability of accounting data and promote the accuracy and reliability of the processes. The internal control system is also used to verify compliance with the internal directives.

A formal evaluation of the adequacy and effectiveness of the ICS is performed annually by the Group Management Board. The evaluation includes the system as such, and individual control activities. The evaluation was conducted at the operational level by GF&RC in accordance with the ICS plan. The results demonstrate that the audited processes are subject to adequate controls and that all potential inherent risks are compiled and adequately managed.

In 2016, the focus of activities was centered on the further development (improvement, stabilisation, adjustment) of the ICS in regard to the changed processes.

The ICS Policy was revised and rolled out across the group. An ICS annual plan was also developed.

The plan focuses on the resolution processes with regard to the pricing and measurement of assets for those transactions that are the main drivers behind the results for achieving the wind-down objectives. In 2016, all conventional techniques were applied according to the ICS plan in all defined phases of the ICS audit cycle in accordance with the ICS Policy.

#### 10.3.5. Real estate risk

At Heta, real estate risk refers to all possible losses that may result from changes in the market values of moveable and immoveable property (real estate), or losses resulting from a deviation from the wind-down strategy for an individual asset.

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

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

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

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

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

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

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

#### 10.3.6. Transaction processing and strategic risk

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

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

#### **10.3.7. Legal risks**

Comments regarding important legal proceedings for Heta can be found in the notes under note (2.6) Status of Heta's main proceedings. Potential losses from these proceedings can have a significant negative impact on Heta's asset, financial and earnings position. In 2016, all of Heta's passive proceedings were again reviewed with respect to the appropriate quantification of the provisions as part of the so-called Legal Quality Review (LQR) (See note (41.3.3) Other procedural matters).

#### **10.3.8. Tax risks relating to tax audits**

The tax audits carried out by the respective tax authorities in Austria during the past few years have been completed. The corresponding provisions were booked in the annual financial statements for 31 December 2016 (and the preceding annual financial statements) with regard to quantifiable audit results that had been communicated to Heta and for which Heta's legal opinion corresponds to that of the tax authority. In the case of findings with divergent opinions, Heta has filed an appeal and, depending on its assessment of how successful the appeal may be, has also booked provisions.

In addition, Heta has also assumed arm's length tax-related guarantees in connection with the resolution of the former SEE network. The settlement that was reached with the buyer of the SEE network in December 2016 and ac-

cepted in February 2017 also had the effect of settling these claims, so that further claims from the tax-related guarantees are no longer possible in the future.

#### **10.3.9. Other risks**

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

##### **10.3.9.1. Reputation risk**

Reputation risk refers to the risk that negative publicity concerning a company's business practices, regardless of its veracity, results in deviations from the wind-down plan, costly legal disputes or a reduction in planned liquidity.

##### **10.3.9.2. Model risk**

Model risk refers to the risk of possible adverse consequences from decisions that are based on models that have been applied inappropriately or incorrectly. In this context, the model is defined as a quantitative method, system or approach that uses statistical, economic, financial or mathematical theories, techniques and assumptions to estimate quantitative parameters from input data.

##### **10.3.9.3. Compliance risk**

Compliance risk is made up from legal sanctions as well as the financial and material losses faced by an organisation if it acts contrary to internal directives or defined standards. Compliance risk is measured by continuously addressing the findings from incident management, internal audit reports and the ICS.

## 11. Internal Control System for accounting procedures

Heta has an Internal Control System (ICS) for accounting procedures, in which appropriate structures and procedures are defined and implemented.

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

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

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

The particular objectives with regard to the accounting process are that the ICS ensures that all business transactions are recorded immediately, correctly and in a uniform manner for accounting purposes. It ensures that the accounting procedures and measurement standards and the internal Group Policy Financial Management, which are mandatory for all companies consolidated in the financial statements, are upheld. The aforementioned group policy specifies the organisation and process of financial reporting as regards accounting procedures.

The ICS is based on:

- The complete documentation of all relevant processes in Group Accounting and Reporting,
- Working instructions and documentation of individual workflows,
- The complete presentation of all relevant risks and their respective control mechanisms as part of the process documentation,
- Independently operating control mechanisms and measures in the formal organisational structure and workflow management (programmed controls in the IT system),
- Observance of the principles of separation of duties and dual control,
- Internal audit – as a separate organisational unit - which is concerned with monitoring all group business areas.

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

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

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

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

The processes, policies and control procedures implemented at Heta are subject to ongoing evaluation and further development.

### 11.1. Internal control system related activities in the 2016 financial year

Heta's organisational structure changed significantly since the 2014 financial year as a result of the transformation process into a wind-down unit.

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

### 11.2. Planned internal control activities for the 2017 financial year

The adjustment of processes resulting from the wind-down process will be continued during the 2017 financial year. This process will be accompanied by changes to the process environment.



It is anticipated that in 2017 the internal control system will be continuously enhanced and adapted to the conditions inherent in the new processes. In this context, the focus will remain on the key processes of the wind-down unit and additional process support.

## 12. Research and development

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

## 13. Forecast

In the year 2016, Heta was confronted with changes to a number of important conditions. The decisions made by the resolution authority in line with Emergency Administrative Decision II and the acceptance by the majority of Heta creditors of a purchase offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF) for Heta debt instruments had the effect of setting an important course for Heta and significantly reducing the risk factors for operating activities in the year 2017.

Accordingly, the Management Board expects that activities in 2017 will focus primarily on disposal activities in line with the wind-down plan pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA), which was published in the 2016 financial year. According to the plan, approximately 80% of the portfolio is to be wound-down by 2018 (based on the comparative figure for the 2014 year-end). For 2017, the wind-down plan expects that the portfolio will be reduced by approximately EUR 900 million. Based on the positive progress of the disposals, the originally (2015) expected cash and balances at central banks for the year 2020 were raised from EUR 6.3 billion to EUR 7.7 billion in August 2016. Due to the general settlement initiated with Addiko Bank AG (previously HGAA) in December 2016, and the earlier repayment of the Heta financing lines provided until 2022 in the amount of approximately EUR 1 billion, the expected amount of cash and balances at central banks in 2020 will continue to rise.

The sales agreement for Heta Asset Resolution Italia S.r.l. (HARIT) with an alternative investment fund that is affiliated with Bain Capital Credit (European Advisors), Ltd will also have a positive effect on cash flows. Following the successful closing on 21 February 2017, Heta no longer carries out any direct operating activities in Italy.

Business activities in Liechtenstein and Macedonia were discontinued in the 2016 financial year. New disposal processes will be started in 2017 for subsidiaries in other countries, and also for sub-portfolios in the area of performing and non-performing loans. In addition, the wind-down on an individual basis and the disposal of real estate and other collateral will also be intensified.

The reduction in the portfolio is also accompanied by a reduction in Heta's workforce. The number of employees

working in the central holding is supposed to be gradually reduced from 336 persons (as at 31 December 2016) to approximately 220 persons. The number of employees in the entire group (1,007 persons as at 31 December 2016) will also fall in accordance with the wind-down progress. An already existing social plan continues to apply, and is supposed to ensure that continues in an orderly and socially compatible way.

The disposal of portfolios is accompanied by a moderate economic recovery in Europe. For the year 2017, the EU Commission expects GDP to grow by 0.1% to 2.0% (EU level), but also warns of increasing risks such as changes in the political environment, stricter US monetary policies and a possible increase in commodity prices. The continued favourable financing opportunities in the Eurozone are again noted as stimulating factors, although investments are lagging considerably behind expectations, which further delays the upswing in the labour market. For the countries in which Heta undertakes operating activities, the EU presents a cautiously optimistic picture: In 2017, the GDP is expected to grow by 1.6% in Austria (2016: 1.7%), 2.3% in Slovenia (2016: 1.8%), 2.1% in Croatia (2016: 2.1%), 2.5% in Hungary (2016: 2.1%), 2.5% in Serbia (1.6%) and 4.1% in Montenegro (4.0%).

While the low-interest policy pursued by the European Central Bank is considered a positive stimulus effect, it also creates considerable challenges for long-term investors. In this vein, Heta's interest situation cannot be described as satisfactory, after negative interest was applied to the cash deposited at the Austrian National Bank (OeNB) (-0.4% p.a.). Heta does not expect a reversal in the ECB's interest rate policy in 2017.

Developments in the area of legal disputes can be assessed as positive for 2017. Following the acceptance of a purchase offer for Heta debt instruments by a majority of Heta creditors, the plaintiffs withdrew most of the lawsuits that were filed in connection with the banking wind-down and restructuring act (Federal Act on the Recovery and Resolution of Banks (BaSAG)). In addition, all submission proceedings pending before the European Court of Justice (ECJ) regarding the application of BaSAG to Heta as a wind-down unit were also abandoned. Still pending is the legal dispute between BayernLB and Heta in connection with the assessment of the possible application of the Austrian Equity Substituting Capital Act (EKEG) to the refinancing lines that were previously provided by BayernLB to the former Hypo Alpe-Adria-Bank International AG, whereby a statement submitted by BayernLB in the fall of 2015 significantly minimised the risk. The proceedings solely serve to provide legal certainty, and would eventually result in a positive inflow of funds for Heta in the case of a victory.

Emergency Administrative Decision II provides the option for the early distribution of sales proceeds to creditors. On this point, Heta's statutes were adjusted accordingly in June 2016. The first such early distribution to those creditors is planned to take place in 2017. The Management Board must prepare a corresponding distribution resolution, and must submit the same to the general shareholders' meeting for adoption.

In conclusion, the Management Board once again advises that with Emergency Administrative Decision II from 10 April 2016, the Financial Markets Authority (FMA) assumed control of Heta and exercises all of the management and controlling rights associated with the shares. Based on the effects from Emergency Administrative Decision II, the Management Board expects at minimum a balanced annual result for 2017. - subject to the current environment remaining the same.

(Sources: WKO, EU Commission, OECD)

Klagenfurt am Wörthersee, 15 March 2017  
Heta Asset Resolution AG

THE MANAGEMENT BOARD

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

Mag. Martin Handrich  
(Member)

Mag. Arnold Schiefer  
(Member)

Mag. Alexander Tscherteu  
(Member)

# Financial Statements (UGB/BWG)

## Balance Sheet as at 31 December 2016

	31.12.2016	31.12.2015
	EUR	EUR thousand
<b>Assets</b>		
1. Cash in hand, balances at central banks	6,164,879,705.38	4,273,366
2. Treasury bills and other bills eligible for refinancing with central banks		
a) Treasury bills and other similar securities	34,910,512.37	182,898
3. Loans and advances to credit institutions		
a) Repayable on demand	175,188,839.82	370,055
b) Other loans and advances	<u>1,516,755,090.49</u>	<u>1,684,426</u>
	1,691,943,930.31	2,054,481
4. Loans and advances to customers	1,679,099,962.64	2,504,042
5. Bonds and other fixed income securities		
a) Issued by the public sector	29,451,381.51	27,976
b) Issued by others	<u>16,598,103.50</u>	<u>145,936</u>
of which own debt securities	EUR 0.00	173,912
	(prior year: EUR 3,073 thousand)	
6. Shares and other non-fixed income securities	240,247.25	18,519
7. Shares in associated companies	1.00	0
thereof: credit institutions	EUR 0.00	
	(prior year: EUR 0 thousand)	
8. Shares in affiliated companies	139,600,194.77	85,375
thereof: credit institutions	EUR 0.00	
	(prior year: EUR 0 thousand)	
9. Intangible fixed assets	2,173,262.34	2,483
10. Tangible fixed assets	3,382,733.70	4,378
thereof:		
Land and buildings used by the company for its own activities	EUR 1,670,834.86	
	(prior year: EUR 2,312 thousand)	
11. Other assets	150,417,051.23	249,297
12. Deferred assets	0.00	7,023
<b>Total assets</b>	<b>9,912,697,086.00</b>	<b>9,555,774</b>
<b>Below-the-line memo items</b>		
1. Foreign assets	2,120,863,178.04	2,994,272

	31.12.2016	31.12.2015
	EUR	EUR thousand
<b>Equity and Liabilities</b>		
1. Liabilities to credit institutions		
a) Repayable on demand	3,478,446.13	858,772
b) With agreed maturities or periods of notice	<u>1,112,206,585.30</u>	<u>2,660,725</u>
	1,115,685,031.43	3,519,497
2. Liabilities to customers		
a) Other liabilities, thereof:		
aa) Repayable on demand	199,063,639.83	178,229
ab) With agreed maturities or periods of notice	<u>739,312,535.66</u>	<u>1,302,427</u>
	938,376,175.49	1,480,656
3. Liabilities to Pfandbriefbank	0.00	1,245,248
4. Debt evidenced by certificates		
a) Bonds issued	3,894,435,840.91	7,642,442
b) Other debt evidenced by certificates	<u>0.00</u>	<u>0</u>
	3,894,435,840.91	7,642,442
5. Other liabilities	221,695,774.84	326,095
6. Deferred liabilities	0.00	6,135
7. Provisions		
a) Provisions for severance payments	3,205,435.00	3,109
b) Provisions for pensions	6,373,859.00	5,823
c) Tax provisions	2,901,055.98	2,312
d) Other	558,565,530.52	833,575
e) provision for contingent liabilities related to resolution procedures	<u>3,171,458,382.83</u>	<u>0</u>
	3,742,504,263.33	844,819
8. Supplementary capital pursuant to part 2, title I (4) of Directive (EU) 575/2013	0.00	1,969,716
9. Issued capital	0.00	3,494,208
10. Net accumulated gains/losses	0.00	-10,973,042
<b>Total equity and liabilities</b>	<b>9,912,697,086.00</b>	<b>9,555,774</b>

	31.12.2016	31.12.2015
	EUR	EUR thousand
<b>Below-the-line memo items</b>		
1. Contingent liabilities	4,065,010,647.01	105,143
thereof:		
a) Guarantees and other collateral securities	3,148,273.64	
(prior year: EUR 105,143 thousand)		
b) due to application of creditor participation reduced liability	4,061,862,373.37	
(prior year: EUR 0 thousand)		
2. Loan exposures	9,471,658.99	185,655
3. Commitments arising from fiduciary transactions	79,675,392.51	73,257
4. Foreign liabilities	1,141,259,855.87	4,460,823

## Income statement for the period 1 January to 31 December 2016

		1.1.-31.12.2016	1.1.-31.12.2015
		EUR	EUR thousand
1.	Interest and similar income	130,660,936.14	424,765
	thereof: fixed-interest securities EUR 5,893,248.06		
	(prior year: EUR 14,209 thousand)		
2.	Interest and similar expenses	(200,833,766.23)	(576,287)
<b>I.</b>	<b>NET INTEREST INCOME</b>	<b>-70,172,830.09</b>	<b>-151,522</b>
3.	Income from equity interests and investments		
a)	Shares, other equity interests and non-interest-bearing securities	356,529.14	0
b)	Associated companies	0.00	270
c)	Affiliated companies	18,200,000.00	734
		18,556,529.14	1,004
4.	Fee and commission income	1,079,531.15	1,792
5.	Fee and commission expenses	(16,666,543.56)	(93,114)
6.	Net income from trading activities	11,799,503.75	56,350
7.	Other operating income	104,577,120.21	28,505
<b>II.</b>	<b>OPERATING INCOME</b>	<b>49,173,310.60</b>	<b>-156,985</b>
8.	General administrative expenses		
a)	Personnel expenses: thereof		
aa)	Wages and salaries	(26,088,842.79)	(30,164)
ab)	Costs of statutory social security contributions and other pay-related contributions	(6,822,732.83)	(8,055)
ac)	Other social welfare contributions	(617,035.74)	(628)
ad)	Expenses for pensions and other retirement benefits	(1,018,301.30)	(655)
ae)	Pension provision allocations	(353,898.18)	(672)
af)	Expenses for severance payments and contributions to employee severance funds	(752,150.04)	(1,143)
		(35,652,960.88)	(41,316)
b)	Other administrative expenses (operating expenses)	(64,825,918.08)	(85,358)
		(100,478,878.96)	(126,674)
9.	Depreciation and amortisation of fixed assets (balance sheet items 9 and 10)	(2,230,945.63)	(3,113)
10.	Other operating expenses	(2,386,440.51)	(35)
<b>III.</b>	<b>OPERATING EXPENSES</b>	<b>-105,096,265.10</b>	<b>-129,822</b>



		1.1.-31.12.2016	1.1.-31.12.2015
		EUR	EUR thousand
<b>IV.</b>	<b>OPERATING PROFIT</b>	<b>-55,922,954.50</b>	<b>-286,807</b>
11./12.	Net gain/loss from the remeasurement and disposal of receivables, contingent liabilities, loan exposures and securities held as current assets	980,489,015.16	3,579,981
13./14.	Net gain/loss from the remeasurement and disposal of securities treated as fin. assets and from investments in associated and affiliated companies	438,602,952.04	(3,118,181)
<b>V.</b>	<b>PROFIT FROM ORDINARY ACTIVITIES</b>	<b>1,363,169,012.70</b>	<b>174,993</b>
15.	Extraordinary income	9,445,555,843.31	1,087,908
16.	Extraordinary expenses	(3,340,678,837.37)	(1,743,472)
<b>17.</b>	<b>Extraordinary result</b>	<b>6,104,877,005.94</b>	<b>-655,564</b>
18.	Income taxes	11,107,977.35	(8,885)
	thereof:		
	expenses connected to the taxation agreement	EUR 13,248,514.67 (prior year: EUR -7,639 thousand)	
19.	Other taxes not recognised under the item 18	(320,317.49)	(2,158)
<b>VI.</b>	<b>Net profit/loss for year</b>	<b>7,478,833,678.50</b>	<b>-491,613</b>
20.	Capital decrease according to BaSAG	3,494,208,118.77	0
	thereof:		
	Issued capital	EUR 2,419,097,046.21	0
	Participation capital	EUR 1,075,111,072.56	0
<b>VII.</b>	<b>Loss carried forward</b>	<b>-10,973,041,797.27</b>	<b>-10,481,428</b>
<b>VIII.</b>	<b>NET ACCUMULATED GAINS/LOSSES</b>	<b>0.00</b>	<b>-10,973,042</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE 2016 FINANCIAL YEAR

## I. General information

### (1) The Company

Heta Asset Resolution AG (the former Hypo Alpe-Adria-Bank International AG) was founded in 1896 as the Kärntner Landes- und Hypothekenbankanstalt, and operates as the parent company of the Heta Group (formerly Hypo Alpe Adria). Since 30 December 2009, it has been 100% owned by the Republic of Austria.

In implementing the legal mandate to wind-down the former Hypo Alpe-Adria-Bank International AG, the Austrian Financial Market Authority (FMA), in its decision from 30 October 2014, announced the termination of the banking license. The company has since been continued as Heta Asset Resolution AG (Heta) in the form of a partially-regulated wind-down unit in accordance with the Federal Act on the Creation of a Wind-down Entity (Federal Law Gazette I 2014/51, GSA). The business purpose of Heta is the full wind-down of its assets. According to section 3 (1) Federal Act on the Creation of a Wind-down Entity (GSA), the wind-down unit must “ensure the orderly, active and best possible exploitation (portfolio wind-down)”. The company must subsequently be liquidated. Within this context, it is also authorised, on the basis of the legal concession under the Federal Act on the Creation of a Wind-down Entity (GSA), to continue to enter into banking or leasing transactions that serve this purpose. According to section 3 (4) Federal Act on the Creation of a Wind-down Entity (GSA), Heta is subject to some of the provisions of the Austrian Banking Act (BWG) and accordingly has assumed certain reporting and notification duties vis-a-vis the Financial Market Authority (FMA).

Following the determination of a considerable capital shortfall in February 2015, and the imposition of a payment moratorium on 1 March 2015 by the Financial Market Authority (FMA), the company has been subjected to an orderly wind-down process pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG). The Financial Market Authority (FMA) has exercised the rights associated with the shares and property titles in Heta since 10 April 2016.

### (2) Legal information and important events in 2016

#### 2.1. Decision of the Commission of the European Union from 3 September 2013

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

The decision provided for the division of the company into the marketable, reprivatisable units of the South-Eastern European Network (SEE) and the wind-down unit. A reprivatisation process was stipulated for the banks of the SEE network in Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro; it had to be completed by the end of 2015 (Closing). The closing for the sale of the SEE network was completed in July 2015 as scheduled. Furthermore, the former Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A. (Udine) was allocated to the wind-down segment during the second half of 2013. The requirements relating to Hypo Alpe-Adria-Bank S.p.A. under European law are no longer relevant to Heta as ownership of Hypo Alpe-Adria-Bank S.p.A. was transferred to HBI-Bundesholding AG, Vienna in September 2014. Heta is subject to new business restrictions and in particular the requirement that assets must be wound-down in a manner that preserves assets and values.

Compliance with the restructuring plan and the imposed requirements has so far been monitored by an independent trustee appointed by the European Commission, the “Monitoring Trustee”. The Trustee’s quarterly reports are submitted to the Commission. The activities of the Monitoring Trustee are expected to be completed once the reporting for the year 2016 has been finalised. Quarterly reporting is supposed to be replaced with annual reports to the European Commission.

#### 2.2. Federal Act on the Creation of a Wind-Down Unit (GSA)

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

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

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

Following the resolution of the general shareholders' meeting on 29 October 2014, the company's statutes were amended in view of the transformation into a wind-down unit; the name of the parent company was also changed from "HYPO ALPE-ADRIA-BANK INTERNATIONAL AG" to "HETA ASSET RESOLUTION AG". The company's business purpose was restricted - with the exception of those tasks specified in the Federal Act on the Creation of a Wind-down Entity (GSA) - to transactions that are required to fulfil the company's task (complete reduction of the portfolio as quickly as possible). These amendments were entered in the commercial register on 31 October 2014 and are effective as from that date. The change in the name of the company does not constitute a reorganisation under corporate law, as the change does not affect the legal person of the company itself or any of its contractual obligations. Article 2.3 of Heta's statutes provides that a resolution on dissolution has to be passed as soon as the portfolio is completely wound-down.

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

The EU Bank Recovery and Resolution Directive (BRRD) (Directive 2014/59/EU), harmonises the instruments for the recovery or resolution of banks and investment firms in the EU. When a bank fails, the Bank Recovery and Resolution Directive (BRRD) provides for a "write-down and conversion cascade", according to which the risks and losses must initially be borne by the owners and creditors. The Bank Recovery and Resolution Directive (BRRD) went into force when it was published in the official gazette of the EU on 12 June 2014, and had to be implemented into national law by the member states within two years. The implementation of the Bank Recovery and Resolution Directive (BRRD) into Austrian law through the Federal Act on the Recovery and Resolution of Banks (BaSAG) created a national framework for the wind-down of banking institutions. The Federal Act on the Recovery and Resolution of Banks (BaSAG) went into force on 1 January 2015.

According to section 162 (6) Federal Act on the Recovery and Resolution of Banks (BaSAG), Heta is subject to the provisions of the fourth part of the act, which sets out the wind-down measures. This ensures the orderly wind-down of Heta in application of the Federal Act on the Recovery and Resolution of Banks (BaSAG).

### 2.4. Emergency administrative decisions by the Financial Market Authority (FMA) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG)

#### 2.4.1. CONTENTS OF THE EMERGENCY ADMINISTRATIVE DECISIONS

In order to ensure that the objective of the "quickest possible wind-down of the portfolio" as set out in the Federal Act on the Creation of a Wind-down Entity (GSA) is reflected in the measurement approaches, Heta performed a comprehensive measurement of the assets that are relevant with regard to the wind-down of the portfolio, a so-called "Asset Quality Review (AQR)", at the end of 2014. After the first interim results of the group-wide AQR, which with regard to Heta's annual financial statements for 31 December 2014 pursuant to the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) indicated a capital shortfall ranging from EUR -4.0 billion to EUR -7.6 billion, which was above the state aid range approved by the EU Commission, became known in February 2015, the Republic of Austria, in its capacity as Heta's owner, let it be known that it no longer wished to take any more measures on Heta's behalf pursuant to the Financial Market Stability Act (FinStaG).

As a consequence, on 1 March 2015 the Financial Market Authority (FMA) issued an emergency administrative decision (Emergency Administrative Decision I) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG), which subjected all of Heta's "eligible liabilities" to a moratorium until 31 May 2016 in preparation for the application of the "bail-in" of creditors instrument.

On 10 April 2016, the Financial Market Authority (FMA) issued an emergency administrative decision about the challenge procedure ("Vorstellungsbescheid") that both confirmed and replaced Emergency Administrative Decision I. Objections against this decision could be submitted to the Federal Administrative Court within a four week period starting on 10 April 2016. The decisions were published on the Financial Market Authority (FMA) website, and can be found at <https://www.fma.gv.at/en/resolution-of-heta-asset-resolution-ag/>. In addition, they can also be obtained from Heta's website at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Ad hoc releases 2015 respectively 2016).

Also on 10 April 2016, the Financial Market Authority (FMA) announced another decision containing wind-down measures relating to Heta ("Emergency Administrative Decision II"). With this emergency administrative decision, the following wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) were applied to Heta with immediate effect:

1. Reduction of common equity tier 1 and supplementary capital to zero;
2. "Bail-in" of creditors, in particular:
  - Reduction of subordinated "eligible liabilities" as at 1 March 2015 including the respective interest accrued up to 28 February 2015 to zero;
  - Reduction of non-subordinated "eligible liabilities" as at 1 March 2015 including the respective interest accrued up to 28 February 2015 to 46.02%;
  - Reduction of the nominal values or outstanding residual amounts of "eligible liabilities" arising from court proceedings against Heta or of the other disputed "eligible liabilities", including those with regard to the facts which were already established as of 1 March 2015, even though the occurrence or amount is uncertain, to 46.02%, including the respective interest accrued up to 28 February 2015;
3. Change in interest rates: reduction in the interest rate on "eligible liabilities" of Heta as at 1 March 2015 to zero;
4. Change in maturity dates: Change in scheduled maturity dates for all "eligible liabilities" to the date of the decision to dissolve the company pursuant to section 84 (9) of the Federal Act on the Recovery and Resolution of Banks (BaSAG), but not later than 31 December 2023;
5. Cancellation of rights associated with the shares and titles of ownership, exercise of control and management; and rights associated with the shares and titles of ownership by the Financial Market Authority (FMA).

The Emergency Administrative Decision II can be found at <https://www.fma.gv.at/en/resolution-of-heta-asset-resolution-ag/> and on Heta's website at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Ad hoc releases 2016). An appeal against the Financial Market Authority's (FMA) Emergency Administrative Decision II could have been submitted within three months after it was released (10 April 2016), although this would not have had any suspensory effect. A decision by the Financial Market Authority (FMA) on the appeals has not been made available at this time.

Both emergency administrative decisions are based on the Federal Act on the Recovery and Resolution of Banks (BaSAG), by which the Bank Recovery and Resolution Directive (BRRD) was implemented in Austria. This has the effect that the decisions must also be recognised in all EU member states.

#### 2.4.2. IMPLEMENTATION OF EMERGENCY ADMINISTRATIVE DECISION II

The "bail-in" of creditors as outlined in Emergency Administrative Decision II - particularly the reduction in "eligible liabilities" and changes to interest rates and due dates - was implemented by Heta with the assistance of external advisors and in coordination with the Financial Market Authority (FMA). This became necessary because the first-time application of the Federal Act on the Recovery and Resolution of Banks (BaSAG) led to numerous legal questions and accounting-related issues.

In very few individual cases, Emergency Administrative Decision II could not be implemented in the financial statements in accordance with the decision, particularly because the emergency administrative decision, in terms of its approach, uses 1 March 2015 as a basis (retroactively). Due to the fact that the daily due accounts in Emergency Administrative Decision I were not explicitly shown as "eligible liabilities" but are nevertheless covered by the "bail-in" of creditors pursuant to item II 2.5. of Emergency Administrative Decision II, the implementation of the haircut required that the affected creditors were informed of their inclusion in the "bail-in" of creditors via information or recovery letters.

Based on item II 3.1., Emergency Administrative Decision II also includes a reduction in the nominal value or outstanding remaining amount of the "eligible liabilities" from court proceedings against Heta, or Heta's other disputed "eligible liabilities". With regard to this particular item, Emergency Administrative Decision II also includes a non-conclusive listing of pending legal proceedings against Heta. At this time, Heta is involved in two proceedings in Croatia and one in Austria, which conflict with the impact of Emergency Administrative Decision II. No legally binding decisions are available to date. Some of the proceedings affected by the emergency administrative decision are pending in other EU countries. These cases are associated with the risk that the impact of the emergency administrative decision and hence the Federal Act on the Recovery and Resolution of Banks (BaSAG) might not be recognised in other EU states due to a lack of a basis under European law. This risk has not materialised to date. Heta has informed all of the lawyers working on the cases of the impact of Emergency Administrative Decision II in view of the court proceedings, so that objections may be raised during the proceedings in a timely manner.

According to item II 2.4 in Emergency Administrative Decision II, the "bail-in" of creditors measure also covers taxes and duties. With regard to this item, Emergency Administrative Decision II was implemented in consideration of the deviations from the decision itself, since some of the data basis on which Emergency Administrative Decision II was issued and the data basis that existed at the time the measures were implemented have already resulted in new insights. Particularly with regard to the question of whether liabilities from wage-related taxes and fees as at 1 March 2015 are affected by the instrument of "bail-in" of creditors pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) as "eligible liabilities", the Financial Market Authority (FMA) found that an exemption pursuant to section 86 (2) line 7 A Federal Act on the Recovery and Resolution of Banks (BaSAG) does not apply to these taxes and fees. As a result, the wage-related tax claims against the

Austrian authorities were entered on the asset side of the balance sheet, and the authorities were informed accordingly via recovery and information letters.

With a report to the Financial Market Authority, Heta has provided comprehensive information about the implementation of Emergency Administrative Decision II and the deviations that have been identified.

## 2.5. Repurchase offer from the State of Carinthia

On the basis of the statutory authorisation pursuant to section 2a of the Financial Market Stability Act (FinStaG), the Kärntner Ausgleichszahlungs-Fonds (K-AF) on 20 January 2016 submitted offers for those Heta debt instruments for which the State of Carinthia and also the Kärntner Landes- und Hypothekenbank - Holding (KLH) have assumed a guarantee. The offers required the approval of at least two-thirds of the affected creditors of non-subordinated and subordinated debt instruments. On 14 March 2016, the Kärntner Ausgleichszahlungs-Fonds (K-AF) announced that the creditors of the debt instruments had not accepted the offer.

The Republic of Austria and a significant number of creditors of Heta's state-guaranteed debt instruments signed a Memorandum of Understanding (MoU) on 18 May 2016, in which the parties confirmed their common intention to achieve an amicable agreement regarding the restructuring of Heta's state-guaranteed liabilities. Heta itself was not a party to the MoU, and was not involved in the negotiations.

On 6 September 2016, the Kärntner Ausgleichszahlungs-Fonds (K-AF) submitted a new public offer for those Heta debt instruments for which the State of Carinthia, the public law institution "Kärntner Beteiligungsverwaltung" and the fund "Sondervermögen Kärnten" as the legal successors of the Kärntner Landesholding (KLH), have assumed deficiency guarantees directly on the basis of a directive under Carinthian state law. The deadline for acceptance ended on 7 October 2016. The final results were announced on 12 October 2016: the offer was accepted by the required majority of creditors. In total, the offer was accepted by creditors who together represent 98.71% of the accumulated outstanding total nominal amounts of all debt instruments covered by the offer. This includes 99.55% of the outstanding total nominal amounts of non-subordinated debt instruments and 89.42% of the outstanding total nominal amounts of subordinated debt instruments. Accordingly, Heta was informed of the full pledging of all debt instruments acquired by the Kärntner Ausgleichszahlungs-Fonds (K-AF) including existing and future claims vis-a-vis the Abbaumanagementgesellschaft des Bundes (ABBAG). Taking into account the Kärntner Ausgleichszahlungs-Fonds' (K-AF) ownership of Heta liabilities, a nominal amount of approximately EUR 46.5 million (around EUR 21.4 million nominal after the haircut) of non-subordinated liabilities and a nominal amount of approximately EUR 1,094.4 million of subordinated liabilities (nominal of EUR 0 million after the haircut) are in the hands of third-party creditors.

The repurchase offers of the Kärntner Ausgleichszahlungs-Fonds (K-AF) and the successful acceptance of the offer in October 2016 do not have a direct effect on Heta's annual financial statements for 31 December 2016, since they only pertain to the level between Heta's creditors and the Kärntner Ausgleichszahlungs-Fonds (K-AF) and thus are outside of Heta's sphere.

The successful acceptance of the offer has had the effect of significantly improving Heta's activity area, and has greatly reduced the threat from creditors who refused to recognise the wind-down measures of the Financial Market Authority (FMA), or contested the same in the courts. That is because those creditors who accepted the repurchase offer had to submit a comprehensive waiver in favour of Heta, according to which they waived, unconditionally and with irrevocable effect, all present and future claims (including all claims to interest, costs and cost decisions), lawsuits and actionable claims. As a result, all creditor proceedings against Heta (except five) have been terminated. This also has the effect of significantly reducing the risk of Heta becoming insolvent (see note 2.6.7 Possible consequences of a judgement against Heta in connection with the Federal Act on the Recovery and Resolution of Banks (BaSAG)).

## 2.6. Status of Heta's main proceedings

### 2.6.1. PROCEEDINGS IN CONNECTION WITH EMERGENCY ADMINISTRATIVE DECISION I AND II

In mid-2016, eleven lawsuits were pending at the Regional Court of Frankfurt am Main (Frankfurt Regional Court) by investors in Germany for payment of bonds and applicable interests, which were not paid on the original payment day as a result of the moratorium. The lawsuits related to bonds with a nominal amount of EUR 2.2 billion and CHF 33.0 million. The plaintiffs disputed the recognition of the measures taken by the Financial Market Authority (FMA) according to the Federal Act on the Recovery and Resolution of Banks (BaSAG), and, contrary to the "bail-in" of creditors and deferral ordered in the emergency administrative decisions, demanded full payment.

According to German law, judgements by courts of first instance may be declared provisionally enforceable against collateral (section 709 Code of Civil Procedure (ZPO)), which led to the risk that plaintiffs would already apply for enforcement on the basis of a judgement by a court of first instance. Since the beginning of the proceedings, Heta, referring to the need to clarify the basic question under European law - namely whether Heta falls under the scope of the Bank Recovery and Resolution Directive (BRRD) - requested that the court proceedings pending at the Frankfurt Regional Court are suspended until a decision is handed down by the European Court of Justice (ECJ). The Financial Market Authority (FMA) also submitted appli-



cations to the competent Frankfurt Regional Court pursuant to section 59 (1) Federal Act on the Recovery and Resolution of Banks (BaSAG), requesting the suspension of all pending court proceedings or alternatively the preliminary enforcement measures, or to make a submission to the European Court of Justice (ECJ) (see note 2.6.4 Proceedings before the European Court of Justice (ECJ)).

On 21 June 2016, the Frankfurt Regional Court suspended its original decision to announce a ruling and submitted the legal questions regarding the applicability of the BRRD to Heta and the recognition of the wind-down measures in other member states, which must be assessed from the viewpoint of European law, to the European Court of Justice (ECJ) as a preliminary question.

As a result of the creditors' successful acceptance of the repurchase offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF), all eleven proceedings in front of the Frankfurt Regional Court were successfully terminated in late fall 2016 with mutual cancellation of costs. The Frankfurt Regional Court also withdrew its submission of questions to the European Court of Justice (ECJ). The court subsequently suspended the submission proceedings.

During the first six months of 2016, other thirty-four lawsuits were pending against Heta in Austria in connection with the subordinated debt instruments that are affected by the Hypo Alpe Adria Restructuring Act (HaaSanG). The Emergency Administrative Decisions I and II were also the subject of these lawsuits. With the decision of the Constitutional Court of Austria (VfGH), which repealed the Hypo Alpe Adria Restructuring Act (HaaSanG) and the regulation issued under the act, the disputed issue in the proceedings was restricted to the applicability of the payment moratorium (which has been in place since 1 March 2015) to Heta, and the applicability of the wind-down measures ordered in the meantime pursuant to Emergency Administrative Decision II. One of these proceedings also resulted in a submission to the European Court of Justice (ECJ) in May 2016.

As a result of the acceptance of the repurchase offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF), twenty-nine of the thirty-four proceedings were successfully terminated with mutual cancellation of costs. The submission to the European Court of Justice (ECJ) was also withdrawn (see note 2.6.4 Proceedings before the European Court of Justice (ECJ)).

Only five plaintiffs have not accepted the offer from the Kärntner Ausgleichszahlungs-Fonds (K-AF); they will continue the lawsuits against the State of Carinthia and the legal successors of the Kärntner Landesholding (KLH). However, a "simple suspension" has been agreed for these five proceedings.

### 2.6.2. PROCEEDINGS IN CONNECTION WITH THE DEFICIENCY GUARANTEE BY THE STATE OF CARINTHIA

Three legal proceedings were initiated against Heta by the State of Carinthia and the Kärntner Landesholding (KLH) in relation to legal proceedings initiated by investors against the State of Carinthia and the Kärntner Landesholding (KLH) on the basis of the deficiency guarantee ordered by state law in connection with the bonds affected by the moratorium. Heta initially joined these proceedings on the side of the state and the Kärntner Landes- und Hypothekenbank - Holding (KLH) as an intervenor.

Two proceedings resulted in a judgement of the first instance against the plaintiff. The plaintiff has appealed these decisions. The plaintiff also lost both proceedings at the appeal stage before the Higher Regional Court (OLG), and subsequently attempted to bring about a decision by the Supreme Court (OGH) by way of a further appeal. Because of changes in the facts and the legal situation, Heta decided to withdraw as an intervenor in these two proceedings in 2016. Both proceedings were terminated at the end of 2016 as a result of the acceptance of the offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF). The third proceeding was suspended in the spring of 2016, and also ended with the plaintiff's acceptance of the offer.

### 2.6.3. AUSTRIAN EQUITY SUBSTITUTING CAPITAL ACT (EKEG) PROCEEDINGS

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

On 18 May 2016, Heta received an order from the Munich Higher Regional Court (OLG München) in which the court is considering, on the basis of the applicable Federal Act on the Recovery and Resolution of Banks (BaSAG) and Emergency Administrative Decision II issued in the meantime by the Financial Market Authority (FMA) on 10 April 2016, to interrupt the proceedings and to withdraw recognition of the mutual need for legal protection due to the Memorandum of Understanding (MoU) concluded between the Republic of Austria and the Free State of Bavaria. Both Heta and BayernLB have objected to an interruption of the proceedings. The Munich Higher Regional Court has not yet commented on the submissions of the parties.

#### 2.6.4. PROCEEDINGS BEFORE THE EUROPEAN COURT OF JUSTICE (ECJ)

Both the Vienna Commercial Court and the 12th civil division of the Frankfurt Regional Court submitted to the European Court of Justice (ECJ), in line with “preliminary ruling procedure”, various questions regarding the applicability of the Bank Recovery and Resolution Directive (BRRD) and the applicability of the haircut to Heta, and regarding the recognition of these measures in other member states. In another proceeding in which the Financial Market Authority (FMA) rather than Heta is a participant, the Austrian Federal Administrative Court (BVwG) has also initiated a preliminary ruling procedure and has approached the European Court of Justice (ECJ) with the question regarding the personal/time-related application scope of the BRRD. The preliminary ruling procedures by the Vienna commercial court and the Austrian Federal Administrative Court (BVwG) have in the meantime been combined by the European Court of Justice (ECJ) into one single proceeding.

Preliminary ruling procedures are not used for a concrete review of measures or laws implemented by the member states. Rather, the relevant EU regulations provide the courts in the member states with the opportunity, or an obligation, to submit concrete individual questions about EU law that are relevant to the case to the European Court of Justice (ECJ), so it may decide on the relevant interpretation. Thus the European Court of Justice (ECJ) does not make decisions regarding the existence or non-existence of claims, but rather provides “instructions” regarding the interpretation of issues under EU law, which represent preliminary questions in a legal dispute. National courts that have submitted such questions must then take the questions that have been answered by the European Court of Justice (ECJ) into account when making their decisions.

Based on the creditors’ acceptance of the Kärntner Ausgleichszahlungs-Fonds (K-AF) repurchase offer and the associated termination of the proceedings before the Frankfurt Regional Court, the Vienna Commercial Court and the Austrian Federal Administrative Court (BVwG), on which the submission proceedings are based, all preliminary decision proceedings before the European Court of Justice (ECJ) were terminated in the fall of 2016.

#### 2.6.5. PROCEEDINGS BEFORE THE CONSTITUTIONAL COURT OF AUSTRIA (VfGH)

Two of the three submitted BaSAG-related party applications to the Constitutional Court of Austria (VfGH) regarding a review of the constitutionality of the law and the admissibility of including Heta under this law were dismissed by the Constitutional Court of Austria (VfGH) in the fall of 2015. As a result of the submissions that have been made to the European Court of Justice (ECJ), the Constitutional Court of Austria (VfGH) has suspended its decision regarding the third application until such time as the European Court of Justice (ECJ) hands down its decision. This proceeding was in the end terminated due to the affected investor’s acceptance of the Kärntner Ausgleichszahlungs-Fonds (K-AF) offer.

#### 2.6.6. PROCEEDINGS IN CONNECTION WITH THE IMPLEMENTATION OF EMERGENCY ADMINISTRATIVE DECISION II

The question regarding the impact and recognition of Emergency Administrative Decision II is the subject of proceedings before the Vienna Commercial Court (HG Wien). A lawsuit has been filed against Heta for payment from an issued guarantee, which Heta believes to be included under the wind-down measures and may not be serviced at this time pursuant to Emergency Administrative Decision II. In Croatia, Heta is a party to proceedings concerning the question of the impact of the decision in relation to a cost decision made by a court (at Heta’s expense) which was handed down before the emergency administrative decision was issued. For details, see note 2.4.2 Implementation of Emergency Administrative Decision II.

#### 2.6.7. POSSIBLE CONSEQUENCES OF A JUDGEMENT AGAINST HETA IN CONNECTION WITH THE FEDERAL ACT ON THE RECOVERY AND RESOLUTION OF BANKS (BASAG)

A judgement ordering Heta to pay the liabilities affected by these legal disputes and a possible compulsory enforcement in favour of various creditors would run counter to the wind-down measures ordered by the Financial Market Authority (FMA) with Emergency Administrative Decision II. For this reason, Heta will not only fight any potential judgements handed down by a court of first instance in order to settle the recognition of the Federal Act on the Recovery and Resolution of Banks (BaSAG), but will also initiate all available legal remedies to defend against enforcement measures.

Such a treatment of individual creditors could oppose the principle of equal treatment of creditors under the Federal Act on the Recovery and Resolution of Banks (BaSAG), the (balanced) assumption of losses by the creditors and ensuring that creditors are not put in a worse position as compared to liquidation measures taken in the course of insolvency.

The wind-down measures applied in Emergency Administrative Decision II aim to prevent a situation in which Heta becomes insolvent during the wind-down timetable. Over-indebtedness as a reason for insolvency does not apply to Heta pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA). An application for insolvency can only be filed by the Financial Market Authority (FMA).

### 2.7. Business relationships with the former SEE network

The 2016 financial year was characterised by the implementation and termination of Heta’s obligations and liabilities in the context of the share purchase agreement from 22 December 2014 regarding the disposition of Heta’s former banking and

leasing network in South-Eastern Europe (SEE network, Hypo Group Alpe Adria AG (now: Addiko Bank AG)) to Advent International and the European Bank for Reconstruction and Development (EBRD).

### Settlement agreement first quarter 2016

In the first quarter of 2016, Heta and the sole shareholder of Hypo Group Alpe Adria AG (now: Addiko Bank AG) came to an agreement regarding the settlement of all foreign currency and interest hedges agreed in the 22 December 2014 share purchase agreement (exemptions for credit and legal risks mainly from CHF loans), as well as other outstanding issues connected to the share purchase agreement. In essence, the agreement stipulated that the buyer waives the relevant exemptions and Heta in turn waives the CHF denominated credit lines in the amount of EUR 325.0 million vis-a-vis Addiko Bank. The waiver of exemptions also had the effect of reducing Heta's liability for the remaining exemptions and the Republic of Austria's liability under the hedging instrument provided to the buyer. The reduction in the liability under the hedging instrument thus also led to a reduction in the fee that Heta paid to the Republic for providing the hedging instrument.

The agreement was conditional on Addiko Bank AG paying the CHF denominated credit lines at a value of EUR 150.0 million back to Heta. The funds were paid back in March 2016. This did not result in any income-related effects in 2016 because Heta's waiver concerning the credit lines was already provided for in the 31 December 2015 financial statements.

### Other portfolio adjustments

On the basis of the share purchase agreement from 22 December 2014 the buyer of the SEE network had the right to sell certain assets of the SEE banks and leasing companies (consisting mostly of non-performing loan and leasing receivables, properties and other assets from the disposal of collateral) to Heta or Heta group companies ("Purchaser Brush" option). In implementing the "Purchaser Brush" option, assets with a net carrying amount of around EUR 275.0 million were purchased from Heta and its group companies and transferred at the carrying amounts pursuant to the 2014 consolidated statement of financial position. Finally, in implementing the "Purchaser Brush" option, Heta in compliance with the requirements under the share purchase agreement from December 2014, compensated Addiko Bank AG with approximately EUR 62.0 million for loss in value for non-transferable assets by applying the amount against existing credit lines. As per the agreement, Heta reimbursed the Addiko Group for the transaction and ancillary costs that were incurred.

### Early repayment of Heta financing lines against discount; termination of interdependencies

On 23 December 2016, Heta, the sole shareholder of Addiko Bank AG and the bank itself concluded another settlement agreement. It gave Addiko Bank AG the option to conclusively settle the remaining complex mutual claims, rights and obligations of the parties under the share purchase agreement from 22 December 2014, in particular existing and future rights of recourse, against the early repayment of the entire remaining Heta refinancing line with a discount. The agreement also included a waiver by the buyer and sole shareholder of Addiko Bank AG for all claims under the guarantee instrument of the Republic of Austria, which is further reduced significantly vis-a-vis the Republic of Austria, and will be entirely done away with following the expiry of certain deadlines. Only Heta's obligations under exemptions in connection with two legal disputes initiated by borrowers of the Addiko Group are excluded from the agreement. Sufficient provisions had already been built for the potential burden for Heta from these remaining exemptions.

Specifically, Addiko Bank AG was able to exercise the option by 30 April 2017 through the early repayment of all remaining Heta financing lines at a discount of less than a quarter on the existing financing lines. The discount corresponds at minimum with the counter value of the remaining claims, rights and receivables of the buyer and Addiko Bank against Heta from the share purchase agreement from December 2014 and was fully covered by existing provisions in the 2016 annual financial statements. On 6 February 2017, Addiko Bank AG exercised the option and repaid the remaining financing lines of just under one billion to Heta.

## 2.8. Changes in the governance structure and Supervisory Board

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

The resolution authority is entitled to extensive supervisory, controlling and reporting rights, which were implemented through a separate governance structure. Heta's new governance structure was developed in 2015 together with the authority, and the required changes to Heta's statutes and the by-laws for the Supervisory Board and Management Board were made in the same year.

The resolution authority has the right to have its representatives attend the committee meetings of the company's executive bodies. At the same time, the forensic investigation of the past as an express business purpose of Heta was deleted from

the statutes in June 2015. However, it was agreed with the authority that the analysis of forensic cases, that have so far not been finalised in line with the forensic investigation of the past, will be continued taking into account efficiency and practical aspects, and that the investigation will subsequently be completed.

Since Emergency Administrative Decision II, the Financial Market Authority (FMA) also exercises all administrative rights associated with the shares, in particular the right to attend the general shareholders' meeting (section 102 and following of the Stock Corporation Act; AktG), the right to vote (section 12 AktG) and the right to receive information and make applications (section 118 and 119 AktG). The resulting changes to the statutes and the by-laws were implemented in June 2016. Also in June 2016, the statutes were also amended with regard to the option, provided for in Emergency Administrative Decision II, to distribute the sales proceeds at an earlier date. The Management Board is duly obliged, in consideration of the wind-down objectives and the requirements of an orderly wind-down procedure, to conduct a review within four weeks of the adoption of the annual financial statements as to whether existing assets may be distributed to creditors prior to the due date before the company is fully wound-down, and must - regardless of the result of this review - submit a report on this issue to the Financial Market Authority (FMA) and the next meeting of the Supervisory Board. If the Management Board finds that there are sufficient assets to justify such a distribution, it must report to the Financial Market Authority (FMA) and must submit a draft distribution to the general shareholders' meeting for approval.

Several new members were added to the Supervisory Board during the 2016 financial year. Mag. Regina Friedrich, Mag. Alois Hohegger, DI Bernhard Perner and Mag. Christine Sumper-Billinger, who supported Heta's progression from a regulated banking institution to a partial deregulated wind-down unit, left the Supervisory Board effective 29 June 2016. On 29 June 2016, Dr. Stefan Schmittmann and Mag. Regina Ovesny-Straka were appointed to serve as Deputy Chairman of the Supervisory Board and member of the Supervisory Board, respectively. At the extraordinary shareholders' meeting on 18 August 2016, the Financial Market Authority (FMA) appointed Dr. Karl F. Engelhart to the Supervisory Board. Dipl.-Kfm. Michael Mendel remains Chairman of the Supervisory Board.

### **(3) Effects of the haircut on the annual financial statements according to Austrian Commercial Code (UGB)/Austrian Banking Act (BWG)**

With Emergency Administrative Decision II from 10 April 2016, the wind-down measures listed under the Federal Act on the Recovery and Resolution of Banks (BaSAG) were applied to Heta (see also note 2.4 Emergency administrative decisions by the Financial Market Authority (FMA) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG)). In the annual financial statements, these measures had an effect both on the balance sheet and off-balance-sheet obligations (liabilities, provisions and contingent liabilities).

The overview below, which is organised by balance sheet item, shows the volume of both reduced “eligible liabilities” and non-reduced “eligible liabilities”:

		EUR thousand					
		Carrying amount 31 December 2016	eligible	non-eligible	Balance Sheet value 31 December 2015	Total changes to 31 December 2016	of which: due to "bail-in" of creditors pursuant to BaSAG
<b>Instrument of the "bail-in" of creditors:</b>							
1.	Liabilities to credit institutions	1,115,685	1,112,246	3,439	3,519,497	-2,403,812	-1,450,064
2.	Liabilities to customers	938,376	877,228	61,148	1,480,656	-542,280	-1,109,448
3.	Liabilities to Pfandbriefbank	0	0	0	1,245,248	-1,245,248	0
4.	Debt evidenced by certificates	3,894,436	3,894,436	0	7,642,442	-3,748,006	-4,781,887
5.	Other liabilities	221,696	72,647	149,049	326,095	-104,399	-55,959
6.	Deferred liabilities	0	0	0	6,135	-6,135	0
7.	Provision (without provision for contingent liabilities related to resolution procedures)	571,046	210,124	360,921	844,819	-273,773	-70,276
	Provision for contingent liabilities related to resolution procedures	3,171,458	0	3,171,458	0	3,171,458	0
8.	Supplementary capital pursuant to part 2, title I (4) of Directive (EU) 575/2013	0	0	0	1,969,716	-1,969,716	-1,977,921
	<b>Total</b>	<b>9,912,697</b>	<b>6,166,681</b>	<b>3,746,016</b>	<b>17,034,608</b>	<b>-7,121,911</b>	<b>-9,445,556</b>
<b>Instrument of the "bail-in" of owners of relevant capital instruments</b>							
9.	Issued capital	0	0	0	3,494,208	-3,494,208	n.a.
10.	Net accumulated gains/losses	0	0	0	-10,973,042	10,973,042	n.a.
	<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-7,478,834</b>	<b>7,478,834</b>	<b>n.a.</b>

The instrument of the "bail-in" of creditors refers to the reduction in “eligible liabilities” pursuant to section 86 (1) Federal Act on the Recovery and Resolution of Banks (BaSAG). Because of the reduction, the “eligible liabilities” were derecognised at the corresponding amount. This action results in extraordinary income of EUR 9,445,556 thousand, which is shown in the income statement under the item extraordinary income.

In addition to the "bail-in" of creditors, the Financial Market Authority (FMA) also reduced the nominal value of the issued capital (including participation capital) to zero. As a result, the entire amount shown under the balance sheet item issued capital had to be derecognised. The amount resulting from the reduction in issued capital in the amount of EUR 3.494.208 thousand is shown in the income statement after the net profit/loss for the year in the item capital decrease according to BaSAG.

The application of the "bail-in" of creditors had the effect of reducing the common equity tier 1 capital, the nominal value of the instruments under the supplementary capital, the nominal value of the subordinated liabilities as well as the nominal value or outstanding residual amount of the remaining “eligible liabilities” pursuant to section 86 (1) Federal Act on the Recovery and Resolution of Banks (BaSAG) (including interest). The implementation of the effects from Emergency Administrative Decision II resulted in a situation in which Heta's balance sheet will generate a positive amount starting in 2016, which may however change significantly over the settlement period depending on the company's future success in settling its affairs and possible imponderables with regard to the wind-down process. Therefore the amount that is generated is shown on the liabilities side of the balance sheet as a provision for contingent liabilities related to resolution procedures.

In addition to reducing the nominal value or outstanding amounts for the “eligible liabilities”, a provision for contingent liabilities related to resolution procedures must also be created for the case that the reduction, which is based on the preliminary valuation, exceeds the required amount under the final valuation. The Financial Market Authority (FMA) can issue a decision ordering the revaluation of the amount in order to satisfy the claims of the creditors and possibly also those of the shareholders.



The provision for contingent liabilities related to resolution procedures was formed in the amount of the difference by which assets exceed the liabilities and provisions reported as at 31 December 2016. The expenditure from the creation of the provision in the amount of EUR 3,171,458 thousand (31 December 2015: EUR 0 thousand) is shown in the income statement under the item extraordinary expenses.

In connection with the haircut, other provisions were also recorded for future fees in the amount of EUR 163,568 thousand, as well as cost reimbursements of EUR 5,610 thousand. The calculation of these future amounts is based on the rate of 46.02% set out in Emergency Administrative Decision II. The expenditure for the creation of these provisions is shown in the income statement under the item extraordinary expenses.

#### **(4) Wind-down plan pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA)**

According to section 5 of the Federal Act on the Creation of a Wind-down Entity (GSA), the wind-down of the portfolio is to be conducted according to a wind-down plan drawn up by the Management Board and approved by the Supervisory Board. Due to the order requiring the wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG), which left open the further course of action adopted by the Financial Market Authority (FMA) with regard to the time period after 31 May 2016, Heta was forced to suspend the completion of the wind-down plan pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA) until such time as the future course of action was clarified. With regard to the completion of the wind-down plan, it therefore became legally necessary to wait and see whether and (if so) in which form the Financial Market Authority (FMA) creates the conditions for an orderly wind-down process by issuing a directive for wind-down measures.

For this reason, Heta did not publish an official wind-down plan in 2015. In the meantime, Heta did however prepare planning that met the legal requirements for the portfolio wind-down. These activities were given the name "mid-term plan", and were made publicly available in line with the company presentations published in October and December 2015 and in April 2016.

On 10 April 2016, the Financial Market Authority (FMA) issued Emergency Administrative Decision II which imposed wind-down measures with regard to Heta. This had the effect of creating, for the first time, a basis for the completion of the wind-down plan.

Emergency Administrative Decision II has far-reaching implications for the wind-down plan. The following planning-related simplified assumptions were made by Heta with regard to the repayment of the "eligible liabilities" pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG):

- It is assumed that the "eligible liabilities" covered under Emergency Administrative Decision II are not serviced over the course of the 2016 - 2020 wind-down period and are reduced to zero or 46.02% in accordance with the "bail-in" of creditors specified in the emergency administrative decision. Interest expenses attributable to these liabilities are set to zero as of 1 March 2015;
- The planned return flows from the reduction in Heta's assets increase Heta's cash liquidity position accordingly, since they are not used to repay "eligible liabilities" at an earlier date. In coordination with the Financial Market Authority (FMA), Heta generally invests its entire cash liquidity at the Austrian National Bank (OeNB). The wind-down plan assumes that it will continue to do so during the course of the wind-down;
- The possible earlier distribution of the proceeds from disposals as provided for in Emergency Administrative Decision II was not taken into account in the current wind-down plan, since a corresponding resolution by the Financial Market Authority (FMA) is not available;
- A steady reduction in assets (excluding cash liquidity) of approximately 80% by the end of 2018 remains the intended wind-down objective, starting from year-end 2014. To achieve the targets, receivables and real estate are to be sold to investors mainly through individual transactions;
- The claims against former group companies (Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) and Addiko Bank AG) were examined separately, since at the time the plan was prepared it had to be assumed that some of these would still be in place after 2020. Similarly, some finance lease receivables have terms that exceed the planning period and are not wound-down completely in the current wind-down plan.

The Heta Supervisory Board approved the finalised wind-down plan on 25 August 2016 and subsequently forwarded it to the Federal Minister of Finance and the Chancellor. Heta published the main contents of the wind-down plan on the same day.

Pursuant to section 5 (4) Federal Act on the Creation of a Wind-down Entity (GSA), the wind-down plan must be adjusted and re-submitted to the Supervisory Board for approval if the circumstances that are of relevance to the wind-down plan change. As a result of the current developments regarding the repayments of refinancing lines by Addiko Bank AG, the dispo-

sition of subsidiary Heta Asset Resolution Italia, S.r.l., and the insights gained during the preparation of these annual financial statements, circumstances have arisen that make it necessary to adjust the wind-down plan. The update of the wind-down plan is currently in preparation, and will be submitted to the Supervisory Board during the first six months of 2017. According to section 6 (1) of the Federal Act on the Creation of a Wind-down Entity (GSA), Heta's Supervisory Board is regularly informed of the progress of the disposals.

## **(5) Winding-down of investment companies and asset disposals**

During the 2016 financial year, the wind-down process moved along very well on account of disposals of participations and loan portfolios. Most of the large transactions, for which internal preparations had already been made since 2015, were successfully completed during the course of the year.

### **5.1. Major individual transactions**

#### **Disposal of Heta Asset Resolution Leasing DOOEL Skopje**

Following the signing, which took place on 30 December 2015, the closing was successfully completed in June 2016 after the Macedonian finance ministry issued a license for the buyers. After completion of this transaction Heta has no more business activities in Macedonia.

#### **Disposal of Centrice Real Estate GmbH**

The public bidding process for Centrice Real Estate GmbH, which was managed by Portfolio Sales & Participation Transactions of Heta with a well-known international investment bank and an internationally experienced law firm, garnered considerable interest in the market. The disposal of the shares ("share deal"), which was successfully completed on 28 June 2016, was implemented at the sub-holding level and was comprised of seventeen direct and indirect investment companies, which managed a total of thirty-one performing properties from Slovenia, Croatia, Serbia, Bosnia and Herzegovina and Macedonia. All of the refinancing lines that had been provided to Centrice Real Estate GmbH and its subsidiaries were covered at the nominal value during the course of the disposal process.

#### **Disposal of "PATHFINDER" - Loan portfolios**

The "Pathfinder" project consists of loan portfolios with a total gross exposure of approximately EUR 272 million, consisting of secured loans from exclusively Croatian borrowers. Some of these loans were reported partially at Heta and partially at the local Croatian Heta companies, and were no longer serviced by the borrowers ("NPL" - non-performing loans). The tender commenced with the engagement of an international consultant and a well-known multinational law firm on 12 February 2016. Several binding offers were received following a competitive public bidding process. The second half of 2016 was characterised by intensive contract negotiations with the best bidders, which finally resulted in the closing of the transaction on 15 December 2016.

#### **Disposal of "DRAVA" - Loan portfolios**

Unsecured loan portfolios from Austria, Bosnia and Herzegovina, Croatia, Montenegro, Serbia and Slovenia with a gross exposure totalling approximately EUR 276 million were combined under the "Drava" project. The portfolios consisted of a total of approximately 3,600 loan agreements across all countries, almost all of which had been adjusted at the time of the disposal. The public tender started on 6 May 2016. The bidding process resulted in one best bidder who conducted the customary due diligence process in the summer of 2016. The contract negotiations were completed in the fall. The transactions were concluded on 21 December 2016 for all involved local Heta companies, with the exception of Bosnia and Herzegovina.

#### **Disposal of Heta Asset Resolution Italia S.r.l. (Project "FRIULI")**

The public tender for the Friuli project at the end of 2015 was met with a positive response in the market. The first six months of 2016 were characterised by a competitive disposal process, which resulted in a best bidder and subsequent contract partner following numerous expressions of interest, a subsequent due diligence process, inspections and management interviews. The final share purchase agreement (SPA) was signed on 4 August 2016. The required official approvals for the buyer were issued by the Italian supervisory authority (Banca d'Italia) on 31 January 2017. The closing for the transaction took place on 21 February 2017; this means that Heta Asset Resolution Italia S.r.l. and its subsidiary Malpensa Gestioni S.r.l. will no longer be included in Heta's scope of consolidation in 2017.

## 5.2. Other transactions

The bidder process for a hotel resort in Croatia, which had been held for sale for some time, was suspended in September 2016. The partner, who had exclusivity at that time, did not submit a binding offer. A new strategy is currently being developed for this hotel resort.

The bidding process for the "ONYX" project was announced on 29 November 2016. This project concerns the disposal of the shares and portfolio of the Serbian Heta company HETA REAL ESTATE D.O.O. BELGRAD, as well as a portion of the portfolio of HETA ASSET RESOLUTION D.O.O. BEOGRAD, with a total loan gross exposure and property market values amounting to approximately EUR 289 million. A number of expressions of interest had been received by the end of 2016.

Various small investments and share packages were also successfully disposed of in 2016. The takeover by the Heineken Group facilitated the disposal of the 7.1% share package in the Slovenian company Pivovarna Lasko d.d., which also included the entire existing loan commitment of this group. The 19.98% share package in ZIF CROBIH d.d. was successfully sold in Bosnia and Herzegovina. The disposal of various hotel assets from an investment in Croatia was signed in May 2016 and finally closed and transferred in July 2016. The now empty investment company will be liquidated as planned.

## 5.3. Liquidation of participations

The wind-down of Heta is accompanied by the liquidation of its subsidiaries. The liquidation of Alpe Adria Privatbank i.L. was completed in the 2016 financial year. The liquidation of HYPO Consultants Holding GmbH i.L. started on 18 September 2016. The liquidation of additional investments is supposed to commence during the first six months of 2017. The former leasing companies are supposed to undergo an orderly liquidation process following the final wind-down of assets (loans/leasing receivables and real estate). To ensure the best possible preparations for these liquidations, pre-liquidation projects are being initiated on a staggered basis depending on the progress of the portfolio wind-down, which ensures the targeted preparation of the companies for a subsequent legal liquidation process. Such projects were already implemented for Bulgaria and Hungary during the 2016 financial year, with Serbia and Germany to follow in the first half of 2017.

## 5.4. Wind-down of remaining loan portfolio

Heta's credit and leasing portfolio consists mainly of non-performing financing, which are reported at the holding and the different local Heta companies. The portfolio is multi-layered and requires know-how of the various product categories, economic sectors and regions. This know-how was bundled in four exit management units, which are pushing ahead the wind-down process in the various regions with a focus on single asset transactions. Activities are targeted towards the optimum value that can be achieved in the medium term in compliance with transparent processes, rather than a focus on the short-term wind-down success or the maximum result in a financial year. If an asset is expected to yield a higher value over time, it will initially be kept in the portfolio.

A number of different strategies are employed for winding-down the portfolio: performing loans continue to be enforced, and the NPL portfolio is disposed of by way of enforcement, individual or portfolio transactions. A key instrument in this regard is Heta's own AAA platform, which offers transactions for sale through a central location.

In the 2016 financial year, the exit management units fully met their objectives with regard to the liquidation of assets. In this way, they were able to secure values even in volatile markets, and swiftly pushed ahead with the wind-down of the loan portfolio. The actually achieved wind-down result is above the original planning.

## II. ACCOUNTING POLICIES

### (6) General Information

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

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

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

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

The annual financial statements consist of the balance sheet, the income statement and the notes. A management report consistent with the annual financial statements is also prepared. The balance sheet and income statement are structured according to the forms in Annex 2 to section 43 Austrian Banking Act (BWG). Certain income statement items were summarised according to the accounting policy choice defined in section 53 (3) and section 54 (2) Austrian Banking Act (BWG).

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

### (7) Changes as a result of the coming into force of the Financial Accounting Amendment Act (RÄG 2014)

The coming into force of the Financial Accounting Amendment Act (RÄG) 2014 (on 1 January 2016) resulted in the following key changes for the 2016 annual financial statements:

Impairments for financial investment and current assets stated to date must be reversed, insofar as the reasons for the impairment no longer apply. Rather, a write-up obligation now applies. Accordingly, the valuation rates for receivables and securities, which were reduced by extraordinary amortisation, must be written up again if and insofar as the reasons for the impairment have ceased to exist in the meantime. A portfolio based risk provision must be created for already incurred but not yet reported impairments to the loan portfolio. Provisions must be valued at the amount repayable, which is why future cost increases must be taken into account. In addition, provisions with a term of more than one year must be discounted at the market interest rate. Deferred taxes are now accounted for on the basis of the balance sheet-oriented concept. In this vein, tax assets and liabilities must be accounted for if there are temporary differences between the valuation rates for the assets and liabilities in the balance sheet according to the Austrian Commercial Code (UGB) as compared to the valuation rates pursuant to the tax provisions. The right to select an option generally exists with regard to deferred tax assets for tax loss carry forwards. Extraordinary expenses and income must no longer be reported separately in the income statement pursuant to the Austrian Commercial Code (UGB), whereby Heta continues to disclose this information in accordance with the Austrian Commercial Code (UGB) using the income statement form sheet.

In view of the company's business purpose, the first-time application of the Financial Accounting Amendment Act (RÄG) 2014 has very little impact on Heta's annual financial statements. Heta does not hold any securities dedicated to long-term financial assets. In the past, Heta created a portfolio based risk provision for already incurred but not yet reported impairments to the loan portfolio, so that the newly introduced obligation to create provisions does not have any further effect. If the reasons for impairment no longer operate, a write-up is applied with regard to the loan portfolio held as current assets, which is limited to the amount of the acquisition costs. With respect to the securities portfolio held as current assets, the special provisions of section 56 (5) Austrian Banking Act (BWG) continue to be applied with regard to the listed instruments. The

option of stating deferred taxes for tax loss carry forwards on the asset side was not used. Similarly, deferred tax assets are not recognised for temporary differences, since it is not certain that Heta will generate sufficient taxable income to qualify for tax relief in the future. The other provisions with a term exceeding one year relate mainly to the provision for contingent liabilities related to resolution procedures. Following the application of the wind-down instrument of the "bail-in" of creditors in 2016, Heta is required to distribute any eligible net assets that exceed zero, which result from the final measurement of the assets at the time of the resolution on dissolution or at the latest in 2023, to the creditors. The provision is not measured at its present value, since the term cannot be estimated due to possible earlier payments. In addition, the amount generated from the discounting of the provision would also have to be added to the provision for uncertain liabilities in connection with resolution procedures and discounted. The calculation of the provision for the close-down costs is based on Heta's wind-down plan and therefore also takes into account future cost increases; at the same time, in accordance with the gone concern measurement assumption, and for the purpose of complying with the general norm for the presentation of a true and fair picture of the asset situation, this provision is not discounted. The effects on the income statement that arise in connection with the implementation of Emergency Administrative Decision II are reported in the extraordinary result item pursuant to the Austrian Banking Act (BWG) form sheet. The facts reported under this position to date (change in provisions for close-down costs, and income/expenses from the forensic investigation of the past) will be reported in the item Other operating income or Other operating expenses starting in 2016.

#### **(8) Measurement basis: Gone concern assumption**

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

After the initial interim results of the Asset Quality Review (AQR) were announced, which indicated a capital shortfall between EUR -4.0 billion and EUR -7.6 billion, which was thus above the still available state aid range for capital measures approved by the EU Commission for EUR 2.9 billion, along with the expected implications for the company's capital and liquidity situation, Heta's owner, the Republic of Austria, announced on 1 March 2015 that no further measures would be taken for Heta under the Federal Act on Financial Market Stability (FinStaG). Subsequently the Financial Market Authority (FMA) on 1 March 2015 issued a decision ordering wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) (see note 2.4 Emergency administrative decisions by the Financial Market Authority (FMA) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG)) according to which all of Heta's "eligible liabilities" were subjected to a moratorium.

Based on the amended business purpose, the implications of the Federal Act on the Creation of a Wind-down Entity (GSA), which calls for mandatory self-liquidation after the statutory wind-down objectives have been achieved, the complete disposal of units conducting new business, the over-indebtedness of the company and Emergency Administrative Decision I issued by the Financial Market Authority (FMA) under the Federal Act on the Recovery and Resolution of Banks (BaSAG), the Management Board no longer had a basis for continuing to prepare the financial statements on the basis of the going concern premise.

With Emergency Administrative Decision II from 10 April 2016 (see note 2.4 Emergency administrative decisions by the Financial Market Authority (FMA) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG)) the authority announced wind-down measures that had the effect of removing all of the negative equity (EUR -7.5 billion) reported as at 31 December 2015. According to this Emergency Administrative Decision, the due date for the reduced liabilities was set to the date of the resolution on dissolution, but not later than 31 December 2023.

The annual financial statements prepared in consideration of Emergency Administrative Decision II continue to be based on the gone concern assumption, as there were no developments that would oppose this concept and that would lead to the application of the going concern assumption. In addition, it is noted that the orderly wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) will also depend on whether circumstances that put the wind-down process pursuant to the BaSAG objectives and principles at risk will occur in the future.



### III. ACCOUNTING AND MEASUREMENT POLICIES

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

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

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

Assets and liabilities are valued on a single-asset basis. In the valuation of assets and liabilities, the requirements of the Federal Law on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG) are taken into consideration as well as the gone concern assumptions.

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

**Loans and advances** to credit institutions and customers are in general recognised at their nominal value less risk provisions on loans and advances and impairments pursuant to section 57 (1) Austrian Banking Act (BWG). Premiums and discounts on issues are recognised under prepaid expenses and deferred income respectively, and are released over the life of the security. Loans and advances that are low in volume or subject to lower interest rates are discounted at a market interest rate.

**Credit risks** are accounted for by specific and portfolio-based loan loss provisions and by provisions for off-balance-sheet commitments. Risk provisions pursuant to the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) are determined and calculated in accordance with the provisions of the International Financial Reporting Standards (IFRS). Specific loan loss provisions are created where there is an objective evidence of credit risk, taking into account the amount of the expected loss. The size of the specific risk provision is calculated as the difference between the carrying amount of the loan and the net present value of the estimated future cash flows, taking into account the provided collaterals, whereby the original effective interest rate is used as the discounting rate. In terms of the assessment of expected cash flows from the provided collaterals, the "realisable sales value" is applied in consideration of the gone concern assumption. The assessment of recoverability includes an estimate regarding the amount, duration and probability of the expected repayments. In the case of loans and advances below an amount of EUR 1.0 million (2015: EUR 1.0 million), the specific risk provision is calculated as a lump-sum amount. Portfolio risk provisions are formed for impairments on the loan portfolio which have been incurred as at the balance sheet date but which have not yet been reported. In the calculation of these risk provisions, loans and advances are grouped in homogeneous portfolios with comparable risk characteristics. These are determined in consideration of the off-balance-sheet business. The calculation of portfolio risk provisions is based on an internal model and has been adapted in accordance with the requirements of a wind-down unit. Loans and advances for which specific risk provisions have been formed are not included in the calculation of portfolio risk provisions. Furthermore, general provisions pursuant to section 57 (1) Austrian Banking Act (BWG) were recognised at the highest possible amount in order to take into account expected disposal losses from loans and advances, which do not have the characteristics of default, as well as the potential credit risk from foreign currency-related exposure increases. The objectives of section 3 Federal Act on the Creation of a Wind-down Entity (GSA), which stipulates that the portfolio wind-down at Heta must take place in an orderly and active manner to the best possible advantage and as quickly as possible within the scope of the wind-down targets, was observed accordingly in line with the measurement of the financing portfolio.

The recoverability of **refinancing lines** for subsidiaries is assessed on the basis of the simulated (negative) equity capital at the end of the 2020 detailed planning period (or based on the planned end of the term for the respective company). The simulated equity capital is the result of the addition of the equity capital value pursuant to the IFRS Reporting Package for 31 December 2016 and the expected accumulated planning results 2017 - 2020 that were adjusted for the measurement results (deduction of e.g. risk provisions, impairments, sales gains). The results of the bottom-up planning for 2017 - 2020 are also adjusted for other special items and strategic discounts for portfolio sales. If this examination does not net a positive result, then the negative sum is compared to the current carrying amount of the specific risk provisions for the refinancing lines, in order to calculate the required allocation or release.

**Securities** earmarked for permanent use in the business are shown on the balance sheet as long term financial assets in accordance with section 56 (1) Austrian Banking Act (BWG) and are valued according to the modified lower of cost or market value. Due to the requirement under the Federal Act on the Creation of a Wind-down Entity (GSA), which provides for the quickest possible disposal of all assets relevant to the wind-down portfolio, there are no such securities holdings.

Securities in current assets are recognised at market value in accordance with section 56 (5) Austrian Banking Act (BWG), provided they are stock exchange listed securities. Non-listed securities are reported in accordance with the provisions that apply to the current assets pursuant to sections 206 - 208 Austrian Commercial Code (UGB). As there is no unlimited holding period for securities in current financial assets due to the Federal Act on the Creation of a Wind-down Entity (GSA), and these must therefore be sold in the short to medium term, care was taken to ensure that the calculation of the market value for less liquid securities allows for the swift disposal of the securities. Bought-back liabilities are allocated to current assets, whereby no such liabilities exist as at 31 December 2016. These own issues are measured at acquisition cost.

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

**Investments in associated companies and shares in affiliated companies** are recognised at the cost of acquisition, provided that there is no permanent impairment that would require a write-down. If an impaired investment has to be written up again as a result of a higher company value, it will be written up at maximum up to the amount of the acquisition costs. The carrying amounts are checked for recoverability close to the balance sheet date. The measurement of the **valuation rates** is carried out analogously to the measurement of the refinancing lines. Starting with the equity capital value pursuant to the IFRS Reporting Package, the planning results for 2017 - 2020 adjusted for the measurement results (deduction of by e.g. risk provisions, impairments, sales gains) are added together taking into account additional adjustments and strategic discounts for portfolio sales. The equity capital value ("goodwill") for the respective company is obtained by applying a discount rate for each country. The underlying assumption is that the remaining equity capital will be returned by 2021 at the latest, depending on the respective planning.

According to section 225 (5) of the Austrian Commercial Code (UGB), associated companies must be measured using the provisions applicable to fixed assets unless they are not intended to be of permanent use to the entity. In this case, they are to be valued using the provisions applicable to current assets under section 206 Austrian Commercial Code (UGB). Any amounts required to cover potentially negative equity in the subsidiaries are provided for within the scope of the measurement of granted refinancing lines. No carrying amounts for investments are reported for these companies. In terms of the measurement of participations, the statement from the Austrian Financial Reporting and Auditing Committee (AFRAC) "Subsequent measurement of participations in annual financial statements prepared under the UGB" dated December 2015 must be observed. Accordingly, the fair value of participations which are intended to be sold is calculated from the objective company value as long as no offer has been submitted to purchase the participation.

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

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

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

**Deferred tax** assets and liabilities for temporary differences between the valuations under corporate and tax law are calculated and assessed with a corporate tax rate of 25.00%; the net amount is shown on the balance sheet. Deferred tax assets arise mainly from receivables from customers and credit institutions, intangible assets and fixed assets, and from provisions for pensions, severances and other provisions. On 31 December 2016, there is (as in the previous year), an overhang of deferred tax assets from temporary differences, which is not recognised since it is not certain that Heta will generate sufficient taxable income to qualify for tax relief in the future. The option to recognise a deferred tax asset for existing tax loss carry forwards (section 198 (9) sentence 3 Austrian Commercial Code (UGB)) is not utilised.

In the case of "non-eligible liabilities" (pursuant to Emergency Administrative Decision II), **liabilities** are recognised at the nominal amount or the amount repayable. In the case of "eligible liabilities", these are stated at the percentage (0% and 46.02%) of the nominal amount (as per the emergency administrative decision) plus deferred interest as at 1 March 2015. The distribution of a premium or discount attributable to "eligible liabilities" was entirely reversed through profit or loss due to the application of Emergency Administrative Decision II.

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

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

The **provision for pension obligations** for current pensions was calculated on the basis of an actuarial appraisal. The calculation used an interest rate of 1.0% (2015: 2.0%) and an unchanged annual pension increase of 2.0% p.a. The amount resulting from the decrease in the applied discount rate is EUR 157 thousand, and is shown in the income statement item Interest and similar expenses.

The provisions for **anniversary benefits** were calculated on the basis of an actuarial appraisal and a termination of employment in the year 2020. The calculation used an interest rate of 0.5% (2015: 2.0%) and an unchanged salary trend of 3.0% (2015: 3.0%) p.a., taking into account a fluctuation discount of 0.0% (2015: 6.0%). The amount resulting from the decrease in the applied discount rate is EUR 2 thousand, and is shown in the income statement item Interest and similar expenses. Of the employee expenses for the 2016 financial year, EUR 23 thousand relates to the allocation for the provision for anniversary benefits.

**Provisions for severance payments** were calculated on the basis of an actuarial appraisal, taking into account the claims at the expected termination date of employment in the year 2020 or an earlier retirement date. The calculation used an interest rate of 0.5% (2015: 2.0%) and an unchanged salary trend of 3.0% (2015: 3.0%) p.a., taking into account a fluctuation discount of 0.0% (2015: 0.0%).

The amount resulting from the decrease in the applied discount rate is EUR 633 thousand, and is shown in the income statement item Interest and similar expenses.

**Other provisions** were created in the amount of the expected utilisation. They take into account all liabilities for which the amount and/or due date is not yet known. Long-term other provisions are not discounted given the special features associated with the gone concern assumption. Other provisions include provisions for restructuring costs accrued in relation to the wind-down of the company. The reduction of the workforce was also provided for by forming a closing costs provision for expected costs. In order to give adequate consideration to the special features associated with the complete wind-down of the company under the gone concern assumption and the principle of prudence, a one-off provision was formed for yet to be incurred personnel and administrative costs during the planning period up to and including 2023 (2015: up to and including 2020). Allocations and reversals (usually to compensate for expenses and losses) are made in other operating income or expenses (2015: in extraordinary income/extraordinary expenses).

As a result of the application of Emergency Administrative Decision II, which went into force on 10 April 2016, a **provision for contingent liabilities related to resolution procedures** was created for the first time in line with the voluntarily prepared and published semi-annual financial statements for 30 June 2016. The amount is based on the amount by which assets exceed reported debts. The expenditure from the creation of the provision is shown in the income statement under extraordinary expenses.

**Derivative financial transactions** (forward transactions, swaps, options) are allocated either to the banking book or to the trading book, depending on their purpose. Pending transactions are as a matter of principle not recognised in the balance sheet. Derivatives allocated to the trading book (currency futures) are recognised at market value and are included under other assets or other liabilities. Where banking book derivatives are not being directly used to hedge an underlying transaction and are intended to hedge a risk other than a currency risk, a provision for anticipated losses is shown in the balance sheet for any negative market value existing on the balance sheet date. Similarly, a pending loss provision is also created for negative market values in connection with not fully effective hedging relationships. Paid for and received option premiums are disclosed under other assets and other liabilities respectively. Option price models based on Black-Scholes are used for the measurement of financial instruments with an option character, using current market parameters. Due to the restructuring under the Federal Act on the Creation of a Wind-down Entity (GSA), which does not allow the company to hold non-current securities and loans and advances until their maturity, no hedge relationship (asset swap) is assumed for those derivatives that have a hedging relationship with such a financial instrument. If the market value was negative, provisions were created for pending losses. Furthermore, provisions were also made for the risk of a premature termination of derivatives and any resulting expenses. Because of the imparity realisation principle, it is not possible to report profits from the measurement for positive market values from derivatives. At the balance sheet date Heta has "mirror derivatives" (derivatives handled through to a third party), that are in an effective hedge relationship. The original derivatives and the mirror derivatives (reverse derivatives) have corresponding critical terms such as nominal value, duration, interest rates, in the way that all negative flows under the original agreement are applied against positive flows under the second agreement with reference to the hedged risk. The relevant hedge documentation is available.

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

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

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

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

The fair value of financial instruments for which there are no active markets is established by means of various valuation models. The applied input parameters - where available - relate to observable market-based data. Where this is not possible, the fair value must be calculated on the basis of estimates. At Heta, fair value is calculated using a comparison with the fair value of another financial instrument that is essentially identical, an analysis of discounted cash flows and option pricing models.

The measurement of participations (equity capital) and refinancing provided to the group companies (debt capital) is mainly performed on the basis of the subsidiaries' wind-down planning, which provides for a full portfolio wind-down, and taking into account the forecast losses from the portfolio sales of these companies. Uncertainties exist with regard to the occurrence of expected return flows, and the implementation of the wind-down strategy defined for each subsidiary (own wind-down or sale). Insofar as the measurement of the participations and refinancing is carried out on the basis of a sale agreement signed with a third party, there exist uncertainties both with regard to the buyer's full implementation of the sale agreement and also with regard to the amount of actual utilisation from contractual warranty and guarantee risks.

## IV. NOTES TO THE BALANCE SHEET

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

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

	EUR thousand	
	31.12.2016	31.12.2015
<b>A3: Loans and advances to credit institutions</b>	<b>1,691,944</b>	<b>2,054,481</b>
of which to affiliated companies	0	0
of which to associated companies	0	0
of which to non-group companies	1,691,944	2,054,481
<b>A4: Loans and advances to customers</b>	<b>1,679,100</b>	<b>2,504,042</b>
of which to affiliated companies	1,039,277	1,083,091
of which to associated companies	0	0
of which to non-group companies	639,824	1,420,951
<b>P1: Liabilities to credit institutions</b>	<b>1,115,685</b>	<b>3,519,497</b>
of which to affiliated companies	0	0
of which to associated companies	0	0
of which to non-group companies	1,115,685	3,519,497
<b>P2: Liabilities to customers</b>	<b>938,376</b>	<b>1,480,656</b>
of which to affiliated companies	63,991	50,329
of which to associated companies	0	0
of which to non-group companies	874,385	1,430,327
<b>P8: Subordinated liabilities</b>	<b>0</b>	<b>1,969,716</b>
of which to affiliated companies	0	0
of which to associated companies	0	0
of which to non-group companies	0	1,969,716

Loans and advances to credit institutions decline during the 2016 financial year from EUR 2.1 billion to EUR 1.7 billion, primarily due to repayments and changes in the required amount of provisions in connection with the sale of former subsidiaries in South-Eastern Europe and Italy.



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

Maturities in accordance with section 64 (1) line 4 of the Austrian Banking Act (BWG):

	EUR thousand	
	31.12.2016	31.12.2015
<b>A3: Loans and advances to credit institutions</b>	<b>1,691,943</b>	<b>2,054,481</b>
- payable on demand	175,189	370,055
- up to three months	310,534	176,424
- three months to one year	357,199	467,214
- one year to five years	847,520	1,018,642
- over five years	1,501	22,146
<b>A4: Loans and advances to customers</b>	<b>1,679,099</b>	<b>2,504,043</b>
- payable on demand	192,470	269,547
- up to three months	47,008	208,840
- three months to one year	163,530	411,505
- one year to five years	908,744	961,809
- over five years	367,347	652,342
<b>P1: Liabilities to credit institutions</b>	<b>1,115,685</b>	<b>3,519,497</b>
- payable on demand	3,478	858,772
- up to three months	0	15,000
- three months to one year	0	160,000
- one year to five years	0	200,000
- over five years	1,112,207	2,285,725
<b>P2: Liabilities to customers</b>	<b>938,377</b>	<b>1,480,655</b>
- payable on demand	199,064	178,229
- up to three months	58,372	88,500
- three months to one year	125,253	188,760
- one year to five years	125,195	940,392
- over five years	430,493	84,774

The maturity of the loans and advances and liabilities is calculated according to the contractual provisions of the underlying transactions. Accordingly, the maturity dates of loans and advances do not reflect the statutory requirements of the Federal Act on the Creation of a Wind-down Entity (GSA), which stipulates the swiftest possible portfolio wind-down for Heta. Depending on the actual implementation of the wind-down, the effective return flows can or will differ from the contractual return flows.

Based on Emergency Administrative Decision II issued by the Financial Market Authority (FMA) on 10 April 2016 (see note 2.4 Emergency administrative decisions by the Financial Market Authority (FMA) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG)), the term of “eligible liabilities” was set to end on the date a resolution on dissolution is adopted pursuant to section 84 (9) Federal Act on the Recovery and Resolution of Banks (BaSAG), but at the latest 31 December 2023. The term of the “non-eligible liabilities” continues to be measured on the basis of the respective contractual agreement.

Of the other loans and advances reported under other assets, EUR 0 thousand (2015: EUR 1,377 thousand) feature a remaining maturity of more than one year. In the case of other liabilities, this figure is EUR 54,658 thousand (2015: EUR 138,015 thousand).

Independent refinancing options no longer exist since the de-regulation at the end of 2014. Proceeds generated by Heta and the repayments of refinancing lines of the (former) subsidiaries are invested with the Austrian National Bank (OeNB), with the effect that the liquidity reserves will continue to rise.

**(13) Securities**

Information pursuant to section 64 (1) line 10 and 11 Austrian Banking Act (BWG):

	EUR thousand	
	31.12.2016	31.12.2015
<b>2. Treasury bills and other bills eligible for refinancing with central banks</b>	<b>34,911</b>	<b>182,898</b>
of which listed	34,911	182,898
of which not listed	0	0
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	33,605	180,203
of which accrued interest	1,306	2,695
<b>3. Loans and advances to credit institutions (evidenced by certificates)</b>	<b>1,501</b>	<b>2,146</b>
of which listed	0	0
of which not listed	1,501	2,146
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	1,501	2,146
of which accrued interest	0	0
<b>4. Loans and advances to customers (evidenced by certificates)</b>	<b>91,895</b>	<b>136,840</b>
of which listed	0	0
of which not listed	91,895	136,840
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	91,817	136,244
of which accrued interest	78	596
<b>5. Bonds and other fixed income securities</b>	<b>46,049</b>	<b>173,912</b>
of which listed	46,049	173,912
of which not listed	0	0
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	45,327	171,942
of which accrued interest	722	1,970
<b>6. Shares and other non-interest-bearing securities</b>	<b>240</b>	<b>18,520</b>
of which listed	33	18,103
of which not listed	208	417
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	240	18,520
of which accrued interest	0	0
<b>7. Shares in associated companies</b>	<b>0</b>	<b>0</b>
of which listed	0	0
of which not listed	0	0
<b>8. Shares in affiliated companies</b>	<b>139,600</b>	<b>85,375</b>
of which listed	0	0
of which not listed	139,600	85,375

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

	EUR thousand	
	31.12.2016	31.12.2015
<b>Issued by the public sector</b>	<b>29,451</b>	<b>27,976</b>
<b>Issued by others</b>	<b>16,598</b>	<b>145,936</b>
Own issues	0	3,122
Domestic bonds (credit institutions)	0	16,111
Foreign bonds (credit institutions)	9,272	93,312
Mortgage bonds and municipal bonds	0	8,876
Other bonds	7,327	24,515
<b>Total</b>	<b>46,049</b>	<b>173,912</b>

The difference between the securities valued at the higher market value (section 56 (5) Austrian Banking Act (BWG)) and the acquisition costs is EUR 6,652 thousand (2015: EUR 18,628 thousand).

In the year 2017, fixed-income securities in the amount of EUR 47,464 thousand (previous year's disclosure relating to 2016: EUR 181,775 thousand) from Euro-denominated securities and EUR 0 thousand (previous year's disclosure relating to 2016: EUR 0 thousand) from securities denominated in foreign currency become due.

Fixed-interest securities of non-public issuers, which were eligible for refinancing with the Austrian National Bank (OeNB) on the reporting date, amount to EUR 9,301 thousand (2015: EUR 118,569 thousand).

As at 31 December 2016, the portfolio of subordinated securities pursuant to section 45 (2) Austrian Banking Act (BWG) amounted to EUR 0 thousand (2015: EUR 4,706 thousand).

No money market instruments were attributed to the securities trading book as at 31 December 2016.

Securities that are recorded in the trading book or bank book as current assets are shown in the balance sheet at the respective market value, if the current financial assets consist of stock exchange listed securities within the meaning of section 56 (5) Austrian Banking Act (BWG). Heta does not possess any long term financial instruments.

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

Details regarding investment companies pursuant to section 238 line 2 Austrian Commercial Code (UGB) are shown in Annex 3 to the notes.

In the 2016 financial year, expenses arising from shares in affiliated companies and participations in the total amount of EUR 14,161 thousand (2015: EUR 3,137,233 thousand) were incurred, which are due to write-downs of carrying amounts on investments.

Recapitalisations of subsidiaries, for which specific risk provisions for refinancing lines were created on 31 December of the previous year, were applied during the 2016 financial year. Following the implementation in 2016, the non-valuable part of the respective capital measure was recognised as a write-down of the carrying amount of the investment. At the same time, the specific risk provision that was created at the amount of the entire capital measure was reversed through profit or loss.

In the 2016 financial year, carrying amounts for affiliated companies were written up in the amount of EUR 7,940 thousand (2015: EUR 39,498 thousand).

#### (15) Intangible and tangible assets

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

As at 31 December 2016, the value of land included in land and buildings amounted to EUR 946 thousand (2015: EUR 1,020 thousand).

**(16) Other assets**

Other assets are comprised of the following:

	EUR thousand	
	31.12.2016	31.12.2015
Interest income	6,716	128,543
- of which to be paid after the closing date	5,977	119,492
Offset claim	51,538	52,253
Receivables arising from the foreign exchange valuation of banking book derivatives	272	16,454
Loans and advances to affiliated companies	26,552	25,843
Receivables from trading book derivatives	15,695	14,042
Trade receivables	6,126	11,912
Loans and advances from disposal of subsidiaries	33,634	0
Loans and advances from closed settlements	5,000	0
Repossessed Assets	4,500	0
Other loans and advances	384	249
<b>Total</b>	<b>150,417</b>	<b>249,296</b>

**(17) Other liabilities**

Other liabilities are comprised of the following:

	EUR thousand	
	31.12.2016	31.12.2015
Interest expenses	57,459	91,156
- of which to be paid after the closing date	7,700	27,302
Clearing account balances	4,138	6,882
Fees and levies	5,084	34,052
Liabilities from foreign currency measurement of banking book derivatives	108,026	138,945
Liabilities from trading book derivatives	16,462	14,799
Trade payables	682	1,571
Miscellaneous liabilities	29,844	38,690
<b>Total</b>	<b>221,695</b>	<b>326,095</b>

Other liabilities include fees and levies of EUR 1,982 thousand (2015: EUR 31,368 thousand) from liabilities related to the tax allocation in the course of group taxation.

The remaining other liabilities include liabilities from the assumption of deficiency guarantees in the amount of EUR 7,897 thousand (2015: EUR 17,161 thousand), and liabilities from guarantee fees in the amount of EUR 12,540 thousand (2015: EUR 13,690 thousand). Since this concern "eligible liabilities", they were reduced to 46.02% in line with the implementation of Emergency Administrative Decision II.

**(18) Deferred assets**

This item consists of expenses that must be spread over the term of the agreements. The sum total of deferred assets as at 31 December 2016 is EUR 0 thousand (2015: EUR 7,023 thousand).

**(19) Provisions**

Other provisions are comprised of the following:

	EUR thousand	
	31.12.2016	31.12.2015
Not yet consumed vacations and overtime hours	1,568	2,013
Anniversary benefits	84	87
Payments to employees	4,609	5,315
Legal and consultancy fees	83,110	114,294
Risks from the lending business	13,196	33,062
Restructuring provisions	23,101	27,174
Letters of comfort/guarantees for subsidiaries	7,411	17,196
Provision related to sales transactions	4,740	122,510
Provision related to closing costs	229,000	262,000
Provision related to guarantee fees	146,483	23,979
provision related to legal cost recoveries	27,248	51,025
Provisions related to a pending loss from derivative transactions	13,548	165,298
Miscellaneous provisions	4,467	9,622
<b>Total</b>	<b>558,566</b>	<b>833,575</b>

The provisions for legal and consulting fees include an amount of EUR 27,953 thousand (2015: 32,507 thousand) pertaining to the forensic investigation of the company's past and the associated legal advisory and procedural costs.

Provisions for credit commitments and guarantees include both provisions at the portfolio level in the amount of EUR 0 thousand (2015: EUR 1,169 thousand), as well as provisions for individual cases in the amount of EUR 13,196 thousand (2015: EUR 31,892 thousand). Since some of these also concern "eligible liabilities", they were reduced to 46.02% in line with the implementation of Emergency Administrative Decision II.

For the reduction in the number of employees planned up to and including 2020 and the financial charges resulting from the social plan restructuring provisions totalling EUR 23,101 thousand (2015: EUR 27,174 thousand) were made.

The provision for obligations to subsidiaries includes a contingent loss provision of EUR 7,392 thousand (2015: EUR 16,993 thousand) resulting from an internal leasing contract for a corporate asset (real estate).

The obligations from sales transactions, which are shown at EUR 4,740 thousand (2015: EUR 122,510 thousand) are in relation to the transfer of the SEE bank network. It mainly relates to the fee payable to the Republic of Austria for providing a guarantee ("hedging instrument"), to which the "bail-in" of creditors does not apply.

In order to comply with the statutory requirements of the Federal Act on the Creation of a Wind-down Entity (GSA), which provide for the conversion of Heta into a wind-down unit and the mandatory voluntary liquidation of the company after the completion of the portfolio wind-down, a provision was recorded in the amount of the future expenses to be incurred ("closing costs"). This provision is based on the gone concern assumption, which, in order to ensure consistency with the generally accepted principle of providing a correct description of the asset, financial and earnings position of the company, allows for or requires the recognition of future losses. On this basis, a provision was made for anticipated ongoing personnel and operating expenditures in the period until 2023 (2015: until 2020), which are associated with the complete wind-down of the portfolio. As at 31 December 2016, the provision is EUR 229,000 thousand (2015: EUR 262,000 thousand). An amount of EUR 33,000 thousand (2015: EUR 73,221 thousand) was reported to compensate for personnel and administrative expenses in other operating income (2015: extraordinary income).

The provisions item in connection with the fees includes expenses of EUR 707 thousand (2015: EUR 23,979 thousand) in future fees for the 2017 financial year regarding the guarantee agreement, and expenses of EUR 145,776 thousand (2015: EUR 0 thousand) in future fees for the 2017 to 2023 financial years in connection with the state-guaranteed bond. Since these fees are deemed "eligible liabilities", both Emergency Administrative Decision II as well as the rate of 46.02% designated under the decision was used to calculate the required provisions.

Through the creation of provisions for pending losses, a loss sustained in transactions which are not shown in the balance sheet is recorded in the period in which it becomes probable and identifiable as a result of the developments in market conditions (section 198 (8) Austrian Commercial Code (UGB)). The amount of the provision is dependent on the size of the expected loss. The analysis of the possibly required provision takes into account the market values of all derivatives in the banking book. The calculation of the pending loss provision from banking book derivatives as at 31 December 2016 in the amount of EUR 13,548 thousand (2015: EUR 165,298 thousand) included a consideration of the statement by the Austrian Financial Reporting and Auditing Committee (AFRAC) "Recognition of Derivatives and Hedging Instruments" from December



2015. The pending loss provision for expected losses from “mirror derivatives” was built in the amount negative market values exceeded positive market values (see also note 9 Measurement of assets and liabilities). In the case a hedging relationship would not have existed for these derivatives the pending loss provision would have amounted EUR 42,295.6 thousand.

According to the AFRAC statement, derivatives constitute pending transactions and according to the imparity realisation principle may only be recognised in the balance sheet if a provision must be established for pending losses pursuant to section 198 (8) line 1 of the Austrian Commercial Code (UGB). Due to the excessive indebtedness of the company reported as at 31 December 2014 and the withdrawal of financial support by Heta's owner, as well as the emergency administrative decision by the Financial Market Authority (FMA) from 1 March 2015, it could not be assumed that the issued bonds and debt instruments (shown as liabilities) that were subject to the moratorium would be serviced in the amount of the nominal claim. Therefore, no effective hedging relationship between the underlying transaction (shown as a liability) and the derivative hedge could be assumed retroactively since 31 December 2014. In the absence of these hedging relationships, a pending loss provision was created at the amount of the negative market value of the hedge derivatives. Due to the requirement stipulated by the Federal Act on the Creation of a Wind-down Entity (GSA) for all portfolio wind-down relevant assets to be sold as quickly as possible, it became necessary, in the case of derivatives transactions that had a hedging relationship to a claim or security recognised in the balance sheet as an asset (asset swap), the maturity date of which was after 2020, to dissolve this hedging relationship and to recognise a provision in the amount of a possible negative market value. This situation still exists as at 31 December 2016.

As at the balance sheet date, a right of sell-out exists according to which Heta undertakes to acquire, at the residual carrying amount, the leased property comprising the headquarters in Klagenfurt after the expiration of the lease agreements in the years 2019 to 2022 upon the written request of a group subsidiary. For this contractual right of sell-out, the resulting difference was allocated to a pending loss provision, taking into account the reduction in the obligation to 46.02% as defined in Emergency Administrative Decision II and using a comparison with the market value for the property. As a consequence of the reduction of this liability pursuant to the decision, a reversal of the provision compared to 31 December 2015 was recognised in extraordinary income.

## **(20) Provision for contingent liabilities related to resolution procedures**

The application of the “bail-in” of creditors had the effect of reducing the core equity capital, the nominal value of the instruments under the supplementary capital, the nominal value of the subordinated liabilities as well as the nominal value or outstanding residual amount of the remaining “eligible liabilities” pursuant to section 86 (1) Federal Act on the Recovery and Resolution of Banks (BaSAG) (including interest) (Emergency Administrative Decision II by the Financial Market Authority (FMA)). In the course of implementing the effects from Emergency Administrative Decision II, Heta's annual financial statements generate an income, which after being offset against the net accumulated loss of previous years will be allocated to a provision for contingent liabilities related to resolution procedures. This provision may change significantly over the settlement period depending on the company's future success in settling its affairs.

A provision for contingent liabilities related to resolution procedures in the amount of EUR 3,171,458 thousand (2015: EUR 0 thousand) was recognised for 31 December 2016.

**(21) Information regarding risk provisions**

The following risk provisions apply as at 31 December 2016:

	EUR thousand	
	31.12.2016	31.12.2015
<b>Loans and advances to credit institutions</b>	<b>472,165</b>	<b>677,003</b>
Specific risk provisions	440,179	657,646
Portfolio-based provisions	31,986	19,357
<b>Loans and advances to customers</b>	<b>1,630,450</b>	<b>2,381,808</b>
Specific risk provisions	1,615,129	2,352,806
Portfolio-based risk provisions	15,321	29,002
<b>Off-balance-sheet risks from the lending business</b>	<b>13,196</b>	<b>33,061</b>
Individual provisions	13,196	31,892
Portfolio-based provisions	0	1,169
<b>Total</b>	<b>2,115,811</b>	<b>3,091,872</b>

Credit defaults that had already occurred on the reporting date but were not yet identified as such were taken into account with a portfolio based risk provision of EUR 47,306 thousand (2015: EUR 49,528 thousand).

The level of the specific risk provisions for loans and advances to customers and credit institutions decreased from EUR 3,010,452 thousand (31 December 2015) to EUR 2,055,309 thousand (31 December 2016), of which an amount of EUR 456,801 thousand (2015: EUR 767,656 thousand) is attributable to financing provided to affiliated companies. Following the recapitalisation measures in 2016, the non-valuable portion of the respective capital measure was recognised as impairment on the carrying amount of the participation, and the relevant specific risk provision reported in the previous year was reversed for this portion through profit or loss. In this context, the valuation rates that are used for the real estate collateral on which the financing is based reflect the sales values that can be achieved in the short term in saturated markets.

**(22) Risk provisions according to section 57 (1) Austrian Banking Act (BWG) (general provisions)**

For those receivables from customers that show no indications of payment default, a general provision of EUR 117,746 thousand (2015: EUR 107,755 thousand) was recognised according to section 57 (1) Austrian Banking Act (BWG) for the loss on disposal expected due to an earlier sale.

With regard to claims against public debtors that are also not considered to be in payment default, provisions totalling EUR 0 thousand (2015: EUR 31,521 thousand) were created for the measurement risk.

In addition, a provision adjustment of EUR 9,463 thousand (2015: EUR 65,525 thousand) was created for the foreign currency risks resulting from the open currency positions.

Overall, the maximum provisions created pursuant to section 57 (1) Austrian Banking Act (BWG) amount to EUR 143,908 thousand (2015: EUR 204,800 thousand).

**(23) Liabilities to Pfandbriefbank**

After March 2015, the other member institutions and guarantors covered the liabilities to Pfandbriefbank (Österreich) AG (Pfandbriefbank) that Heta would have been responsible for in terms of the internal relationship. These concern those issues that were issued by the Pfandbriefbank on behalf of Heta. Heta was informed by the Pfandbriefbank that the bank had assigned its own claims against Heta (from the forwarding of the issue proceeds) to (several) member institutions and guarantors in return for assuming these liabilities. The legal nature of the claim against Heta has not changed as a result.

As a result of the acceptance of the repurchase offer submitted by the State of Carinthia in the fall of 2016 (see note 2.5 Repurchase offer from the State of Carinthia), the claims by the Pfandbriefbank against Heta were assigned to the Kärntner Ausgleichszahlungs-Fonds (K-AF), which means that Heta no longer has any liabilities to Pfandbriefbank as at 31 December 2016. The liabilities reported in this balance sheet item for 31 December 2015 will therefore again be reported in the item liabilities to customers (loans) and liabilities evidenced by certificates (bonds).

See note 29 Liability for commitments issued through Pfandbriefbank (Österreich) AG for further details.

**(24) Deferred liabilities**

The sum total of deferred liabilities as at the 31 December 2016 balance sheet date is EUR 0 thousand (2015: EUR 6,135 thousand).

**(25) Supplementary and subordinated capital**

Supplementary and subordinated capital cannot be repaid at an earlier date, nor can it be pledged or assigned. In the event of a liquidation or insolvency, the entitlements rank behind all other creditors' claims, and may not be set off against receivables of the bank. The entire supplementary and subordinated capital is covered under Emergency Administrative Decision II, and was reduced to zero (2015: EUR 0 thousand).

The carrying amount for the reported supplementary capital (not including accrued interest) was already EUR 0 thousand before the application of Emergency Administrative Decision II, as loss allocations had been applied in accordance with section 23 (7) Austrian Banking Act (BWG) (applicable version), which had resulted in the complete removal of these liabilities. Therefore the statutory loss allocations implemented in previous years do not have any further effects for the 2016 financial year. There were no supplementary capital bonds in the own portfolio as at 31 December 2016.

The carrying amount of the subordinated capital (excluding interest accruals) is EUR 0 thousand (2015: EUR 1,958,761 thousand).

Heta placed a subordinated bond of EUR 1.0 billion with institutional investors on 6 December 2012. This bond has a term of ten years and a coupon of 2.375% p.a. on the nominal value. To this end, the Republic of Austria had submitted an unconditional and irrevocable guarantee, which was conclusively approved by the EU Commission in terms of state aid aspects in its decision from 3 September 2013. For receiving this guarantee, Heta has committed to pay the Republic a guarantee fee that was calculated on the basis of a formula defined by the EU Commission. The guarantee fee of 5.325% p.a. is subject to deferral pursuant to Emergency Administrative Decision II; Heta does not pay this fee to the Republic of Austria. The subordinated bond is covered by Emergency Administrative Decision II and was reduced to zero.

No subordinated loans were obtained during the financial year.

No interest payments were made for any subordinated liabilities because of the payment moratorium imposed on 1 March 2015. The reported interest expenses for subordinated liabilities were only recognised for the period 1 January up to and including 9 April 2016, and amount to EUR 13,771 thousand (2015: EUR 50,871 thousand), while the commission expenses reported in connection with subordinated liabilities amount to EUR 14,549 thousand (2015: EUR 53,250 thousand). Due to the fact that Heta does not draw any financial advantages from the guarantee agreement as of the time the subordinated debenture that forms the basis for the guarantee agreement is reduced, the guarantee commission payments in the amount of EUR 158,078 thousand (2015: EUR 0 thousand), which as at 31 December 2016 were still expected in the future taking into account the "bail-in" of creditors defined for this purpose in Emergency Administrative Decision II (53.98%), had to be allocated to a provision. These expenses are shown under extraordinary expenses.

**(26) Issued capital**

Heta's share capital, which is composed of 989,231,060 no-par value bearer shares, amounted to EUR 2,419,097 thousand as at 31 December 2015. The participation capital issued by Heta amounted to EUR 1,075,111 thousand (nominal) as at 31 December 2015. Pursuant to Emergency Administrative Decision II, the entire core equity capital pursuant to section 50 (1) line 1 in connection with section 74 (2) line 4 in connection with section 90 (1) line 1 in connection with section 73 (2) line 1 Federal Act on the Recovery and Resolution of Banks (BaSAG) was reduced to zero.

The registration of the reduction in the share capital in the commercial register only has a declaratory effect; the registration was made on 30 July 2016.

**(27) Reserves**

There are no reserves on 31 December 2016 (2015: EUR 0 thousand).

## V. OFF-BALANCE-SHEET ITEMS

### (28) Derivative financial instruments

The following transactions were not yet settled at 31 December 2016:

	EUR thousand			
	Nominal purchase contracts	Nominal sales contracts	Fair value positive	Fair value negative
<b>a) Interest-related business</b>				
<b>OTC-products</b>	<b>554,344</b>	<b>554,344</b>	<b>61,486</b>	<b>76,120</b>
Interest rate swaps	536,306	536,306	61,480	76,114
Interest swaptions	0	0	0	0
Forward rate agreements	0	0	0	0
Cap, Floor	18,039	18,039	6	6
<b>Exchange-traded products</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Future bond	0	0	0	0
<b>b) Currency-related business</b>				
<b>OTC-products</b>	<b>288,654</b>	<b>288,579</b>	<b>119</b>	<b>108,417</b>
Currency swaps	264,735	264,735	0	108,376
Cross currency swaps	23,919	23,844	119	41
Forward exchange contracts	0	0	0	0
Currency swaptions	0	0	0	0
<b>Exchange-traded products</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>c) Shares and index-linked transactions</b>				
<b>OTC-products</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Put Option	0	0	0	0
<b>d) Other</b>				
<b>OTC-products</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Credit Default Swaps	0	0	0	0
Total Return Swaps	0	0	0	0
<b>Exchange-traded products</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

As at 31 December 2014, all derivative hedging relationships with issued bonds and liabilities had to be dissolved due to the hedging relationships no longer being effective. For securities and loans shown as assets that have a remaining maturity of more than five years, no effective hedging relationship has been assumed since 31 December 2014. As at 31 December 2016, no derivatives are held that are part of a hedging relation.

A pending loss provision was created with regard to the negative market value of derivatives as at 31 December 2016 in the amount of EUR 13,548 thousand (2015: EUR 165,298 thousand).

The comparative values as at 31 December 2015 are as follows:

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

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

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

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

According to the notification issued by the Pfandbriefbank, the volume of liabilities included under the liability of the guarantors is approximately EUR 1.9 billion as at 31 December 2016 (EUR 3.3 billion on 31 December 2015 on the basis of the audit report in terms of liability law). Taking into account the funds obtained by the Pfandbriefbank and forwarded to Heta in the amount of EUR 0.6 billion (2015: EUR 1.2 billion), the value that must be reported according to section 237 line 8a of the Austrian Commercial Code (UGB) is EUR 1.8 billion (2015: EUR 2.8 billion).

According to Emergency Administrative Decision II, all of Heta's liabilities to Pfandbriefbank (Österreich) AG are subject to a "bail-in" of creditors of 53.98%. In addition to the aforementioned statutory liabilities, these items include in particular those Pfandbriefbank receivables from Heta from the forwarding of proceeds from issues that the Pfandbriefbank issued on Heta's behalf. As a result of Emergency Administrative Decision II, Heta is also no longer required to pay the quarterly administration fees stipulated by the Pfandbriefbank. Furthermore, the Pfandbriefbank demands that Heta reimburses it for certain costs that were incurred as a result of Emergency Administrative Decisions I and II. Heta disputes that it has an obligation to



reimburse these costs. Due to the Pfandbriefbank's acceptance of the repurchase offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF) in relation to the outstanding claims against Heta and the associated submission of a comprehensive waiver in favour of Heta, the bank is no longer entitled to reimbursements for these costs.

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

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

	EUR thousand	
	31.12.2016	31.12.2015
<b>Contingent liabilities</b>	<b>4,065,010</b>	<b>105,143</b>
Guarantees and other collateral securities	3,148	105,143
due to application of the "bail-in" of creditors reduced liability	4,061,862	0
<b>Loan exposures</b>	<b>9,472</b>	<b>185,655</b>

Credit risks exist in the form of not yet utilised credit lines in the amount of EUR 9,472 thousand (2015: EUR 185,655 thousand).

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

Furthermore, other financial obligations exist in the form of joint liability for all those issues that were issued by the Pfandbriefbank (see note 29 Liability for commitments issued through Pfandbriefbank (Österreich) AG).

The obligations from the use of property, plant and equipment not reported on Heta's balance sheet (rent and lease obligations) for the 2017 financial year amount to EUR 670 thousand (2015: EUR 1,586 thousand), a total of EUR 8,764 thousand for the 2018 to 2021 financial years (2015: EUR 7,932 thousand) and so for the financial years 2017 to 2021 in total EUR 9,434 thousand (2015: EUR 7,932 thousand).

In addition to the contingent liabilities and loan exposures shown below the line, there are liquidity guarantees and soft (i.e. not legally binding) letters of comfort to individual group companies. To maintain their business operations, nearly all group companies depend on Heta to provide liquidity and/or equity. This applies in particular to the group's wind-down units, which do not have their own funding sources to obtain liquidity and therefore have to be financed by the parent company, so that the material risk of loss is transferred to the lending institution. Insofar as these companies have negative equity that is not compensated by positive earnings in the planning period, so that the ability to service the internal group refinancing lines is at risk, a specific risk provision is recognised with regard to the affected refinancing line.

Other major financial obligations resulting from the application of the "bail-in" of creditors instrument according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) are shown under contingent liabilities. The amount shows the nominal value of the "eligible liabilities" including accrued interest up to 1 March 2015 less the carrying amount of the "eligible liabilities" as at 31 December 2016 less the provision for contingent liabilities in connection with resolution procedures. Not included are interests regarding "eligible liabilities" from 1 March 2015, as they were set to zero according to Emergency Administrative Decision II and subordinated liabilities in the amount of EUR 1,928.050 thousand (nominal value including accrued interest up to 1 March 2015), as a repayment of these liabilities set to zero is not probable.

It is noted that the amounts of these contingent liabilities may change in the future due to foreign currency measurements as well as earlier partial distributions.

**(31) Fiduciary transactions**

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

	EUR thousand	
	31.12.2016	31.12.2015
Loans and advances to credit institutions	0	0
Loans and advances to customers	79,675	73,257
Securities and shares in associated companies	0	0
Other fiduciary assets	0	0
<b>Fiduciary assets</b>	<b>79,675</b>	<b>73,257</b>
Liabilities to credit institutions	23,797	23,797
Liabilities to customers	55,878	49,460
Other fiduciary liabilities	0	0
<b>Fiduciary liabilities</b>	<b>79,675</b>	<b>73,257</b>

Fiduciary income and expenses are as follows:

	EUR thousand	
	1.1.-31.12.2016	1.1.-31.12.2015
Fiduciary income	108	54
Fiduciary expenses	0	0

## VI. NOTES TO THE INCOME STATEMENT

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

Interest income and expenses are broken down per region, with allocation to a region dependent on the location of the registered office of the company.

	EUR thousand	
	1.1.-31.12.2016	1.1.-31.12.2015
<b>Interest and similar income</b>		
<b>Loans and advances to credit institutions and customers</b>	<b>45,426</b>	<b>98,792</b>
of which Austria	9,515	34,929
of which International	35,911	63,863
<b>Fixed-income securities</b>	<b>9,781</b>	<b>14,209</b>
of which Austria	5,628	6,589
of which International	4,153	7,620
<b>Other assets</b>	<b>75,454</b>	<b>311,764</b>
of which Austria	75,170	310,772
of which International	284	992

Until Emergency Administrative Decision II was issued (10 April 2016), interest expenses in connection with the “eligible liabilities” were calculated at the unreduced amount and recognised as an interest expense. As of 10 April 2016, no interest (interest rate 0%) is recognised for these liabilities.

	EUR thousand	
	1.1.-31.12.2016	1.1.-31.12.2015
<b>Interest and similar expenses</b>		
<b>Liabilities to credit institutions and customers</b>	<b>65,102</b>	<b>199,473</b>
of which Austria	1,439	5,163
of which International	63,663	194,310
<b>Debt evidenced by certificates</b>	<b>72,035</b>	<b>265,993</b>
of which Austria	72,035	265,993
of which International	0	0
<b>Other liabilities</b>	<b>63,697</b>	<b>110,821</b>
of which Austria	63,697	106,975
of which International	0	3,846

### (33) Income from securities and participations

Income from participations pursuant to section 238 line 4 Austrian Commercial Code (UGB) is as follows:

	EUR thousand	
	1.1.-31.12.2016	1.1.-31.12.2015
CEDRUS Handels- u. Beteiligungs GmbH	18,200	0
HBlnt Credit Management Limited, Jersey	0	735
Other	357	270
<b>Total</b>	<b>18,557</b>	<b>1,005</b>

The impairment of investments and the other expenses and income related to investments in the 2016 financial year are reported under the item Net gain/loss from the remeasurement and disposal of securities treated as financial assets and from investments in associated and affiliated companies.

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

The development of the commission income and expenses is as follows:

	EUR thousand	
	1.1.-31.12.2016	1.1.-31.12.2015
<b>From the lending business</b>	<b>-14,983</b>	<b>-90,623</b>
Fee and commission income	1,071	1,748
Fee and commission expenses	-16,054	-92,371
<b>From the securities business</b>	<b>-475</b>	<b>-550</b>
Fee and commission income	0	7
Fee and commission expenses	-475	-557
<b>From other transactions</b>	<b>-129</b>	<b>-148</b>
Fee and commission income	8	37
Fee and commission expenses	-137	-185
<b>Total</b>	<b>-15,587</b>	<b>-91,321</b>

Fee and commission expenses for the 2016 financial year amount to EUR 14.5 million (2015: EUR 53.3 million) and are the result of guarantee expenses in connection with the agreed fee (5.325% p.a.) for the state-guaranteed subordinated bond. These expenses are accrued until the effective date of Emergency Administrative Decision II, hence up to and including 9 April 2016.

**(35) Other administrative expenses (administrative costs)**

The breakdown of other administrative expenses is as follows:

	EUR thousand	
	1.1.-31.12.2016	1.1.-31.12.2015
Legal and consultancy costs	50,419	68,345
Advertising expenses	509	905
Rental and leasing expenses	4,059	4,463
IT costs	2,614	3,520
Data centre costs	2,169	2,651
Training expenses	546	316
Issue costs	195	175
Travel expenses	448	488
Fleet costs	403	411
Insurance	2,027	2,741
Telephone/postage costs	334	494
Costs in connection with company legal structure	417	308
Office/stationery costs	49	69
Miscellaneous operating expenses	637	472
<b>Total</b>	<b>64,826</b>	<b>85,358</b>

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

**(36) Other operating income**

Other operating income is as follows:

	EUR thousand	
	1.1.-31.12.2016	1.1.-31.12.2015
Income from rental and leasing contracts	356	491
Income from release of provisions	55,841	13,038
Group internal charging	4,810	5,736
Income from selling real estates	265	235
Other operating income	43,306	9,005
<b>Total</b>	<b>104,578</b>	<b>28,505</b>

**(37) Other operating expenses**

This item in the amount of EUR 2,386 thousand (2015: EUR 35 thousand) includes expenses of EUR 20 thousand (2015: EUR 11 thousand) due to the disposal of assets, and EUR 2,366 thousand (2015: EUR 24 thousand) for other expenses.

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

In 2016, this item totalling EUR 980,489 thousand (2015: EUR 3,579,981 thousand) includes results from the reversal and allocation of impairments of EUR +289,873 thousand (2015: EUR +2,864,205 thousand) that are due to the reversal of provisions for refinancing lines to subsidiaries. Credit risk provisions for third-party customers were reversed in the amount of EUR +256,260 thousand (2015: reversal of EUR +555,451 thousand). This item also includes income in the amount of EUR +304,283 thousand (2015: EUR +64,720 thousand) from the reversal of derivative positions.

This item also includes reversals in the amount of EUR +60,900 thousand (2015: EUR +84,693 thousand) pursuant to section 57 (1) Austrian Banking Act (BWG), which are connected to provisions for foreign currency risks.

Income and expenses in connection with the securities classified as current assets amounted to EUR +55,820 thousand (2015: EUR -29,444 thousand).

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

This item totalling EUR 438,603 thousand (2015: EUR -3,118,181 thousand) includes the negative measurement effects from the participation in Alpe Adria Privatbank AG i.L. in the amount of EUR -589 thousand (2015: EUR -568 thousand) and EUR -13,006 thousand (2015: EUR -3,097,168 thousand) relating to other subsidiaries. Also included are provisions for/reversals of obligations from sale transactions for a net amount of EUR +452,199 thousand (2015: EUR -20,446 thousand). Most of the effect reported in 2016 is the result of changed provisions for risks from the sales agreement for the former SEE network (now Addiko Bank AG), which resulted from the agreement concluded on 23 December 2016 (see note 2.7 Business relationships with the former SEE network).

**(40) Extraordinary result**

The extraordinary result item amounts to EUR 6,104,877 thousand (2015: EUR -655,564 thousand) and is the result of extraordinary income of EUR 9,445,556 thousand (2015: EUR 1,087,908 thousand) and extraordinary expenses in the amount of EUR -3,340,679 thousand (2015: EUR -1,743,472 thousand).

The extraordinary income for the 2016 financial year is the result of wind-down instrument of the "bail-in" of creditors with regard to the reduction of "eligible liabilities" pursuant to section 86 (1) Federal Act on the Recovery and Resolution of Banks (BaSAG). Because of the reduction, the "eligible liabilities" were reduced at the corresponding amount (53.89% and 100%). This reduction in liabilities and provisions results in extraordinary income of EUR 9,445,556 thousand.



Extraordinary expenses for the 2016 financial year include expenses for future guarantee fees in the amount of EUR -163,568 thousand, as well as cost reimbursement claims of EUR -5,610 thousand, which are reported under other provisions or other liabilities. Moreover this item also includes expenses of EUR -2,123,713 thousand (2015: EUR 0 thousand) from the allocation to the provision for contingent liabilities related to resolution procedures.

## VII. OTHER DISCLOSURES

### (41) Important proceedings

#### 41.1. Proceeding with Bayerische Landesbank (BayernLB) and Memorandum of Understanding (MoU)

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

The Munich I Regional Court issued the judgement of the court of first instance at the hearing of 8 May 2015. In a not yet binding judgement, almost the entire order sought by BayernLB was admitted, and Heta was ordered to pay (i) EUR 1.03 billion plus associated interest in the amount of EUR 17.1 million, along with interest of 5.0% above the respective base rate (but at least 5.0% p.a. since 1 January 2014 and 21 June 2014), (ii) CHF 1.29 billion plus associated interest of CHF 15.2 million, along with interest of 5.0% above the respective base rate (but at least 5.0% p.a. since 1 January 2014) and (iii) EUR 1.4 million plus interest, and dismissed all of Heta's counterclaims (claims for recovery). Only in the instance of one bond of CHF 300.0 million the court found that it did not have jurisdiction. In general, the reasoning put forward by the court is based on the argument that Heta was not able to provide evidence of a "crisis" in terms of the Austrian Equity Substituting Capital Act (EKEG), and the court also dismissed the application of the Hypo Alpe Adria Restructuring Act (HaaSanG) and the measures for claims based on the same according to German law, and also the application of Emergency Administrative Decision I issued on 1 March 2015 by Financial Market Authority (FMA) on the basis of the Federal Act on the Recovery and Resolution of Banks (BaSAG), which had the effect of deferring in particular those BayernLB's claims that formed the subject of the proceedings until 31 May 2016.

The MoU concluded by the Republic of Austria and the Free State of Bavaria on 7 July 2015 created the basis for the settlement of all (alleged) claims between BayernLB on the one side and Heta on the other side, as well as those between BayernLB on the one side and the Republic of Austria and the Kärntner Landesholding on the other side. Heta subsequently reviewed the conditions for concluding a settlement and the associated effects. On 21 September 2015, Heta announced that it would be prepared to conclude a settlement - as outlined in the MoU - with BayernLB. But in the end, BayernLB was not willing to settle the Austrian Equity Substituting Capital Act (EKEG) proceedings with Heta in the form that was originally planned. Therefore the proceedings are continued by Heta without any restrictions, and are to be completed with a legally binding decision by the German courts with jurisdiction. To this end, Heta submitted its grounds of appeal to the Munich Higher Regional Court on 1 February 2016, in compliance with the deadlines.

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

Possible claims of Heta against the Republic of Austria were not set out in any of the agreements and declarations. These are not affected by the agreements that have been entered into. Heta has obtained a waiver of the statute of limitation from the Republic of Austria until 31 December 2016 in order to protect its potential claims. This waiver was extended until 31 July 2017 at the end of the year. In turn, Heta agreed not to file a lawsuit until the end of May 2017.

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

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

The liabilities of EUR 2.8 billion (nominal plus interest claims) to BayernLB as at 31 December 2016 can only be reduced to the settlement value agreed by BayernLB of approximately EUR 2.4 billion once it has been determined that the Financial Market Authority (FMA) recognises BayernLB's claims as equal-ranking and unsecured senior liabilities in the wind-down procedure for Heta. This waiver only takes effect once the wind-down of Heta is complete, however. The liabilities to BayernLB reported as at 31 December 2016 are also covered by the "bail-in" measures of the Financial Market Authority (FMA) according to the Emergency Administrative Decision II from 10 April 2016. Finally, the extent of the haircut will depend on the outcome of the proceedings before the Munich Higher Regional Court.

A decision by the Court of Appeal is still outstanding. On 18 May 2016, Heta received an order from the Munich Higher Regional Court in which the court is considering, on the basis of the applicable Federal Act on the Recovery and Resolution of Banks (BaSAG) and Emergency Administrative Decision II issued by the Financial Market Authority (FMA) on 10 April 2016, which in the opinion of the court must be equated to insolvency proceedings for banks, to interrupt the proceedings and to withdraw recognition of the mutual need for legal protection as a result of the Memorandum of Understanding (MoU) concluded between the Republic of Austria and the Free State of Bavaria. Both Heta and BayernLB have objected to an interruption in the proceedings. The Munich Higher Regional Court has not yet commented on the submissions of the two parties. At the beginning of October 2016, BayernLB submitted an (unsolicited) reply to Heta's appeal, even though the Munich Higher Regional Court did not impose any deadlines in this regard. The Munich Higher Regional Court has not released any statements as to when and how the proceedings are to be continued.

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

On 14 July 2015, Heta was served with an arbitration action by Anadi Financial Holdings Pte. Ltd., the buyer of the former Hypo Alpe-Adria-Bank AG, Klagenfurt am Wörthersee (now: Austrian Anadi Bank AG). After multiple changes to the order sought, Anadi Financial Holdings Pte. Ltd. now submitted an action for performance for a total amount of EUR 78 million, and also a declaratory judgement regarding Heta's liability for future damages incurred by Anadi Financial Holdings Pte. Ltd. due to alleged incorrect information and Heta's failure to disclose information during the course of the sale of Hypo Alpe-Adria-Bank AG to Anadi Financial Holdings Pte. Ltd. in the year 2013.

The jurisdiction of the Vienna International Arbitral Centre (VIAC) according to the "Vienna Rules" was agreed in the purchase agreement for the event of a dispute. On 13 August 2015, Heta submitted a statement of defence in compliance with the deadlines, in which it rejected all of the plaintiff's allegations. The oral proceedings before the arbitration tribunal were held in November 2016; based on the current information, it is expected that the proceedings will be completed at the earliest in the first quarter of 2017. The proceedings are not public.

Heta continues to believe that the claims are unfounded; therefore no provisions were created for the matter in dispute.

#### **41.3. Other proceedings**

##### **41.3.1. LAWSUITS AND LEGISLATIVE MEASURES PERTAINING THE TERMS IN LOAN AGREEMENTS**

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

On 22 August 2015, a new law went into force in Montenegro, according to which banks were obliged to convert existing CHF loans into Euro in accordance with the official exchange rate that applied at the time the loan agreement was concluded. The Heta company in Montenegro was initially unaffected by the legislation due to its status as a non-bank. The law was

amended effective 23 September 2016, and now also includes third parties to whom receivables from CHF loan agreements were transferred. This means that the law now also applies to the Heta unit in Montenegro. It has submitted an unsolicited inquiry for a review of the constitutionality of the law and a request for the interpretation of the same to the institutions in charge. The law was implemented in compliance with the deadlines. In September 2015, such a law was also approved and implemented in Croatia. The Croatian Heta unit is only minimally affected by this law, since the affected volume of loans is relatively small. The highest courts of both Croatia and Serbia handed down decisions on these issues in the year 2016, which are generally friendly to borrowers and the practical impacts of which remain to be seen. In December 2016, the constitutional court in Croatia rescinded a portion of a judgement of the Supreme Court, which assessed the legality of the foreign currency clause, on formal grounds. Now the Supreme Court must arrive at a new decision, whereby it is also possible that proceedings are initiated before the European Court of Justice (ECJ). In Serbia, the court with jurisdiction issued a binding judgement in September 2016, according to which a loan agreement must be cancelled since the change in foreign currency for the CHF loan was made independent of the wishes of the borrower and made it more difficult for the borrower to meet his repayment obligations. According to the purchase agreement concluded with the buyer of Addiko Bank AG, Heta was required to compensate damages from the CHF portfolios of the former banking subsidiaries that result from such legal measures under certain conditions. The corresponding indemnification obligation on the part of Heta was however conclusively settled with the settlement on 10 March 2016 (also for future losses incurred by the buyer).

In Italy, lessees have filed several individual claims against the Italian group company Heta Asset Resolution Italia S.r.l. (HARIT), in which they allege that the index clauses used in the leasing agreements (interest and currency indexing regarding the London Interbank Offered Rate (LIBOR) and CHF) should be declared null and void. Heta assumed these leasing agreements of the former Italian group subsidiary bank HBI in line with an internal group restructuring process in 2012. Specifically, it is argued that because of the indexing clauses that are used in the leasing agreements, these agreements contained derivative instruments, which would lead to additional information and audit obligations under Italian law. The first judgements were in favour of HARIT, but negative judgements of the first instance were issued in 2015. Even though case law had initially classified the leasing agreements as non-derivative, the more recent decisions argued in favour of such a classification however. HARIT appealed the negative decisions. The corresponding provision was already created in the annual financial statements for 31 December 2015. With the sale of HARIT in February 2017, the outcome of these proceedings is no longer of relevance to Heta.

#### 41.3.2. PROCEEDINGS INVOLVING FORMER SHAREHOLDERS

During the course of the forensic investigation of the past, civil lawsuits were filed against former owners and former executive bodies by the former Hypo Alpe-Adria-Bank International AG in 2011 and 2012. It includes the suit (so-called "special dividend/consultant" civil action) filed in March 2012 against certain original shareholders and a total of nine former executive bodies. It asserts claims (original value in dispute EUR 50.1 million) in connection with the distribution of a non-linear special dividend to the noted original shareholders in 2008 for the 2007 financial year, which in Heta's opinion was not justified. Settlements of approximately EUR 19.0 million (around 75% of the defendants' amounts in dispute) were concluded with Heta in July 2014 with three defendant original shareholders and two former members of the executive bodies. Due to the initiation of the preliminary proceedings under criminal law, the civil proceedings were suspended on 1 December 2014 until the end of the criminal proceedings. The preliminary proceedings have in the meantime been discontinued. Heta had submitted an application to continue the proceedings in compliance with the deadlines. The request for continuation was rejected in December 2016. Heta subsequently made an application to continue the civil proceedings. In the meantime, a settlement was reached with another defendant. Other settlement talks continue.

A civil suit filed in 2011 relates to the group of issues pertaining to the Hypo Leasing Holding (HLH) preferred shares, which were placed in 2004 and 2006 in two tranches. Following an investigation of the financing model and the preparation of a forensic report on the order of Heta, these events were prosecuted both in terms of civil and criminal law. Heta had filed a suit for payment of EUR 48.0 million against 12 defendants with joint liability for the same amount. However, the Supreme Court found that Heta's legal argument was devoid of any factual and legal basis, and instead referred the proceedings back to the first instance with a restricted value in dispute of EUR 23.0 million (action for performance EUR 17.5 million and action for declaratory judgement EUR 5.5 million). The amount of approximately EUR 17.0 million was dismissed with legal effect. In the meantime, a settlement was reached with three defendants. Other settlement talks continue. The proceedings have in the meantime been continued against the remaining nine defendants

#### 41.3.3. OTHER PROCEDURAL MATTERS

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

In 2015, these proceedings were entered across the group in a new electronic database at the holding level. In addition, a group-wide review of relevant and pending passive proceedings was held as part of the Legal Quality Review (LQR) project, with the support of external legal advisors. The focus of this project was to identify the chances of success and, in the same vein, to determine the need to create or increase/reverse risk provisions. After the end of the LQR, the decision was made to conduct a semi-annual review of all already pending and new passive proceedings in the future, so that possible changes with regard to the strategy and estimates regarding the chance of success can be considered during the strategy definition process. Approximately 800 passive court proceedings in the entire group were subjected to a review in June and July 2016, followed by a review of approximately 900 proceedings in December 2016 and January 2017.

Most passive proceedings are connected to outstanding loan cases. Usually, in these proceedings borrowers assert a variety of claims and allegations in an attempt to extract themselves from the obligation to repay the loans. They argue, for example, that Heta did not meet its obligations to continue financing the borrower, and thus caused the borrower to incur damages, or that the collateral that Heta was trying to utilise was not validly registered. In Croatia, a non-governmental organisation sometimes appears as the plaintiff, which tries to allege the supposed nullity of the loans and collateral registered in favour of Heta with the argument of missing regulatory approvals. The developments in these proceedings are closely followed, and the corresponding impairments or provisions are posted in the event the outcome is expected to be negative for Heta. In this vein, Heta had to create a provision of just under EUR 23 million (after the haircut) as a result of a judgement of the first instance that was issued in favour of a borrower. Many lawsuits are also filed by third parties that have acquired property rights to assumed unencumbered assets of Heta's borrowers, and now demand that collateral that continues to be validly registered in Heta's favour is deleted. Moreover, those subsidiaries that had assumed assets from the former banks of the Hypo Group in line with the "brush transactions" are also confronted with lawsuits contesting the validity of these transfers. In addition, there are also legal disputes that are not related to loan agreements but other contractual obligations previously entered into by Heta.

The active proceedings relate mainly to proceedings for collecting outstanding claims from loan and leasing agreements, as well as different execution proceedings, enforcement and insolvency proceedings. The project "Legal Case Resolution" (LCR) was also started in 2016, with the aim of creating structures and mechanisms for reducing the numerous legal proceedings pending in the group congruently with the wind-down of other assets.

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

The legal guarantee of the State of Carinthia for all commitments of Heta is a statutory guarantee pursuant to section 1356 of the Austrian Civil Code (ABGB) and covers all commitments entered into before 3 April 2003 as well as all commitments entered into between 3 April 2003 and 1 April 2007 whose terms does not extend beyond 30 September 2017. The state does not assume any guarantee for liabilities assumed after 1 April 2007. The guarantee was set out in the Kärntner Landesholding Act (K-LGH). The Kärntner Landesholding Act (K-LHG) was repealed with the law that sets out the dissolution of the Kärntner Landesholding; however, section 1 (2) of this act also clarifies that section 5 of the Kärntner Landesholding Act (K-LHG) (old) must continue to be applied to the guarantees assumed by the state as the deficiency guarantor pursuant to section 1356 Austrian Civil Code (ABGB), insofar as these are bona fide and were legally substantiated.

A guarantee commission agreement between the State of Carinthia and Heta provided for a guarantee commission of 1% p.a. of the outstanding amount. This guarantee commission agreement was terminated by Heta on 31 December 2011 in exercise of the contractually designated ordinary termination right, as a result of which the contractual obligation to pay the guarantee commission is cancelled as of the year 2012. Notwithstanding this termination of the contractual guarantee commission agreement, the State of Carinthia's deficiency guarantee as set out in the legislation continues to be in effect. The Aufsichtskommissär (Supervisor) of the Sondervermögen Kärnten fund (as the universal successor to the Kärntner Landesholding) is still authorised to access the relevant information at the company.

The company and the State of Carinthia have diverging legal opinions regarding the guarantee commission for the year 2011, which has not been paid by Heta to date. The company submitted a waiver of the statute of limitation ending in 31 December 2016 to the state, which was extended to 31 March 2017 at the end of 2016. In turn, the State of Carinthia committed to not file suit against the company for the time being. The State of Carinthia and Heta are currently in talks for the settlement of these claims, taking into account the result of a still outstanding expert clarification with respect to the existence and amount of these claims.

Based on item II.2. of Emergency Administrative Decision II issued by the Financial Market Authority (FMA), all of Heta's state-guaranteed liabilities, with the exception of the guaranteed pension provisions and the cover pool liabilities were reduced to 46.02%.



Taking into account the cover pool liabilities paid back during the first six months of 2016, which were not subject to a payment moratorium under the Federal Act on the Recovery and Resolution of Banks (BaSAG), the state-guaranteed liability as at 31 December 2016 amounted to EUR 4,635,927.5 thousand (2015: EUR 11,133,754.1 thousand).

On the basis of the statutory authorisation pursuant to section 2a of the Financial Market Stability Act (FinStaG), on 20 January 2016 the State of Carinthia submitted, through the specially created Kärntner Ausgleichszahlungs-Fonds (K-AF), an offer to Heta creditors for the purchase of all of Heta's debt instruments secured by the state guarantee, which however was not accepted by the creditors with the legally required majority. On 6 September 2016, the K-AF submitted a new public offer that was accepted with the required majority at the beginning of October. As part of its existing obligations to provide information pursuant to section 5 K-LHG (old), Heta responded to the request for information submitted by the State of Carinthia in connection with these offers regarding its debt instruments secured by the state guarantee.

In addition to the deficiency guarantee by the State of Carinthia pursuant to section 5 Kärntner Landesholding Act (K-LHG) (old), there is also a deficiency guarantee by the Sondervermögen Kärnten Fonds and the Kärntner Beteiligungsverwaltung as the legal successor to the Kärntner Landesholding (KLH) pursuant to section 4 Kärntner Landesholding Act (K-LHG). This deficiency guarantee comprises all of Heta's liabilities that were incurred until the repeal of the Kärntner Landesholding Act (K-LHG) on 4 May 2016.

## **(43) Main agreements**

### **43.1. Guarantee agreement with the Republic of Austria**

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

Guarantee commission payments were suspended on 1 March 2015 due to the moratorium imposed by the Financial Market Authority (FMA). Based on Emergency Administrative Decision II from 10 April 2016, both the guarantee fee not yet paid by 1 March 2015 as well as all future payment obligations under the guarantee commission were subjected to a haircut and thus were reduced to 46.02%. The claims by the Republic of Austria are deferred until latest 31 December 2023.

At this time the Republic of Austria has paid EUR 11.2 million to Heta.

Drawdowns from the guarantee totalled EUR 67.1 million by 31 December 2016. Additional drawdowns totalling EUR 83.8 million were made in January 2017.

A separate receivable from the Republic of Austria is added to the balance sheet for those cases that were drawn and not yet serviced by the Republic of Austria. As at 31 December 2016, the claim is EUR 55.9 million. A waiver until the end of 2017 was obtained from the Republic of Austria in order to prevent the limitation of possible claims in relation to the already drawn cases.

At this time, a settlement for terminating the agreement is being considered. To this end, discussions have been initiated with representatives of the Republic of Austria. Since Heta did not receive any additional payments from the Republic of Austria (with the exception of one payment), it can be expected that the Republic of Austria could object to making the remaining payments to Heta. It is conceivable that the resolution regime under the Federal Act on the Recovery and Resolution of Banks (BaSAG), the interpretation of various provisions under the guarantee itself, or the existence of drawdown preconditions in individual cases may be cited as reasons. Against this background, Heta has reassessed the recoverability of its claim against the Republic of Austria for the current annual financial statements. The initiated discussions regarding the settlement let the valuation in the 2016 financial statements seem adequate.

### **43.2. Conclusion of sales agreements and other agreement in connection with wind-down activities**

During the course of Heta's wind-down activities, Heta and its subsidiaries enter into new contractual obligations in connection with the various wind-down activities. In particular, they conclude sales agreements, settlement agreements, agreements regarding the early repayment of financing and similar agreements regarding the sale of assets held by Heta. In this context, attempts are generally made to keep the contractual obligations of Heta and its subsidiaries to a minimum. But frequently the

customary warranties must be provided in relation to the assets to be sold (participations, real estate, loan receivables etc.). For the purpose of securing the warranty claims, many buyers also demand the corresponding security mechanisms, usually escrow agreements. In addition, there are also situations, depending on the type of the asset, in which Heta provides certain services to the buyer until the legal status can be fully transferred.

### 43.3. Group Taxation Agreement

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

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

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

In meeting the statutory requirements of the Federal Law on the Creation of a Wind-down Unit (GSA) and the HBI-Bundesholding-law, Heta had to transfer all its shares in Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) to HBI-Bundesholding AG (HBI-BH) on the basis of the share purchase agreement from 8 September 2014. To avert regulatory proceedings for HBI by the Banca d'Italia, which would otherwise have been unavoidable due to liquidity and capital shortfalls at the Italian bank, Heta announced a waiver for a portion of EUR 280.0 million in the first half of 2015, and HBI-BH also announced a waiver for EUR 96.0 million at the end of 2015. The additional waivers of receivables committed by Heta in line with the so-called "Term Sheet Agreement" of up to EUR 350.0 million have not been utilised to date. The purpose of the write-offs is to ensure compliance with the capital ratios prescribed for HBI by Banca d'Italia; they were authorised by the resolution authority on 23 December 2015 with a non-prohibition.

All relevant aspects of the Term Sheet (including the pledging of shares in HBI in favour of Heta and the appointment of a board observer from Heta at HBI's Administrative Board meetings) were formally implemented by March 2016.

In 2016, HBI repaid another EUR 295.0 million to Heta. Beyond that, no material financial changes occurred at HBI. The results achieved by HBI are generally in line with expectations and the wind-down plan, and are suited to successfully implement the wind-down strategy for the Italian bank through the sale of the portfolio and the branch network by 2018. The refinancing lines provided by Heta to HBI in the past were again subjected to an assessment of recoverability at the end of 2016; the assessment is based on the most recent wind-down plan for HBI, the results of the 2016 financial year and a conservative estimate of the additionally identified potential risks. Compared to the provisions created in the previous year, reversals of EUR 215.3 million could be applied in 2016.

### 43.5. Assets submitted as collateral pursuant to section 64 (1) line 8 BWG

According to section 64 (1) line 8 Austrian Banking Act (BWG), current assets of EUR 168,551 thousand (2015: EUR 476,626 thousand) were transferred as collateral for liabilities to credit institutions and customers.

The relevant assets, which consist mainly of cash collaterals, continue to be reported in Heta's balance sheet.

	EUR thousand	
	31.12.2016	31.12.2015
Loans and advances to customers	0	3,696
Loans and advances to credit institutions	168,551	399,487
Securities	0	73,443
<b>Total</b>	<b>168,551</b>	<b>476,626</b>

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

Securities of EUR 0 thousand (2015: EUR 0 thousand) were lent in line with securities lending activities.

The refinancing lines for Addiko Bank AG as at 31 December 2016 have been partially pledged as at 31 December 2016 in favour of the purchaser of Addiko Bank AG regarding his claims from the sale agreements on the basis of the Pledge Agreement concluded in the 2015 financial year.

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

Taking into account Emergency Administrative Decision II, which, in item III. regarding the "eligible liabilities", extends the due dates to the date a resolution on dissolution is adopted pursuant to section 84 (9) Federal Act on the Recovery and Resolution of Banks (BaSAG), but at the latest to 31 December 2023, no bonds will become due during the next 12 months.

Interim distributions pursuant to resolutions adopted by the general shareholders' meeting are possible in principle as a result of the amendment of Heta's statutes in June 2016. Whether and to what extent such interim distributions can be made in the future cannot be foreseen at the present time however.

**(45) Group situation**

The former Hypo Alpe-Adria-Bank International AG has been 100% owned by the Republic of Austria since 30 December 2009. The name of the company was changed to Heta Asset Resolution AG (Heta) as of 31 October 2014. The Financial Market Authority (FMA) has exercised the rights associated with the shares and property titles in Heta since 10 April 2016.

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

**(46) Audit expenses**

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (Vienna/Austria) (EY) and KPMG Austria GmbH (Vienna/Austria) (KPMG) were selected to audit the 2016 annual financial statements.

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

	EUR thousand	
	1.1.-31.12.2016	1.1.-31.12.2015
<b>Audit fees for the annual financial statements</b>	<b>530</b>	<b>672</b>
Expenses for current year	470	527
Expenses relating to prior year	60	145
<b>Fees for other services</b>	<b>43</b>	<b>200</b>
Other assurance services	43	8
Tax consultancy	0	0
Other services	0	192
<b>Total</b>	<b>573</b>	<b>872</b>

The audit expenses in the 2016 financial year with regard to EY amount to EUR 530 thousand (2015: EUR 672 thousand), and do not include VAT or cash expenditures. The audit costs for the current year (2016) also include the costs for the audit of the consolidated financial statements for 31 December 2016, as well as the costs for the (voluntary) audit of the semi-annual financial statement according to Austrian Commercial Code (UGB)/Austrian Banking Act (BWG). In addition to the services invoiced by the appointed auditor EY, invoices for services rendered by other companies within the Ernst & Young network have also been included in the total sum.

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

	EUR thousand	
	1.1.-31.12.2016	1.1.-31.12.2015
<b>Audit fees for the annual financial statements</b>	<b>538</b>	<b>729</b>
Expenses for current year	470	527
Expenses relating to prior year	68	203
<b>Fees for other services</b>	<b>680</b>	<b>1,309</b>
Other assurance services	0	0
Tax consultancy	82	100
Other services	598	1,208
<b>Total</b>	<b>1,218</b>	<b>2,038</b>

The audit expenses for the 2016 financial year with regard to KPMG amount to EUR 538 thousand (2015: EUR 729 thousand), and do not include VAT or cash expenditures. The audit costs for the current year (2016) include the costs for the audit of the consolidated financial statements for 31 December 2016, as well as the costs for the (voluntary) audit of the semi-annual financial statement according to Austrian Commercial Code (UGB)/Austrian Banking Act (BWG). In addition to the services invoiced by the appointed auditor KPMG, invoices for services rendered by other companies within the KPMG network have also been included in the total sum.

#### (47) Other supplementary information

Existing investments in the leasing business according to section 64 (1) line 1 Austrian Banking Act (BWG) include EUR 0 thousand (2015: EUR 1,500 thousand) of wholly adjusted shares in HETA Asset Resolution d.o.o. (Ljubljana) and the also wholly adjusted shares in Hypo Alpe-Adria-Leasing OOD (Sofia) and the partially-adjusted Hypo Alpe-Adria-Autoleasing OOD (Sofia).

The amount for deferred tax assets pursuant to section 198 (10) Austrian Commercial Code (UGB) (25%) that is not reported separately in the balance sheet and that can be capitalised pursuant to the Austrian Commercial Code (UGB) is EUR 0 thousand (2015: 0 thousand).

Corporate taxes do not place a burden on Heta's extraordinary result. The amount of tax expenses that is reported also includes the tax apportionments of EUR +13,249 thousand (2015: EUR -7,639 thousand) for group members pursuant to section 9 Austrian Corporation Tax Law (KStG).

The return on total assets (the ratio of profit for the year after taxes divided by total assets as at the reporting date) is 92% (2015: negative), and cannot be considered meaningful due to the considerable income from the application of Emergency Administrative Decision II that was recognised for the first six months of 2016.

Mortgage bond activities pursuant to the Pfandbrief law are as follows:

	EUR thousand					
	Debt evidenced by certificates		Covering loans		Surplus/shortfall in cover	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Public sector mortgage bonds	0	230,734	0	767,090	0	545,965

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

	EUR thousand	
	31.12.2016	31.12.2015
Assets	528,749	1,522,322
Equity and Liabilities	1,251,533	2,944,990

**(48) Related Parties**

The company maintains a series of business relationships and relationships under liability law with the Republic of Austria.

The following situations of relevance in terms of the financial statements arise from these relationships with the Republic of Austria as of the 31 December 2016 balance sheet date:

EUR thousand

	fees paid to date	accrual basis	Balance Sheet value 31 December 2016	Amount in balance sheet (in %)	Treatment pursuant to emergency administrative decision as of 10 April 2016	Reported in balance sheet
Fee 5,375% p.a. for GGB until 12/2022	113,794.5	2015–2022	192,688.3	46.02	eligible	Other liabilities - provisions
Cost reimbursement claims in connection with management GGB	0.0	2016–2022	22.3	46.02	eligible	Other liabilities - provisions
Fee Phoenix 10% p.a. for non-drawn cases	76,677.3	2015–2017	13,246.4	46.02	eligible	Other liabilities - provisions
Adria hedging instrument	26,383.5	2016–2017	5,512.6	100.00	non-eligible	Other liabilities - provisions
Settlement costs (BaSAG)	2,755.0	2015–2023	13,442.4	100.00	non-eligible	Provisions
<b>TOTAL liabilities</b>	<b>219,610.3</b>		<b>224,912.0</b>			
Drawn Phoenix guarantees	n.a.		55,877.7	n.a.	n.a.	Other assets Loans and advances to customers
Republic of Austria	n.a.		50,000.0	n.a.	n.a.	
<b>TOTAL Receivables</b>			<b>105,877.7</b>			

In December 2015, the Republic of Austria submitted a payment of EUR 11,224 thousand with respect to the EUR 200 million guarantee agreement ("Phoenix"). The amounts drawn to date but not yet paid by the Republic of Austria are shown under other assets and amount to EUR 55,878 thousand. (31 December 2015: EUR 49,460 thousand). In the case of the not yet drawn cases, all of the amounts to be paid by the Republic of Austria are taken into account as recoverable collateral in the calculation of specific provisions for the third-party credit portfolio. For additional details, please see note 43.1 Guarantee agreement with the Republic of Austria.

Moreover, on 31 December 2016 there are business relationships with other publicly-owned organisations at the scope customary for the banking industry.

The relationships with the executive bodies of Heta are shown under note (51) Information about executive bodies.

The conditions for the refinancing lines to a former group company, which must continue to be treated as a related party, amount to a surcharge of between 33 and 210 basis points on the respective benchmark interest rate.

**(49) Employees**

The average number of employees (by capacities) during the year pursuant to section 239 (1) line 1 Austrian Commercial Code (UGB) was as follows:

	2016	2015
Salaried employees	356	428
Hourly-paid employees	0	0
<b>Total</b>	<b>356</b>	<b>428</b>

**(50) Severance and pension payments**

These expenses as defined in section 239 (1) line 3 Austrian Commercial Code (UGB) are broken down as follows:

	EUR thousand			
	1.1.-31.12.2016		1.1.-31.12.2015	
	Severance pay	Pensions	Severance pay	Pensions
Members of Management Board	14	189	22	63
Key management personnel	51	172	542	21
Other employees	207	306	579	181
<b>Total</b>	<b>272</b>	<b>668</b>	<b>1,143</b>	<b>266</b>

The expenditures for severances and payments to employee retirement funds break down into expenses for severances in the amount of EUR 379 thousand (2015: EUR 714 thousand) and payments to employee retirement funds of EUR 373 thousand (2015: EUR 429 thousand).

**(51) Information about executive bodies**

The executive bodies that were active during the financial year are shown in Annex 2 to the notes.

**51.1. Advances, loans and guarantees for executive bodies**

Heta does not maintain any direct business relations with the company's executive bodies.

**51.2. Remuneration for the executive bodies**

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

	EUR thousand	
	1.1.-31.12.2016	1.1.-31.12.2015
<b>Management Board</b>	<b>2,023</b>	<b>1,820</b>
of which on-going payments	2,023	1,820
<b>Supervisory Board</b>	<b>233</b>	<b>323</b>
<b>Remuneration paid to former members of the Management and Supervisory Board and their surviving dependants</b>	<b>0</b>	<b>501</b>
thereof payments after termination	0	0
thereof related to termination	0	501
<b>Total</b>	<b>2,256</b>	<b>2,645</b>

The remuneration for Board members for 2016 (2015 figures adjusted) does not include any variable elements.



**(52) Events after the balance sheet date**

The disposition of all shares in Heta Asset Resolution Italien S.r.l. (HARIT), which was announced in August 2016, was successfully completed on 21 February 2017 (closing). HARIT was sold to an alternative investment fund that is affiliated with Bain Capital Credit (European Advisors), Ltd., whereby all of Heta's financing that was outstanding as of that date was also covered. Following the completion of this transaction, Heta no longer undertakes any operating activities in Italy.

In January 2017, additional drawdowns were made for a volume of EUR 83,839 thousand in connection with the guarantee agreement with the Republic of Austria (note 43.1 Guarantee agreement with the Republic of Austria).

On 6 February 2017, Addiko Bank AG repaid the refinancing lines with the original repayment obligations until 2022, which were provided by Heta. According to the agreement from 23 December 2016 (see note 2.7 Business relationships with the former SEE network) a repayment of almost EUR 1 billion was made for the refinancing line. With the repayment, all of the warranties and exemptions agreed as part of the sale of Heta's SEE banking network to Advent International and EBRD in 2014, as well as the complex mutual contractual linkages between Heta and Addiko Bank AG, were settled and conclusively terminated.

As a result of the progress made with the portfolio wind-down, the cash and balances at central banks continued to rise since the balance sheet date (EUR 6.2 billion) to EUR 7.8 billion by the middle of March 2017.

Klagenfurt am Wörthersee, 15 March 2017  
Heta Asset Resolution AG

THE MANAGEMENT BOARD

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

Mag. Martin Handrich  
(Member)

Mag. Arnold Schiefer  
(Member)

Mag. Alexander Tscherteu  
(Member)



## Fixed assets movement schedule Annex 1 to the Notes

Asset	Acquisition costs	Addition	Disposals	Reclassifications
	01.01.2016	2016	2016	2016
2. <b>Treasury bills</b>				
Financial investments	0.00	0.00	0.00	0.00
3. <b>Loans and advances to credit institutions</b>				
Financial investments	0.00	0.00	0.00	0.00
4. <b>Loans and advances to customers</b>				
Financial investments	0.00	0.00	0.00	0.00
5. <b>Bonds and other fixed income securities</b>				
Financial investments	0.00	0.00	0.00	0.00
6. <b>Financial investments</b>				
7. <b>Shares in associated companies</b>	1,665,832.70	0.00	-1,661,443.55	0.00
8. <b>Shares in affiliated companies</b>	5,518,644,674.65	62,750,797.44	-147,151,717.84	0.00
9. <b>Intangible fixed assets</b>	16,474,361.52	1,330,244.27	0.00	0.00
10. <b>Tangible fixed assets</b>	9,995,213.91	239,410.57	-1,100,835.35	0.00
<b>Total</b>	<b>5,546,780,082.78</b>	<b>64,320,452.28</b>	<b>-149,913,996.74</b>	<b>0.00</b>

Acquisition costs 31.12.2016	Accumulated depreciation	Accumulated write-ups	Carrying amount 31.12.2016	Carrying amount 31.12.2015	Write-ups 2016	Depreciation 2016
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
4,389.15	-4,388.15	0.00	1.00	2.00	0.00	0.00
5,434,243,754.25	-5,303,200,105.24	8,556,545.76	139,600,194.77	85,375,263.51	7,939,852.09	-14,161,129.71
17,804,605.79	-15,631,343.06	0.00	2,173,262.73	2,482,674.13	0.00	-1,639,656.06
9,133,789.13	-5,751,055.43	0.00	3,382,733.70	4,378,064.30	0.00	-591,289.57
<b>5,461,186,538.32</b>	<b>-5,324,586,891.88</b>	<b>8,556,545.76</b>	<b>145,156,192.20</b>	<b>92,236,003.94</b>	<b>7,939,852.09</b>	<b>-16,392,075.34</b>

## Executive bodies of the company Annex 2 to the Notes

1 January till 31 December 2016

### Supervisory Board

#### Chairman of the Supervisory Board:

Dipl.-Kfm. Michael MENDEL

#### Deputy Chairman of the Supervisory Board:

Dr. Stefan Josef Peter Heinrich SCHMITTMANN, from 29.06.2016

Mag. Alois HOCHEGGER, until 29.06.2016

#### Members of the Supervisory Board:

Mag. Regina OVESNY-STRAKA, from 29.06.2016

Dr. Karl F. ENGELHART, from 18.08.2016

Mag. Regina FRIEDRICH, until 29.06.2016

Mag. Christine SUMPER-BILLINGER, until 29.06.2016

DI Bernhard PERNER, until 29.06.2016

#### Appointed to the Supervisory Board by the Works Council:

Erwin SUCHER

Mag. Lisa TAUCHHAMMER

### Federal Supervisory Authorities

#### State Commissioner:

Mag. Alexander PESCHETZ

#### Deputy State Commissioner:

Mag. Stefan WIESER

### Trustees

#### Trustee:

Mag. Alexander PESCHETZ, Federal Ministry of Finance, appointed from 01.01.2016

#### Deputy Trustee:

HR Mag. Maria HACKER-OSTERMANN, Federal Ministry of Finance

### Management Board

Wirt.-Ing. Sebastian Prinz von SCHOENAICH-CAROLATH, Chairman of the Management Board

Mag. Martin HANDRICH, Member of the Management Board

Mag. Alexander TSCHERTEU, Member of the Management Board

Mag. Arnold SCHIEFER, Member of the Management Board

## List of shareholdings Annex 3 to the Notes

### pursuant to section 238 UGB

#### 1. Direct participations of Heta Asset Resolution AG

The following list shows the direct participations (greater than 20%) of Heta Asset Resolution AG according to section 238 (2) Austrian Commercial Code (UGB):

Name of enterprise	Registered office	Capital share <sup>1)</sup>	Equity in EUR thousand <sup>2)</sup>	Profit/Loss in EUR thousand <sup>3)</sup>	Date of closing
IMPREGNACIJA - HOLZ d.o.o. Vitez <sup>4)</sup>	Vitez	93.380	-	-	-
HETA Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	100.000	2,489	-1,274	31.12.2016
HYPO Consultants Holding GmbH i.L.	Klagenfurt am Wörthersee	100.000	130	-192	31.12.2015
Hypo Alpe-Adria Jersey Limited	St. Helier - Jersey	100.000	-84	281	31.12.2015
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	100.000	-7,646	-670	31.12.2016
ALPE-ADRIA GASTRONOMIE GMBH	Klagenfurt am Wörthersee	100.000	-60	-68	31.12.2015
Alpe Adria Venture Fund GmbH & Co KG	Klagenfurt am Wörthersee	100.000	1,054	-1	31.12.2015
TCK d.o.o.	Ljubljana	100.000	68,616	39,751	31.12.2016
TCV d.o.o.	Ljubljana	100.000	6,637	4,665	31.12.2016
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD - U LIKVIDACIJI	Novi Beograd	100.000	2,098	-400	31.12.2016
HETA ASSET RESOLUTION Bulgaria OOD	Sofia	100.000	2,817	-6,453	31.12.2016
HETA ASSET RESOLUTION Auto Bulgaria OOD <sup>5)</sup>	Sofia	100.000	-	-	31.12.2016
HETA Asset Resolution d.o.o.	Ljubljana	100.000	41,106	30,866	31.12.2016
Hypo Alpe-Adria (Jersey) II Limited	St. Helier - Jersey	100.000	-59	235	31.12.2015
REZIDENCIJA SKIPER d.o.o.	Savudrija	100.000	-64,513	705	31.12.2016
CEDRUS Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.000	128,597	23,137	31.12.2016

The equity and profit/loss values shown above for fully consolidated companies are generally calculated in accordance with the uniform group measurement provisions pursuant to IFRS, and therefore may differ from the published separate financial statements, which were prepared according to the respective national accounting standards. The information is based on data prior to consolidation.

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

<sup>1)</sup> Calculated percentage portion from the viewpoint of Heta Asset Resolution AG, minority shareholders at the fourth decimal points are no longer shown

<sup>2)</sup> Equity = total equity capital of the company; proportionate equity (corresponding to the direct shareholdings) is not shown

<sup>3)</sup> Result = net profit/loss prior to reserves and non-controlling interest; the proportionate result (corresponding to the direct shareholding) is not shown

<sup>4)</sup> IMPREGNACIJA - HOLZ d.o.o. is inactive and does not draw up accounts

<sup>5)</sup> The equity and profit/loss values for HETA ASSET RESOLUTION Auto Bulgaria OOD are included in the direct parent company HETA ASSET RESOLUTION Bulgaria OOD

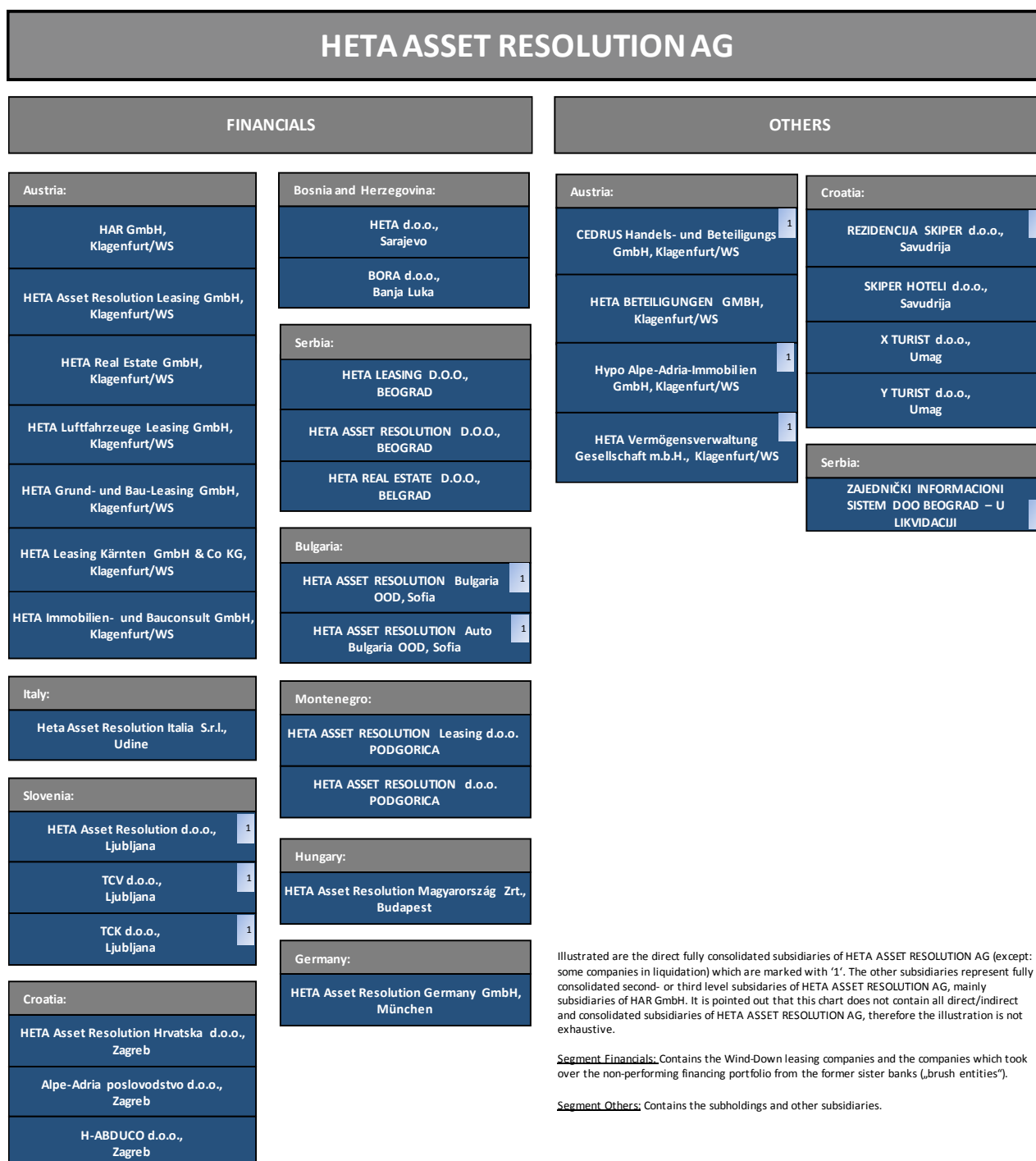


## 2. Consolidation pursuant to IFRS

Heta prepares its consolidated financial statements as at 31 December 2016 according to the International Financial Reporting Standards (IFRS). The published consolidated financial statements are based on the group of consolidated companies according to IFRS and include the following:

company	Registered office	Capital share <sup>1)</sup>		Date of Closing
		direct	indirect	
Alpe-Adria poslovodstvo d.o.o.	Zagreb	100.0	100.0	31.12.2016
BORA d.o.o. Banja Luka	Banja Luka	100.0	100.0	31.12.2016
CEDRUS Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2016
DOHEL d.o.o.	Sesvete	100.0	100.0	31.12.2016
H-ABDUKO d.o.o.	Zagreb	100.0	100.0	31.12.2016
HAR GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2016
HETA ASSET RESOLUTION Auto Bulgaria OOD	Sofia	(99.8/0.2)	100.0	31.12.2016
HETA ASSET RESOLUTION Bulgaria OOD	Sofia	(99.9/0.1)	100.0	31.12.2016
HETA Asset Resolution d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2016
HETA ASSET RESOLUTION D.O.O. BEOGRAD	Beograd	100.0	100.0	31.12.2016
HETA ASSET RESOLUTION d.o.o. PODGORICA	Podgorica	100.0	100.0	31.12.2016
HETA Asset Resolution Germany GmbH	Munich	100.0	100.0	31.12.2016
HETA Asset Resolution Hrvatska d.o.o.	Zagreb	100.0	100.0	31.12.2016
Heta Asset Resolution Italia S.r.l.	Tavagnacco (UD)	100.0	100.0	31.12.2016
HETA ASSET RESOLUTION Leasing d.o.o. PODGORICA	Podgorica	100.0	100.0	31.12.2016
HETA Asset Resolution Leasing GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2016
HETA Asset Resolution Magyarországt Zrt.	Budapest	100.0	100.0	31.12.2016
HETA ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2016
HETA d.o.o. Sarajevo	Sarajevo	100.0	100.0	31.12.2016
HETA Grund- und Bau-Leasing GmbH	Klagenfurt am Wörthersee	(99.9/0.1)	100.0	31.12.2016
HETA HOUSE D.O.O. - PODGORICA	Podgorica	100.0	100.0	31.12.2016
HETA Immobilien- und Bauconsult GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2016
HETA LEASING D.O.O. BEOGRAD	Beograd	100.0	100.0	31.12.2016
HETA Leasing Kärnten GmbH & Co KG	Klagenfurt am Wörthersee	100.0	100.0	31.12.2016
HETA Luftfahrzeuge Leasing GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2016
HETA REAL ESTATE D.O.O. BELGRAD	Beograd	100.0	100.0	31.12.2016
HETA Real Estate GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2016
HETA Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	100.0	100.0	31.12.2016
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2016
Malpensa Gestioni Srl	Tavagnacco (UD)	100.0	100.0	31.12.2016
REZIDENCIJA SKIPER d.o.o.	Savudrija	(75.0/25.0)	100.0	31.12.2016
SKIPER HOTELI d.o.o.	Savudrija	100.0	100.0	31.12.2016
SKIPER OPERACIJE d.o.o.	Savudrija	100.0	100.0	31.12.2016
SPC SZENTEND Ingatlanforgalmazó és Ingatlanfejlesztő Kft.	Budapest	100.0	100.0	31.12.2016
TCK d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2016
TCV d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2016
Tridana d.o.o.	Ljubljana	100.0	100.0	31.12.2016
X TURIST d.o.o.	Umag	100.0	100.0	31.12.2016
Y TURIST d.o.o.	Umag	100.0	100.0	31.12.2016
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD - U LIKVIDACIJI	Novi Beograd	100.0	100.0	31.12.2016

## Major holdings Annex 4 to the Notes as at 31 December 2016



## Statement of all legal representatives

We confirm to the best of our knowledge that the annual financial statements for Heta Asset Resolution AG prepared in accordance with the applicable financial reporting standards give a true and fair view of the company's asset, financial and earnings position, that the management report depicts the business developments, the result and the situation of the company so as to provide a true and fair view of the company's asset, financial and earnings position, and that the management report correctly describes the main risks and uncertainties faced by the company."

Klagenfurt am Wörthersee, 15 March 2017  
Heta Asset Resolution AG

THE MANAGEMENT BOARD

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

Mag. Martin Handrich  
(Member)

Mag. Arnold Schiefer  
(Member)

Mag. Alexander Tscherteu  
(Member)

# Auditors' Report

## Report on the annual financial statements\*

### Opinion

We have audited the annual financial statements of **HETA ASSET RESOLUTION AG, Klagenfurt am Wörthersee**, which comprise the balance sheet as at 31 December 2016, the income statement for the year ending on that reporting day, and the notes.

In our opinion, the attached annual financial statements comply with legal requirements and give a true and fair view of the financial position as at 31 December 2016 and its financial performance for the financial year ending on that reporting day in accordance with the Austrian Generally Accepted Accounting Principles.

### Basis for the audit opinion

We conducted our audit in accordance with the Austrian Generally Accepted Standards on Auditing. Those standards require the application of the International Standards on Auditing (ISA). Our responsibilities pursuant to these provisions and standards are described in the section "Auditors responsibilities for the audit of the annual financial statements" in our auditors' report. We are independent of the company in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Emphasis of matters

We draw your attention to

- a) the information provided by the company's Management Board in the notes to the annual financial statements under note (8) "Measurement basis: Gone concern assumption", which describes that the annual financial statements prepared in consideration of Emergency Administrative Decision II continue to be based on the gone concern assumption, and
- b) the information provided by the company's Management Board in the notes to the annual financial statements in the notes (1) "The Company", (2.2) "Federal Act on the Creation of a Wind-down Entity (GSA)" and (4) "Wind-down plan pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA)", which describe the wind-down of the assets in a manner that is orderly, active and to the best possible advantage.

Our audit opinion is not modified with regard to these circumstances.

### Key audit matters

Key audit matters are those matters that, in our professional judgement were most significant for our audit of the annual financial statements for the financial year. These matters were considered in connection with our audit of the annual financial statements as a whole, and in the formation of our audit opinion thereon, and we do not provide a separate audit opinion on these matters.

Below, we describe the key audit matters from our perspective:

- a) Measurement of legal risks in connection with the Federal Act on the Recovery and Resolution of Banks (BaSAG) lawsuits and the proceedings before the European Court of Justice (ECJ)
- b) Impairment of the wind-down assets (loans and advances to customers and real estate)
- c) Impairment of the refinancing lines Hypo Alpe-Adria-Bank S.p.A.
- d) Allocation to a provision for uncertain liabilities related to resolution procedures, and provisions in connection with closing-down costs
- e) Impairment of shares in affiliated companies and the refinancing of subsidiaries.

#### **a) Measurement of legal risks in connection with the Federal Act on the Recovery and Resolution of Banks (BaSAG) lawsuits and the proceedings before the European Court of Justice (ECJ)**

#### **Description:**

While planning the audit, we discovered that lawsuits filed by investors affected by Emergency Administrative Decisions I and II were pending at the Frankfurt Regional Court. These lawsuits related to the bonds (in Euro) issued by the company with a nominal value of approximately EUR 2.2 billion, as well as bonds (in CHF) with a nominal value of approximately 33 million.

The plaintiffs disputed the recognition of the measures taken by the Financial Market Authority (FMA) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG).

In Austria, additional lawsuits against the company were pending in connection with the subordinated debt instruments affected by the Hypo Alpe Adria Restructuring Act (HaaSanG).

In 2016, various questions regarding the applicability of the European Directive for the Recovery and Resolution of Credit Institutions and investment firms (BRRD) and of the haircut to the company were submitted to the European Court of Justice (ECJ) in line with so-called "preliminary decision proceedings". If the European Court of Justice (ECJ) had decided against the company, the consequences may have been as follows:

- The company could no longer be wound-down according to the objectives and principles of the Federal Act on the Recovery and Resolution of Banks (BaSAG)
- Some creditors could bring about enforcement measures that are contrary to the principles of the equal treatment of creditors and the (equal) assumption of losses set out in the Federal Act on the Recovery and Resolution of Banks (BaSAG)

These effects could also give rise to an insolvency scenario, which would generate significantly lower return flows from the wind-down process.

Due to the successful acceptance of the buy-back offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF), all of the proceedings in Germany and most of the proceedings in Austria were terminated in late fall of 2016.

In this regard, we refer to the information provided by the company's Management Board in the notes to the annual financial statements in notes (2.6.4) "Proceedings before the European Court of Justice (ECJ)", (2.6.5) "Proceedings before the Constitutional Court of Austria (VfGH)" and (2.6.7) "Possible consequences of a judgement against Heta in connection with the Federal Act on the Recovery and Resolution of Banks (BaSAG)".

#### **How we addressed the matters in the course of the audit:**

We obtained confirmations from the lawyers for all key proceedings, and subsequently assessed whether they may result in a heightened risk that makes it impossible to proceed with the wind-down according to the Federal Act on the Recovery and Resolution of Banks (BaSAG).

We critically assessed the appropriateness of the Management Board's estimates and assumptions with regard to these legal risks by examining the consistency between the lawyers' confirmations and status reports as well as the statements and the on-going reports of the Management Board to the Supervisory Board.

We traced the developments after the balance sheet date up to the time the audit opinion was issued by interviewing the Management Board and the legal department, and by submitting follow-up questions for the lawyers' confirmations.

We assessed the explanations offered in the notes as to whether these risks in connection with the court proceedings are appropriately disclosed in the notes.

### **b) Impairment of the wind-down assets (loans and advances to customers and real estate)**

#### **Description:**

The loan and property portfolios represent a major portion of the company's assets.

The recoverability of these portfolios depends to a large degree on economic developments in the South-Eastern European countries. Moreover, the time lines resulting from the wind-down plan may result in a situation where additional discounts on existing carrying amounts for individual and portfolio transactions have to be accepted during the course of future wind-down activities.

The recoverability of loan exposures is reviewed by the company on an individual case basis as part of the HIAT (Heta Individual Assessment Tranche) process. In this process, the estimates regarding the amount, duration and probable occurrence of the return flows (mainly from real estate collaterals) play a major role; all of these estimates are associated with considerable estimate uncertainties. The loans not covered under the HIAT process are subject to lump-sum risk provisions or portfo-

lio risk provisions, the quantification of which is greatly influenced by the definition of parameters on the basis of the results from the HIAT process.

Real estate portfolios and real estate collaterals are measured at market values "under special assumptions" (market values under short-term wind-down aspects). Therefore this method deviates from the customary measurement methods under the going concern premise, and is also fraught with considerable estimate uncertainties.

In this regard, we refer to the information provided by the Management Board in the management report note (10.2.4) "Heta Individual Assessment Tranche (HIAT)" and in the notes for the annual financial statements in note (10) "Use of estimates and assumptions/main estimate uncertainties".

#### **How we addressed the matters in the course of the audit:**

We assessed the documentation of the processes for monitoring and creating risk provisions for loans and advances to customers, and the valuation of real estate, as to whether they are suited to measure the recoverability of these receivables and real estate property. In addition, we tested the key controls in this area in terms of their design and implementation, and also tested their effectiveness based on samples.

We performed individual loan audits for the exposures included in the "HIAT process" based on sampling. The samples were selected in consideration of the risks for the annual financial statements. During these audits of individual cases, the estimates regarding the amount and date of future cash flows and the assumptions were assessed for their appropriateness and - if available - compared with external evidence. For the audited cases, we checked the mathematical correctness of the calculation of provisions shown in the annual financial statements.

We compared the back-testing of the parameters for the lump-sum risk provisions and the portfolio risk provisions with the results of the on-going wind-down process.

In addition, we also analysed the appropriateness of the provisions in total by analysing the changes in the coverage ratios (exposure versus risk provisions) for the various portfolios and their development compared to the previous periods.

Our real estate specialists assessed the methodology and procedures for the measurement of real estate on the basis of the internal directives as to whether they correspond to the generally accepted measurement principles. Individual measurements were traced through comparisons with market data.

We also traced the developments after the balance sheet date up to the date the audit opinion was issued by interviewing the Management Board and by assessing the internal reports on events after the balance sheet date.

Finally, we also assessed the adequacy of the information in the notes regarding the calculation of risk provisions for loans and receivables to customers and the measurement of real estate as well as the explanations regarding estimate uncertainties in connection with the wind-down of assets.

#### **c) Impairment of the refinancing lines Hypo Alpe-Adria-Bank S.p.A.**

##### **Description:**

The refinancing lines vis-a-vis the former Italian subsidiary bank (Hypo Alpe-Adria-Bank S.p.A.; subsequently: HBI) represent a major portion of the loans and receivables to credit institutions, the measurement of which is associated with considerable estimate uncertainties.

The assessment of the recoverability of the loans and receivables to HBI depends substantially on the estimate of the execution of the wind-down of this bank.

In this regard, we refer to the information provided by the company's Management Board in the notes to the annual financial statements under note (43.4) "Development of the credit engagement vis-a-vis the former Italian subsidiary bank Hypo Alpe-Adria-Bank".



**How we addressed the matters in the course of the audit:**

We have critically assessed the estimates of the Management Board regarding to the expected return flows from HBI on the basis of the submitted documentation and business plans for HBI. We also assessed Heta's adaptations to the planning for HBI by interviewing the Management Board and the employee responsible for managing this receivable. Moreover, we also analysed the on-going development of results at HBI and the changes in the plans, and evaluated their consistency with the assumptions that were used to determine the provisions.

We traced the mathematical correctness of the calculation of these provisions. In addition, we also assessed whether the risks in connection with these receivables as well as the accounting and measurement policies were appropriately disclosed in the notes.

**d) Allocation of a provision for uncertain liabilities related to resolution procedures, and provisions in connection with closing-down costs****Description:**

The implementation of the effects from Emergency Administrative Decision II generated income that - after it was balanced against the previous net accumulated loss - was compensated in Heta's 2016 annual financial statements by the creation of the provision for contingent liabilities related to resolution procedures. This provision subsequently changes over the wind-down period depending on the success of the wind-down process.

In order to comply with the statutory requirements of the Federal Act on the Creation of a Wind-down Entity (GSA), which provide for the self-liquidation of the company once the portfolio wind-down is complete, a provision was recorded in the amount of the future expenses to be incurred ("closing-down costs"), which were calculated on the basis of the wind-down plan.

In this respect, we refer to the information provided by the company's Management Board in the notes to the annual financial statements under notes (19) "Provisions" and (20) "Provisions for contingent liabilities related to resolution procedures".

**How we addressed the matters in the course of the audit:**

We have critically assessed the basis for the recognition of the "Provision for contingent liabilities related to resolution procedures" as to whether the criteria for creating such a provision have been met.

We compared the assumptions and estimates in the planning assumptions, on which the calculation of the expected wind-down costs are based, with the approved wind-down plan (pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA)). In order to assess the appropriateness of these planning assumptions, we critically assessed these estimates by interviewing the employees in charge of planning and the Chief Financial Officer. For the purpose of assessing the reliability of the plan, we compared the current actual results with the original budget assumptions.

We traced the mathematical correctness of the calculation of the provisions. Subsequently, we assessed whether in connection with these provisions, the accounting and measurement policies are appropriately disclosed in the notes.

**e) Impairment of shares in affiliated companies and the refinancing of subsidiaries****Description:**

The company has an extensive participation portfolio, whereby most of the carrying amounts of the participations were written off in the past. Any additional write-downs were represented with a write-down on the respective outstanding refinancing lines.

During the course of the portfolio wind-down in the various companies, the disposal of loans, loan collateral or real estate may result in losses or profits that must be reflected in Heta's annual financial statements.

The assessment of the recoverability of the group refinancing is conducted together with the impairment test for the participations. In this vein, the expected return flows from the wind-down activities are used as a basis. The assessment of return flows is based on the business plans of the various companies and also on the consideration of valuation discounts that are expected in the course of the disposals.

In this regard, we refer to the information provided by the company's Management Board in the notes to the annual financial statements under note (14) "Investments and shares in affiliated companies" and note (10) "Use of estimates and assumptions/main estimate uncertainties".

**How we addressed the matters in the course of the audit:**

To assess the appropriateness of the assumptions used in the preparation of the medium-term planning for the group, we analysed the planning process and compared the budget figures used in the valuation model with the pre-requisites for the wind-down plan pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA). Planning compliance was analysed on the basis of the available target/actual comparisons.

The appropriateness of the haircuts for portfolio sales was assessed on the basis of the results from completed transactions.

The appropriateness of the applied discount rates were assessed in consideration of the special features of a wind-down company with the involvement of our measurement specialists by comparing the information with the data observable in the market.

We traced the mathematical correctness of the calculation of write-downs and provisions.

We also assessed whether the risks in connection with the shares in affiliated companies and the refinancing of subsidiaries, as well as the accounting and measurement policies, are appropriately disclosed in the notes.

**Responsibilities of the management and the audit committee for the annual financial statements and the accounting**

The Management Board of Heta is responsible for the preparation of the annual financial statements and ensuring that they provide a true and fair presentation of the company's asset, the financial position and the financial performance in accordance with the Austrian Generally Accepted Accounting Principles. Additionally, the management is also responsible for the internal controls that they deem necessary to ensure the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the management is responsible for assessing the company's ability to continue operating as a going concern, disclosing, as applicable, matters related to going concern and using the gone concern principle of accounting if the management either intends to liquidate the company or discontinue business operations, or has no realistic alternative to do so.

The audit committee is responsible for overseeing the company's accounting processes.

**Auditors' responsibilities for the audit of the annual financial statements**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian Generally Accepted Standards on Auditing, which require the application of the ISAs, will always detect a material misstatement, if such exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As part of an audit performed in accordance with the Austrian Standards on Auditing, which require the application of the ISA, we duly exercise our judgement during the entire course of the audit, and maintain a critical attitude.

The following also applies:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the gone concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a proper wind-down. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee regarding, among other matters the planned scope and timing of the audit as well as important audit findings, including any significant deficiencies in the internal control that we have identified during our audit.

We also provide the audit committee with a statement that we have complied with the relevant professional requirements for independence, and also consult with the committee with regard to all relationships and other matters that that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were most significant for the audit of the annual financial statements for the financial year, and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such a communication.

## **Other legal and regulatory requirements**

### **Report on the management report**

Pursuant to Austrian Generally Accepted Accounting Principles, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the management report was prepared in accordance with the applicable legal regulations.

Management is responsible for the preparation of the management report in accordance with Austrian Generally Accepted Accounting Principles.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report.

### **Opinion**

In our opinion, the management report has been prepared in accordance with the valid legal requirements and is consistent with the annual financial statements.

### **Statement**

Based on the findings during the audit of the financial statements and due to the thus obtained understanding concerning the Company and its circumstances no material misstatements in the management report came to our attention.

### **Other information**

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements, the management report and the auditor's report thereon. The annual report is estimated to be provided to us after the date of the auditor's report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, as soon as it is available, and, in doing so, to consider whether - based on our knowledge obtained in the audit - the other information is materially inconsistent with the financial statements or otherwise appears to be materially misstated.

**Auditors responsible for the engagement**

The engagement partners on the audit resulting in this independent auditors' report are Mag. Friedrich O. Hief (EY) and DDr. Martin Wagner (KPMG).

Vienna, 15 March 2017

Ernst & Young  
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Ernst Schönhuber  
Auditor

Mag. Friedrich O. Hief  
Auditor

KPMG Austria GmbH  
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

DDr. Martin Wagner  
Auditor

\*) This report is a translation of the original report in German, which is solely valid. Publication or sharing with third parties of the financial statements together with our auditors' opinion is only allowed if the financial statements and the management report are identical with the German audited version. This audit opinion is only applicable to the German and complete financial statements with the management report. Section 281 paragraph 2 UGB (Austrian Company Code) applies to alternated versions.

# **Group report according to IFRS**

HETA ASSET RESOLUTION

# Group Management Report

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

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

## 1. Overview of Heta Asset Resolution AG

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

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

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

basis of the legal concession under the Federal Act on the Creation of a Wind-down Entity (GSA), to continue to enter into banking or leasing transactions that serve this purpose. According to section 3 (4) Federal Act on the Creation of a Wind-down Entity (GSA), Heta is subject to some of the provisions of the Austrian Banking Act (BWG) and accordingly has assumed certain reporting and notification duties vis-a-vis the Austrian National Bank (OeNB) and the Financial Market Authority (FMA). The Financial Market Authority (FMA) continues to be the regulatory authority in charge, which pursuant to section 8 Federal Act on the Creation of a Wind-down Entity (GSA) is obliged to verify compliance with the applicable provisions of the Austrian Banking Act (BWG).

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

During the conversion process into a wind-down unit according to the Federal Act on the Creation of a Wind-down Entity (GSA), the company conducted a group-wide Asset Quality Review (AQR), which reflected the requirements for the fastest possible portfolio wind-down process. Following the announcement on 27 February 2015 of a capital shortfall of between EUR -4.0 billion and EUR -7.6 billion, which was identified during the course of the Asset Quality Review (AQR), the Republic of Austria informed Heta that it would no longer receive any capital or liquidity support. In view of these circumstances, the Financial Market Authority (FMA) in its capacity as resolution authority announced a decision pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) on 1 March 2015. The decision had the effect of placing a moratorium on all of Heta's “eligible liabilities” until 31 May 2016 in preparation for the application of the instrument involving the “bail-in” of creditors.

On 10 April 2016, the Financial Market Authority (FMA) issued an administrative decision about the challenge procedure (“Vorstellungsbescheid”) that both confirmed and replaced Emergency Administrative Decision I. Also on 10 April 2016, the Financial Market Authority (FMA) announced another decision containing wind-down measures relating to Heta (“Emergency Administrative Decision II”). For additional details, please see section 3.1 Financial Market Authority's (FMA) emergency administrative decisions pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG).

As at 31 December 2016, Heta has its subsidiaries in Austria, Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Bulgaria, Germany and Hungary. The company had 1,015 employees (FTEs) at the end of the year 2016, 336 fewer employees than in the previous year (1,351).



## 2. General economic conditions

The recovery process under way in industrial nations gained in strength during the course of 2016. The situation in the emerging economies also stabilised. At this time, the global economy is undergoing a moderate recovery phase, whereby the economy in the Euro zone is registering steady growth. Compared to the time before the crisis, however, the global economy is growing at a slower rate.

At this time, the global economy is characterised by a series of uncertainties. They include uncertainty regarding the future economic policy direction of the US, the imminent exit of the UK from the EU, the increasingly nationalistic trends inside the EU and its neighbouring countries (e.g. Turkey), and a difficult geo-political situation (tensions between Russia and the EU, civil war in Syria, IS terror) and refugee movements.

During the year 2016, the GDP of the Euro zone grew by approximately 1.7%. The inflation rate in 2016 is forecast at 0.3% - a rate that is also accompanied by expectations of higher inflation for the years 2018 and 2019. Historically low base rates result in asset purchases and provide a stimulus for lenders. In addition, private consumption also benefits from lower energy prices and an improved labour market.

In the countries that are key to Heta's activities, primarily Austria, Croatia, Slovenia and Italy, but also Serbia and Bosnia and Herzegovina, there were several significant developments in 2016 which also had an effect on Heta's activities in the various countries.

The Austrian GDP is expected to grow by 1.4% in 2016. This growth is carried by private consumption which benefits from the income tax reform that went into effect in January 2016, among other things. Moreover, a growth of 1.5% is forecast for the years 2017 to 2019. The government debt ratio in Austria rose to approximately 86.2% of GDP. Another problem in terms of 2016 developments was the situation in the labour market, as the unemployment rate increased to 6.1%.

In 2016, the GDP is expected to grow by 2.6% in Croatia. This development is due to an improved labour market, the positive trend in the industrial and retail sectors, as well as the strong growth in tourism (confirmed new record holiday season). The unemployment rate also declined slightly during 2016 to 13.4%. The risks for the Croatian economy include the outcome from the wage negotiations with the public sector and the conflict with the banking sector - particularly those on the basis of the Croatian legislation regarding the compulsory conversion of CHF loans, and the current comprehensive tax reform. Such measures weaken the ability of banks to provide important momentum for another potential upturn by providing business financing.

Slovenia registered a stable growth rate of 0.5% in the first and second quarter of 2016, with a GDP growth of 2.2% projected for the entire year. Higher stocks, exports and

private consumption contributed to this result, while investment expenditures declined. The latter was caused by the strong decline in public investments (due to the end of investments from EU funds), which were only partially compensated by solid private investments. Risk factors include government debt levels and the lack of reform efforts with regard to restructuring.

With a projected growth rate of only 0.7% in 2016, Italy is among the countries with decidedly below-average growth, although the rate for 2016 is also indicative of a slight upward trend, which is also manifested in the positive trend of confidence indices at the corporate and consumer level. Larger healthy companies can finance their investments themselves, and take advantage of the improved refinancing options available in the market. A higher employment rate also has a positive effect on disposal incomes and thus increases private consumption. The reduction in the corporate income tax and new public incentives should contribute to the recovery of investments in capital assets and innovation. Italy's level of debt, however, is supposed to grow to 133% in 2016, and then stabilise at that level in 2017.

Serbia experienced solid growth of 2.9% in the first half of 2016, with the GDP expected to reach 2.7% for the entire year. The economic upturn is based on fundamental effects, low oil prices and increased confidence due to the reforms that were implemented, along with financial consolidation measures. Nevertheless, the Serbian economy continues to face a series of significant challenges on account of the critical situation in the labour market (with an unemployment rate of 16.5%), continued and significant financial risks and uncertainty factors relating to various business scenarios, as well as high government debt and significant refinancing requirements and interest payments with regard to the sensitive fluctuations in foreign currencies. In addition, important structural reforms pertaining to financial policies were only partially implemented, and must be expanded to return public finances to a healthier level.

Bosnia and Herzegovina also report a positive growth of approximately 2.4% in 2016. Political unrest and a delayed tranche from the International Monetary Fund (IMF) led to delays in large investments during the first nine months of 2016. The required funds were obtained by issuing five- and three-year bonds in the home market, with slightly higher interest rates. Private consumption offers a positive outlook due to higher employment, growth in real wages and higher transfers into the country.

Several positive aspects, such as improved tax income, savings in public expenditures and a positive outlook for the country's important export markets, could provide some hope with regard to sustained economic stability. But in fact, the catch-up requirements of this decentralised-governed country are still considerable, as evidenced by the reform requirements of the IMF, which only allocated one out of two tranches in 2016.

Therefore the main risks depend to a great degree on the IMF (and other international financial institutions), since the tranches can only be obtained if the strict IMF directives are met. (Sources: OECD, OeNB, Eurostat, European Commission)

### 3. Important events in the 2016 financial year

#### 3.1. Financial Market Authority's (FMA) emergency administrative decisions pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG)

##### 3.1.1. Contents of the emergency administrative decisions

In order to ensure that the objective of the "quickest possible wind-down of the portfolio" as set out in the Federal Act on the Creation of a Wind-down Entity (GSA) is reflected in the measurement approaches, Heta performed a comprehensive measurement of the assets that are relevant with regard to the wind-down of the portfolio, a so-called "Asset Quality Review (AQR)", at the end of 2014. After the first interim results of the group-wide AQR, which with regard to Heta's annual financial statements for 31 December 2014 pursuant to the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) indicated a capital shortfall ranging from EUR -4.0 billion to EUR -7.6 billion, which was above the state aid range approved by the EU Commission, became known in February 2015, the Republic of Austria, in its capacity as Heta's owner, let it be known that no further measures would be implemented for Heta under the Financial Market Stability Act (FinStaG).

As a consequence, on 1 March 2015 the Financial Market Authority (FMA) issued an emergency administrative decision (Emergency Administrative Decision I) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG), which subjected all of Heta's "eligible liabilities" to a moratorium until 31 May 2016 in preparation for the application of the so-called "bail-in" of creditors instrument.

On 10 April 2016, the Financial Market Authority (FMA) issued an emergency administrative decision about the challenge procedure ( "Vorstellungsbescheid" ) that both confirmed and replaced Emergency Administrative Decision I. Objections against this decision could be submitted to the Federal Administrative Court within a four week period starting on 10 April 2016. The decisions were published on the Financial Market Authority (FMA) website, and can be found at <https://www.fma.gv.at/en/resolution-of-heta-asset-resolution-ag/>. In addition, they can also be obtained from Heta's website at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Ad hoc releases 2015 respectively 2016).

Also on 10 April 2016, the Financial Market Authority (FMA) announced another decision containing wind-down measures relating to Heta ("Emergency Administrative Decision II"). With this emergency administrative decision, the following wind-down measures pursuant to the Federal

Act on the Recovery and Resolution of Banks (BaSAG) were applied to Heta with immediate effect:

1. Reduction of common equity tier 1 and supplementary capital to zero;
2. "Bail-in" of creditors, in particular:
  - Reduction of subordinated "eligible liabilities" as at 1 March 2015 including the respective interest accrued up to 28 February 2015 to zero;
  - Reduction of non-subordinated "eligible liabilities" as at 1 March 2015 including the respective interest accrued up to 28 February 2015 to 46.02%;
  - Reduction of the nominal values or outstanding residual amounts of "eligible liabilities" arising from court proceedings against Heta or of the other disputed "eligible liabilities", including those with regard to the facts which were already established as of 1 March 2015, even though the occurrence or amount is uncertain, to 46.02%, including the respective interest accrued up to 28 February 2015;
3. Change in interest rates: reduction in the interest rate on "eligible liabilities" of Heta as at 1 March 2015 to zero;
4. Change in maturity dates: change in scheduled maturity dates for all "eligible liabilities" to the date of the decision to dissolve the company pursuant to section 84 (9) of the Federal Act on the Recovery and Resolution of Banks (BaSAG), but not later than 31 December 2023;
5. Cancellation of rights associated with the shares and titles of ownership, exercise of control and management; and rights associated with the shares and titles of ownership by the Financial Market Authority (FMA).

The Emergency Administrative Decision II can be found at <https://www.fma.gv.at/en/resolution-of-heta-asset-resolution-ag/> and on Heta's website at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Ad hoc releases 2016). An appeal against the Financial Market Authority's (FMA) Emergency Administrative Decision II could have been submitted within three months after it was released (10 April 2016), although this would not have had any suspensory effect. A decision by the Financial Market Authority (FMA) on the appeals has not been made available at this time.

Both emergency administrative decisions are based on the Federal Act on the Recovery and Resolution of Banks (BaSAG), by which the Bank Recovery and Resolution Directive (BRRD) was implemented in Austria. This has the effect that the decisions must also be recognised in all EU member states.

##### 3.1.2. Implementation of Emergency Administrative Decision II

The "bail-in" of creditors as outlined in Emergency Administrative Decision II - particularly the reduction in "eligible

liabilities" and changes to interest rates and due dates - was implemented by Heta with the assistance of external advisors and in coordination with the Financial Market Authority (FMA). This became necessary because the first-time application of the Federal Act on the Recovery and Resolution of Banks (BaSAG) led to numerous legal questions and accounting-related issues.

In very few individual cases, Emergency Administrative Decision II could not be implemented in the financial statements in accordance with the decision, particularly because the emergency administrative decision, in terms of its approach, uses 1 March 2015 as a basis (retroactively). Due to the fact that the daily due accounts in Emergency Administrative Decision I were not explicitly shown as "eligible liabilities" but are nevertheless covered by the "bail-in" of creditors pursuant to item 2.5. of Emergency Administrative Decision II, the implementation of the haircut required that the affected creditors were informed of their inclusion in the "bail-in" of creditors via information or recovery letters.

Based on item II 3.1., Emergency Administrative Decision II also includes a reduction in the nominal value or outstanding remaining amount of the "eligible liabilities" from court proceedings against Heta, or Heta's other disputed "eligible liabilities". With regard to this particular item, Emergency Administrative Decision II also includes a non-conclusive listing of pending legal proceedings against Heta. At this time, Heta is involved in two proceedings in Croatia and one in Austria, which conflict with the impact of Emergency Administrative Decision II. No legally binding decisions are available to date. Some of the proceedings affected by the emergency administrative decision are pending in other EU countries. These cases are associated with the risk that the impact of the emergency administrative decision and hence the Federal Act on the Recovery and Resolution of Banks (BaSAG) might not be recognised in other EU states due to a lack of a basis under European law. This risk has not materialised to date. Heta has informed all of the lawyers working on the cases of the impact of Emergency Administrative Decision II in view of the court proceedings, so that objections may be raised during the proceedings in a timely manner.

According to item II 2.4 in Emergency Administrative Decision II, the "bail-in" of creditors measure also covers taxes and duties. With regard to this item, Emergency Administrative Decision II was implemented in consideration of the deviations from the decision itself, since some of the data basis on which Emergency Administrative Decision II was issued and the data basis that existed at the time the measures were implemented have already resulted in new insights. Particularly with regard to the question of whether liabilities from wage-related taxes and fees as at 1 March 2015 are affected by the "bail-in" of creditors pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) as "eligible liabilities", the Financial Market Authority (FMA) found that an exemption pursuant to section 86 (2)

line 7 A Federal Act on the Recovery and Resolution of Banks (BaSAG) does not apply to these taxes and fees. As a result, the wage-related tax claims against the Austrian authorities were recognised on the asset side of the balance sheet, and the authorities were informed accordingly via recovery and information letters.

With a report to the Financial Market Authority (FMA), Heta has provided comprehensive information about the implementation of Emergency Administrative Decision II and the deviations that have been identified.

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

On the basis of the statutory authorisation pursuant to section 2a of the Financial Market Stability Act (FinStaG), the Kärntner Ausgleichszahlungs-Fonds (K-AF) on 20 January 2016 submitted offers for those Heta debt instruments for which the State of Carinthia and also the Kärntner Landes- und Hypothekenbank - Holding (KLH) have assumed a guarantee. The offers required the approval of at least two-thirds of the affected creditors of non-subordinated and subordinated debt instruments. On 14 March 2016, the Kärntner Ausgleichszahlungs-Fonds (K-AF) announced that the creditors of the debt instruments had not accepted the offer.

The Republic of Austria and a significant number of creditors of Heta's state-guaranteed debt instruments signed a Memorandum of Understanding (MoU) on 18 May 2016, in which the parties confirmed their common intention to achieve an amicable agreement regarding the restructuring of Heta's state-guaranteed liabilities. Heta itself was not a party to the MoU, and was not involved in the negotiations.

On 6 September 2016, the Kärntner Ausgleichszahlungs-Fonds (K-AF) submitted a new public offer for those Heta debt instruments for which the State of Carinthia, the public law institution "Kärntner Beteiligungsverwaltung" and the fund "Sondervermögen Kärnten" as the legal successors of the Kärntner Landesholding (KLH), have assumed deficiency guarantees directly on the basis of a directive under Carinthian state law. The deadline for acceptance ended on 7 October 2016. The final results were announced on 12 October 2016: the offer was accepted by the required majority of creditors. In total, the offer was accepted by creditors who together represent 98.71% of the accumulated outstanding total nominal amounts of all debt instruments covered by the offer. This includes 99.55% of the outstanding total nominal amounts of non-subordinated debt instruments and 89.42% of the outstanding total nominal amounts of subordinated debt instruments. Accordingly, Heta was informed of the full pledging of all debt instruments acquired by the Kärntner Ausgleichszahlungs-Fonds (K-AF) including existing and future claims vis-a-vis the Abbaumanagementgesellschaft des Bundes (ABBAG). Taking into account the Kärntner Ausgleichszahlungs-Fonds' (K-AF) ownership of Heta liabilities, a nominal amount of approximately EUR 46.5 million (around EUR 21.4 million nominal after the

haircut) of non-subordinated liabilities and a nominal amount of approximately EUR 1,094.4 million of subordinated liabilities (nominal of EUR 0 million after the haircut) are in the hands of third-party creditors.

The repurchase offers of the Kärntner Ausgleichszahlungs-Fonds (K-AF) and the successful acceptance of the offer in October 2016 do not have a direct effect on Heta's consolidated financial statements for 31 December 2016, since they only pertain to the level between Heta's creditors and the Kärntner Ausgleichszahlungs-Fonds (K-AF) and thus are outside of Heta's sphere.

The successful acceptance of the offer has had the effect of significantly improving Heta's activity area, and has greatly reduced the threat from creditors who refused to recognise the wind-down measures of the Financial Market Authority (FMA), or contested the same in the courts. That is because those creditors who accepted the repurchase offer had to submit a comprehensive waiver in favour of Heta, according to which they waived, unconditionally and with irrevocable effect, all present and future claims (including all claims to interest, costs and cost decisions), lawsuits and actionable claims. As a result, all creditor proceedings against Heta (except five) have been terminated. This also has the effect of significantly reducing the risk of Heta becoming insolvent (see section 3.3.7 Possible consequences of a judgement against Heta in connection with the Federal Act on the Recovery and Resolution of Banks (BaSAG)).

### 3.3. Status of Heta's main proceedings

#### 3.3.1. Proceedings in connection with Emergency Administrative Decision I and II

In mid-2016, eleven lawsuits were pending at the Regional Court of Frankfurt am Main (Frankfurt Regional Court) by investors in Germany for payment of bonds and applicable interests, which were not paid on the original payment day as a result of the moratorium. The lawsuits related to bonds with a nominal amount of EUR 2.2 billion and CHF 33.0 million. The plaintiffs disputed the recognition of the measures taken by the Financial Market Authority (FMA) according to the Federal Act on the Recovery and Resolution of Banks (BaSAG), and, contrary to the "bail-in" of creditors and deferral ordered in the emergency administrative decisions, demanded full payment.

According to German law, judgements by courts of first instance may be declared provisionally enforceable against collateral (section 709 Code of Civil Procedure (ZPO)), which led to the risk that plaintiffs would already apply for enforcement on the basis of a judgement by a court of first instance. Since the beginning of the proceedings, Heta, referring to the need to clarify the basic question under European law - namely whether Heta falls under the scope of the Bank Recovery and Resolution Directive (BRRD) - requested that the court proceedings pending at the Frankfurt Regional Court are suspended until a decision is handed down by the European Court of Justice (ECJ). The Financial Market Au-

thority (FMA) also submitted applications to the competent Frankfurt Regional Court pursuant to section 59 (1) Federal Act on the Recovery and Resolution of Banks (BaSAG), requesting the suspension of all pending court proceedings or alternatively the preliminary enforcement measures, or to make a submission to the European Court of Justice (ECJ) (see section 3.3.4 Proceedings before the European Court of Justice (ECJ)).

On 21 June 2016, the Frankfurt Regional Court suspended its original decision to announce a ruling and submitted the legal questions regarding the applicability of the BRRD to Heta and the recognition of the wind-down measures in other member states, which must be assessed from the viewpoint of European law, to the European Court of Justice (ECJ) as a preliminary question.

As a result of the creditors' successful acceptance of the repurchase offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF), all eleven proceedings in front of the Frankfurt Regional Court were successfully terminated in late fall 2016 with mutual cancellation of costs. The Frankfurt Regional Court also withdrew its submission of questions to the European Court of Justice (ECJ). The court subsequently suspended the submission proceedings.

During the first six months of 2016, other thirty-four lawsuits were pending against Heta in Austria in connection with the subordinated debt instruments that are affected by the Hypo Alpe Adria Restructuring Act (HaaSanG). The Emergency Administrative Decisions I and II were also the subject of these lawsuits. With the decision of the Constitutional Court of Austria (VfGH), which repealed the Hypo Alpe Adria Restructuring Act (HaaSanG) and the regulation issued under the act, the disputed issue in the proceedings was restricted to the applicability of the payment moratorium (which has been in place since 1 March 2015) to Heta, and the applicability of the wind-down measures ordered in the meantime pursuant to Emergency Administrative Decision II. One of these proceedings also resulted in a submission to the European Court of Justice (ECJ) in May 2016.

As a result of the acceptance of the repurchase offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF), twenty-nine of the thirty-four proceedings were successfully terminated with mutual cancellation of costs. The submission to the European Court of Justice (ECJ) was also withdrawn (see section 3.3.4 Proceedings before the European Court of Justice (ECJ)).

Only five plaintiffs have not accepted the offer from the Kärntner Ausgleichszahlungs-Fonds (K-AF); they will continue the lawsuits against the State of Carinthia and the legal successors of the Kärntner Landesholding (KLH). However, a "simple suspension" has been agreed for these five proceedings.



### 3.3.2. Proceedings in connection with the deficiency guarantee by the State of Carinthia

Three legal proceedings were initiated against Heta by the State of Carinthia and the Kärntner Landesholding (KLH) in relation to legal proceedings initiated by investors against the State of Carinthia and the Kärntner Landesholding (KLH) on the basis of the deficiency guarantee ordered by state law in connection with the bonds affected by the moratorium. Heta initially joined these proceedings on the side of the state and the Kärntner Landes- und Hypothekenbank - Holding (KLH) as an intervenor.

Two proceedings resulted in a judgement of the first instance against the plaintiff. The plaintiff has appealed these decisions. The plaintiff also lost both proceedings at the appeal stage before the Higher Regional Court (OLG), and subsequently attempted to bring about a decision by the Supreme Court (OGH) by way of a further appeal. Because of changes in the facts and the legal situation, Heta decided to withdraw as an intervenor in these two proceedings in 2016. Both proceedings were terminated at the end of 2016 as a result of the acceptance of the offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF). The third proceeding was suspended in the spring of 2016, and also ended with the plaintiff's acceptance of the offer.

### 3.3.3. Austrian Equity Substituting Capital Act (EKEG) proceedings

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

On 18 May 2016, Heta received an order from the Munich Higher Regional Court (OLG München) in which the court is considering, on the basis of the applicable Federal Act on the Recovery and Resolution of Banks (BaSAG) and Emergency Administrative Decision II issued in the meantime by the Financial Market Authority (FMA) on 10 April 2016, to interrupt the proceedings and to withdraw recognition of the mutual need for legal protection due to the Memorandum of Understanding (MoU) concluded between the Republic of Austria and the Free State of Bavaria. Both Heta and BayernLB have objected to an interruption of the proceedings. The Munich Higher Regional Court has not yet commented on the sub-missions of the parties. For details, see note 115.1 Proceeding with Bayerische Landesbank

(BayernLB) and Memorandum of Understanding (MoU) in the notes.

### 3.3.4. Proceedings before the European Court of Justice (ECJ)

Both the Vienna Commercial Court and the 12th civil division of the Frankfurt Regional Court submitted to the European Court of Justice (ECJ), in line with "preliminary ruling procedure", various questions regarding the applicability of the Bank Recovery and Resolution Directive (BRRD) and the applicability of the haircut to Heta, and regarding the recognition of these measures in other member states. In another proceeding in which the Financial Market Authority (FMA) rather than Heta is a participant, the Austrian Federal Administrative Court (BVwG) has also initiated a preliminary ruling procedure and has approached the European Court of Justice (ECJ) with the question regarding the personal/time-related application scope of the BRRD. The preliminary ruling procedures by the Vienna commercial court and the Austrian Federal Administrative Court (BVwG) have in the meantime been combined by the European Court of Justice (ECJ) into one single proceeding.

Preliminary ruling procedures are not used for a concrete review of measures or laws implemented by the member states. Rather, the relevant EU regulations provide the courts in the member states with the opportunity, or an obligation, to submit concrete individual questions about EU law that are relevant to the case to the European Court of Justice (ECJ), so it may decide on the relevant interpretation. Thus the European Court of Justice (ECJ) does not make decisions regarding the existence or non-existence of claims, but rather provides "instructions" regarding the interpretation of issues under EU law, which represent preliminary questions in a legal dispute. National courts that have submitted such questions must then take the questions that have been answered by the European Court of Justice (ECJ) into account when making their decisions.

Based on the creditors' acceptance of the Kärntner Ausgleichszahlungs-Fonds (K-AF) repurchase offer and the associated termination of the proceedings before the Frankfurt Regional Court, the Vienna Commercial Court and the Austrian Federal Administrative Court (BVwG), on which the submission proceedings are based, all preliminary decision proceedings before the European Court of Justice (ECJ) were terminated in the fall of 2016.

### 3.3.5. Proceedings before the Constitutional Court of Austria (VfGH)

Two of the three submitted BaSAG-related party applications to the Constitutional Court of Austria (VfGH) regarding a review of the constitutionality of the law and the admissibility of including Heta under this law were dismissed by the Constitutional Court of Austria (VfGH) in the fall of 2015. As a result of the submissions that have been made to the European Court of Justice (ECJ), the Constitutional Court of

Austria (VfGH) has suspended its decision regarding the third application until such time as the European Court of Justice (ECJ) hands down its decision. This proceeding was in the end terminated due to the affected investor's acceptance of the Kärntner Ausgleichszahlungs-Fonds (K-AF) offer.

### 3.3.6. Proceedings in connection with the implementation of Emergency Administrative Decision II

The question regarding the impact and recognition of Emergency Administrative Decision II is the subject of proceedings before the Vienna Commercial Court (HG Wien). A lawsuit has been filed against Heta for payment from an issued guarantee, which Heta believes to be included under the wind-down measures and may not be serviced at this time pursuant to Emergency Administrative Decision II. In Croatia, Heta is a party to proceedings concerning the question of the impact of the decision in relation to a cost decision made by a court (at Heta's expense) which was handed down before the emergency administrative decision was issued. For details, see section 3.1.2 Implementation of Emergency Administrative Decision II.

### 3.3.7. Possible consequences of a judgement against Heta in connection with the Federal Act on the Recovery and Resolution of Banks (BaSAG)

A judgement ordering Heta to pay the liabilities affected by these legal disputes and a possible compulsory enforcement in favour of various creditors would run counter to the wind-down measures ordered by the Financial Market Authority (FMA) with Emergency Administrative Decision II. For this reason, Heta will not only fight any potential judgements handed down by a court of first instance in order to settle the recognition of the Federal Act on the Recovery and Resolution of Banks (BaSAG), but will also initiate all available legal remedies to defend against enforcement measures.

Such a treatment of individual creditors could oppose the principle of equal treatment of creditors under the Federal Act on the Recovery and Resolution of Banks (BaSAG), the (balanced) assumption of losses by the creditors and ensuring that creditors are not put in a worse position as compared to liquidation measures taken in the course of insolvency.

The wind-down measures applied in Emergency Administrative Decision II aim to prevent a situation in which Heta becomes insolvent during the wind-down timetable. Over-indebtedness as a reason for insolvency does not apply to Heta pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA). An application for insolvency can only be filed by the Financial Market Authority (FMA).

## 3.4. Business relationships with the former SEE network

The 2016 financial year was characterised by the implementation and termination of Heta's obligations and liabilities in the context of the share purchase agreement from 22 De-

cember 2014 regarding the disposition of Heta's former banking and leasing network in South-Eastern Europe (SEE network, Hypo Group Alpe Adria AG (now: Addiko Bank AG)) to Advent International and the European Bank for Reconstruction and Development (EBRD).

### Settlement first quarter 2016

In the first quarter of 2016, Heta and the sole shareholder of Hypo Group Alpe Adria AG (now: Addiko Bank AG) came to an agreement regarding the settlement of all foreign currency and interest hedges agreed in the 22 December 2014 share purchase agreement (exemptions for credit and legal risks mainly from CHF loans), as well as other outstanding issues connected to the share purchase agreement. In essence, the agreement stipulated that the buyer waives the relevant exemptions and Heta in turn waives the CHF denominated credit lines in the amount of EUR 325.0 million vis-a-vis Addiko Bank. The waiver of exemptions also had the effect of reducing Heta's liability for the remaining exemptions and the Republic of Austria's liability under the hedging instrument provided to the buyer. The reduction in the liability under the hedging instrument thus also led to a reduction in the fee that Heta paid to the Republic for providing the hedging instrument.

The agreement was conditional on Addiko Bank AG paying the CHF denominated credit lines at a value of EUR 150.0 million back to Heta. The funds were paid back in March 2016. This did not result in any income-related effects in 2016 because Heta's waiver concerning the credit lines was already in place in the 31 December 2015 financial statements.

### Other portfolio adjustments

On the basis of the share purchase agreement from 22 December 2014 the buyer of the SEE network had the right to sell certain assets of the SEE banks and leasing companies (consisting mostly of non-performing loan and leasing receivables, properties and other assets from the disposal of collateral) to Heta or Heta group companies ("Purchaser Brush" option). In implementing the "Purchaser Brush" option, assets with a net carrying amount of around EUR 275.0 million were purchased from Heta and its group companies and transferred at the carrying amounts pursuant to the 2014 consolidated statement of financial position. Finally, in implementing the "Purchaser Brush" option, Heta in compliance with the requirements under the share purchase agreement from December 2014, compensated Addiko Bank AG with approximately EUR 62.0 million for loss in value for non-transferable assets by applying the amount against existing credit lines. As per the agreement, Heta reimbursed the Addiko Group for the transaction and ancillary costs that were incurred.



### Early repayment of Heta financing lines against discount; termination of interdependencies

On 23 December 2016, Heta, the sole shareholder of Addiko Bank AG and the bank itself concluded another settlement agreement. It gave Addiko Bank AG the option to conclusively settle the remaining complex mutual claims, rights and obligations of the parties under the share purchase agreement from 22 December 2014, in particular existing and future rights of recourse, against the early repayment of the entire remaining Heta refinancing line with a discount. The agreement also included a waiver by the buyer and sole shareholder of Addiko Bank AG for all claims under the guarantee instrument of the Republic of Austria, which is further reduced significantly vis-a-vis the Republic of Austria, and will be entirely done away with following the expiry of certain deadlines. Only Heta's obligations under exemptions in connection with two legal disputes initiated by borrowers of the Addiko Group are excluded from the agreement. Sufficient provisions had already been built for the potential burden for Heta from these remaining exemptions.

Specifically, Addiko Bank AG was able to exercise the option by 30 April 2017 through the early repayment of all remaining Heta financing lines at a discount of less than a quarter on the existing financing lines. The discount corresponds at minimum with the counter value of the remaining claims, rights and receivables of the buyer and Addiko Bank against Heta from the share purchase agreement from December 2014 and was fully covered by existing provisions in the 2016 consolidated financial statements. On 6 February 2017, Addiko Bank AG exercised the option and repaid the remaining financing lines of just under one billion to Heta.

### 3.5. Changes in the governance structure and Supervisory Board

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

The resolution authority is entitled to extensive supervisory, controlling and reporting rights, which were implemented through a separate governance structure. Heta's new governance structure was developed in 2015 together with the authority, and the required changes to Heta's statutes and the by-laws for the Supervisory Board and Management Board were made in the same year. The resolution authority has the right to have its representatives attend the committee meetings of the company's executive bodies.

At the same time, the forensic investigation of the past as an explicit business purpose of Heta was deleted from the

statutes in June 2015. However, it was agreed with the authority that the analysis of forensic cases, that have so far not been finalised in line with the forensic investigation of the past, will be continued taking into account efficiency and practical aspects, and that the investigation will subsequently be completed.

Since Emergency Administrative Decision II, the Financial Market Authority (FMA) also exercises all administrative rights associated with the shares, in particular the right to attend the general shareholders' meeting (section 102 and following of the Stock Corporation Act; AktG), the right to vote (section 12 AktG) and the right to receive information and make applications (section 118 and 119 AktG). The resulting changes to the statutes and the by-laws were implemented in June 2016. Also in June 2016, the statutes were also amended with regard to the option, provided for in Emergency Administrative Decision II, to distribute the sales proceeds at an earlier date. The Management Board is duly obliged, in consideration of the wind-down objectives and the requirements of an orderly wind-down procedure, to conduct a review within four weeks of the adoption of the annual financial statements as to whether existing assets may be distributed to creditors prior to the due date before the company is fully wound-down, and must - regardless of the result of this review - submit a report on this issue to the Financial Market Authority (FMA) and the next meeting of the Supervisory Board. If the Management Board finds that there are sufficient assets to justify such a distribution, it must report to the Financial Market Authority (FMA) and must submit a draft distribution to the general shareholders' meeting for approval.

Several new members were added to the Supervisory Board during the 2016 financial year. Mag. Regina Friedrich, Mag. Alois Hochegger, DI Bernhard Perner and Mag. Christine Sumper-Billinger, who supported Heta's progression from a regulated banking institution to a partial deregulated wind-down unit, left the Supervisory Board effective 29 June 2016. On 29 June 2016, Dr. Stefan Schmittmann and Mag. Regina Ovesny-Straka were appointed to serve as Deputy Chairman of the Supervisory Board and member of the Supervisory Board, respectively. At the extraordinary shareholders' meeting on 18 August 2016, the Financial Market Authority (FMA) appointed Dr. Karl F. Engelhart to the Supervisory Board. Dipl.-Kfm. Michael Mendel remains Chairman of the Supervisory Board.

## 4. Winding-down of investment companies and asset disposals

During the 2016 financial year, the wind-down process moved along very well on account of disposals of participations and loan portfolios. Most of the large transactions, for which internal preparations had already been made since 2015, were successfully completed during the course of the year.

#### 4.1. Major individual transactions

##### Disposal of Heta Asset Resolution Leasing DOOEL

###### Skopije

Following the signing, which took place on 30 December 2015, the closing was successfully completed in June 2016 after the Macedonian finance ministry issued a license for the buyers. After completion of this transaction Heta has no more business activities in Macedonia.

##### Disposal of Centrice Real Estate GmbH

The public bidding process for Centrice Real Estate GmbH, which was managed by Portfolio Sales & Participation Transactions of Heta with a well-known international investment bank and an internationally experienced law firm, garnered considerable interest in the market. The disposal of the shares ("share deal"), which was successfully completed on 28 June 2016, was implemented at the subholding level and was comprised of seventeen direct and indirect investment companies, which managed a total of thirty-one performing properties from Slovenia, Croatia, Serbia, Bosnia and Herzegovina and Macedonia. All of the refinancing lines that had been provided to Centrice Real Estate GmbH and its subsidiaries were covered at the nominal value during the course of the disposal process.

##### Disposal of "PATHFINDER" - Loan portfolios

The "Pathfinder" project consists of loan portfolios with a total gross exposure of approximately EUR 272 million, consisting of secured loans from exclusively Croatian borrowers. Some of these loans were reported partially at Heta and partially at the local Croatian Heta companies, and were no longer serviced by the borrowers ("NPL" - non-performing loans). The tender commenced with the engagement of an international consultant and a well-known multinational law firm on 12 February 2016. Several binding offers were received following a competitive public bidding process. The second half of 2016 was characterised by intensive contract negotiations with the best bidders, which finally resulted in the closing of the transaction on 15 December 2016.

##### Disposal of "DRAVA" - Loan portfolios

Unsecured loan portfolios from Austria, Bosnia and Herzegovina, Croatia, Montenegro, Serbia and Slovenia with a gross exposure totalling approximately EUR 276 million were combined under the "Drava" project. The portfolios consisted of a total of approximately 3,600 loan agreements across all countries, almost all of which had been adjusted at the time of the disposal. The public tender started on 6 May 2016. The bidding process resulted in one best bidder who conducted the customary due diligence process in the summer of 2016. The contract negotiations were completed in the fall. The transactions were concluded on 21 December

2016 for all involved local Heta companies, with the exception of Bosnia and Herzegovina.

##### Disposal of Heta Asset Resolution Italia S.r.l. (Project "FRIULI")

The public tender for the Friuli project at the end of 2015 was met with a positive response in the market. The first six months of 2016 were characterised by a competitive disposal process, which resulted in a best bidder and subsequent contract partner following numerous expressions of interest, a subsequent due diligence process, inspections and management interviews. The final share purchase agreement (SPA) was signed on 4 August 2016. The required official approvals for the buyer were issued by the Italian supervisory authority (Banca d'Italia) on 31 January 2017. The closing for the transaction took place on 21 February 2017; this means that Heta Asset Resolution Italia S.r.l. and its subsidiary Malpensa Gestioni S.r.l. will no longer be included in Heta's scope of consolidation in 2017.

#### 4.2. Other transactions

The bidder process for a hotel resort in Croatia, which had been held for sale for some time, was suspended in September 2016. The partner, who had exclusivity at that time, did not submit a binding offer. A new strategy is currently being developed for this hotel resort.

The bidding process for the "ONYX" project was announced on 29 November 2016. This project concerns the disposal of the shares and portfolio of the Serbian Heta company HETA REAL ESTATE D.O.O. BELGRAD, as well as a portion of the portfolio of HETA ASSET RESOLUTION D.O.O. BEOGRAD, with a total loan gross exposure and property market values amounting to approximately EUR 289 million. A number of expressions of interest had been received by the end of 2016.

Various small investments and share packages were also successfully disposed of in 2016. The takeover by the Heineken Group facilitated the disposal of the 7.1% share package in the Slovenian company Pivovarna Lasko d.d., which also included the entire existing loan commitment of this group. The 19.98% share package in ZIF CROBIH d.d. was successfully sold in Bosnia and Herzegovina. The disposal of various hotel assets from an investment in Croatia was signed in May 2016 and finally closed and transferred in July 2016. The now empty investment company will be liquidated as planned.

#### 4.3. Liquidation of participations

The wind-down of Heta is accompanied by the liquidation of its subsidiaries. The liquidation of Alpe Adria Privatbank i.L. was completed in the 2016 financial year. The liquidation of HYPO Consultants Holding GmbH i.L. started on 18 September 2016. The liquidation of additional investments is supposed to commence during the first six months of 2017. The former leasing companies are supposed to undergo an or-

derly liquidation process following the final wind-down of assets (loans/leasing receivables and real estate). To ensure the best possible preparations for these liquidations, pre-liquidation projects are being initiated on a staggered basis depending on the progress of the portfolio wind-down, which ensures the targeted preparation of the companies for a subsequent legal liquidation process. Such projects were already implemented for Bulgaria and Hungary during the 2016 financial year, with Serbia and Germany to follow in the first half of 2017.

#### 4.4. Wind-down of remaining loan portfolio

Heta's credit and leasing portfolio consists mainly of non-performing financing, which are reported at the holding and the different local Heta companies. The portfolio is multi-layered and requires know-how of the various product categories, economic sectors and regions. This know-how was bundled in four exit management units, which are pushing ahead the wind-down process in the various regions with a focus on single asset transactions. Activities are targeted towards the optimum value that can be achieved in the medium term in compliance with transparent processes, rather than a focus on the short-term wind-down success or the maximum result in a financial year. If an asset is expected to yield a higher value over time, it will initially be kept in the portfolio.

A number of different strategies are employed for winding-down the portfolio: performing loans continue to be enforced, and the NPL portfolio is disposed of by way of enforcement, individual or portfolio transactions. A key instrument in this regard is Heta's own AAA platform, which offers transactions for sale through a central location.

In the 2016 financial year, the exit management units fully met their objectives with regard to the liquidation of assets. In this way, they were able to secure values even in volatile markets, and swiftly pushed ahead with the wind-down of the loan portfolio. The actually achieved wind-down result is above the original planning.

### 5. Wind-down plan pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA)

According to section 5 of the Federal Act on the Creation of a Wind-down Entity (GSA), the wind-down of the portfolio is to be conducted according to a wind-down plan drawn up by the Management Board and approved by the Supervisory Board. Due to the order requiring the wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG), which left open the further course of action adopted by the Financial Market Authority (FMA) with regard to the time period after 31 May 2016, Heta was forced to suspend the completion of the wind-down plan pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA) until such time as the future course of action

was clarified. With regard to the completion of the wind-down plan, it therefore became legally necessary to wait and see whether and (if so) in which form the Financial Market Authority (FMA) creates the conditions for an orderly wind-down process by issuing a directive for wind-down measures.

For this reason, Heta did not publish an official wind-down plan in 2015. In the meantime, Heta did however prepare planning that met the legal requirements for the portfolio wind-down. These activities were given the name "mid-term plan", and were made publicly available in line with the company presentations published in October and December 2015 and in April 2016.

On 10 April 2016, the Financial Market Authority (FMA) issued Emergency Administrative Decision II which imposed wind-down measures with regard to Heta. This had the effect of creating, for the first time, a basis for the completion of the wind-down plan.

Emergency Administrative Decision II has far-reaching implications for the wind-down plan. The following planning-related simplified assumptions were made by Heta with regard to the repayment of the "eligible liabilities" pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG):

- It is assumed that the "eligible liabilities" covered under Emergency Administrative Decision II are not serviced over the course of the 2016 - 2020 wind-down period and are reduced to zero or 46.02% in accordance with the "bail-in" of creditors specified in the emergency administrative decision. Interest expenses attributable to these liabilities are set to zero as of 1 March 2015;
- The planned return flows from the reduction in Heta's assets increase Heta's cash position accordingly, since they are not used to repay "eligible liabilities" at an earlier date. In coordination with the Financial Market Authority (FMA), Heta generally invests its entire cash liquidity at the Austrian National Bank (OeNB). The wind-down plan assumes that it will continue to do so during the course of the wind-down;
- The possible earlier distribution of the proceeds from disposals as provided for in Emergency Administrative Decision II was not taken into account in the current wind-down plan, since a corresponding resolution by the Financial Market Authority (FMA) is not available;
- A steady reduction in assets (excluding cash liquidity) of approximately 80% by the end of 2018 remains the intended wind-down objective, starting from year-end 2014. To achieve the targets, receivables and real estate are to be sold to investors mainly through individual transactions;
- The claims against former group companies (Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) and

Addiko Bank AG) were examined separately, since at the time the plan was prepared it had to be assumed that some of these would still be in place after 2020. Similarly, some finance lease receivables have terms that exceed the planning period and are not wound-down completely in the current wind-down plan.

The Heta Supervisory Board approved the finalised wind-down plan on 25 August 2016 and subsequently forwarded it to the Federal Minister of Finance and the Chancellor. Heta published the main contents of the wind-down plan on the same day.

Pursuant to section 5 (4) Federal Act on the Creation of a Wind-down Entity (GSA), the wind-down plan must be adjusted and re-submitted to the Supervisory Board for approval if the circumstances that are of relevance to the wind-down plan change. As a result of the current developments regarding the repayments of refinancing lines by Addiko Bank AG, the disposition of subsidiary Heta Asset Resolution Italia, S.r.l., and the insights gained during the preparation of these consolidated financial statements, circumstances have arisen that make it necessary to adjust the wind-down plan. The update of the wind-down plan is currently in preparation, and will be submitted to the Supervisory Board during the first six months of 2017. According to section 6 (1) of the Federal Act on the Creation of a Wind-down Entity (GSA), Heta's Supervisory Board is regularly informed of the progress of the disposals.

### 5.1. Development of results for 2016 compared to the wind-down plan pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA)

To obtain a meaningful "target versus actual" comparison for the group, the reclassifications in the balance sheet, which had to be applied for the subsidiaries HARIT and Skipper in 2016 according to IFRS 5, must be reclassified back into the various balance sheet items following the wind-down planning, since these could not be foreseen at the time the wind-down plan was developed. For this reason, differences may arise in the numbers that are reported for individual balance sheet items, although the total assets do not change.

In the 2016 financial year, consolidated total assets were reduced by EUR 2,253.2 million, not taking into account the cash and balances at central banks. This decrease is EUR 40.8 million below the drop in total assets envisioned under the wind-down plan. On the other hand, when examining the wind-down of assets (excluding the cash and balances at central banks), it is also evident that the plan was exceeded. Because of the completed disposal transactions and imminent settlements, risk provisions on the assets side were reversed, which had the effect of increasing the balance sheet and thus resulted in a slight deviation from the plan. Since 31 December 2014, total assets decreased by a EUR 5,043.1 million, which corresponds to approximately

52% of the original total assets (excluding the cash and balances at central banks).

Heta's cash and balances at the Austrian National Bank (OeNB) grew by EUR 1,891.5 million to EUR 6,164.9 million during the course of the year. Compared to the budget, the increase in cash and balances at central banks was exceeded by EUR 588.9 million. The main drivers behind this increase were the repayments of internal refinancing lines, the disposal of Centrice Real Estate GmbH, the wind-down of the Treasury Portfolio, the repayments of the refinancing lines of the former subsidiaries HBI and Addiko Bank AG, as well as a reduction in Heta's cross-border loans.

The wind-down of the item loans and advances to credit institutions totals EUR 551.4 million (receivables as at 31 December 2016: EUR 2,139.6 million), but is EUR 181.1 million below the plan value. In this case, the refinancing lines of the former subsidiary bank HBI were repaid more quickly than provided for in the plan, but the decline resulting from the wind-down of the cash collaterals turned out to be smaller than expected.

Gross loans and advances to customers as at 31 December 2016 amount to EUR 5,551.0 million, and have declined by EUR 1,999.3 million in the current year. Compared to the budget, the wind-down was EUR 396.8 million higher. This is mainly due to the disposals of the "Pathfinder" and "Drava" portfolios (not taken into account in the plan), and the intensive wind-down efforts in terms of individual transactions.

Assets on stock, assets repossessed within the scope of real estate held as investment properties, were reduced by EUR 74.4 million and are in line with the expectations for the plan.

Derivatives also played a major role in the wind-down of total assets, as they were wound-down by EUR 534.6 million particularly as a result of swap closings. The derivative volume remaining on the balance sheet as at 31 December 2016 is EUR 61.6 million, which was reduced by EUR 130.9 million more than indicated in the plan.

Financial assets (available for sale and fair value items) also fell by EUR 291.1 million compared to 2015. The budgeted decrease was exceeded by EUR 51.0 million as a result of the active wind-down of securities.

The reduction in other assets (EUR -321.1 million) is mainly due to the disposal of Centrice. Overall, the deviation from the plan was negative at EUR -45.3 million, mainly as a result of the delay in the disposal of a Croatian hotel operation.

## 6. Other events

### 6.1. Company presentation for creditors

Heta uses the company presentation to provide information about the developments of its business activities and about important events in ad-hoc notifications and financial reports. With regard to the design of its information activities,



the company presentation corresponds to the requirements under the Federal Act on the Recovery and Resolution of Banks (BaSAG) - specifically section 120 and 121 - and the requirements of the resolution authority.

The emergency administrative decision issued on 1 March 2015 by the Financial Market Authority (FMA) as the resolution authority, which orders a moratorium ending on 31 May 2016 with regard to Heta's "eligible liabilities", created additional information requirements on the part of the creditors and investors affected by the moratorium. For this reason, the Management Board implemented a separate information platform specifically directed at creditors and investors in order to provide additional transparency and facilitate the dialogue with this group within the limits of what is permitted by law.

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

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

In an effort to provide additional transparency, Heta began to publish responses to questions submitted through the platform at [holding@heta-asset-resolution.com](mailto:holding@heta-asset-resolution.com) in the fall of 2015. The first "Information for creditors and investors" item was published on Heta's website on 20 October 2015.

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

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

On 10 April 2016, the Financial Market Authority (FMA) issued a second emergency administrative decision, which reduced Heta's non-subordinated liabilities to 46.02% of the

nominal amount of "eligible liabilities" as at 1 March 2015 (including interest accrued up to 28 February 2015); it also set interest claims as of 1 March 2015 to zero. Subordinated liabilities were also set to zero.

Consequently, in an adapted company presentation on 25 April 2016, Heta highlighted the effects of this emergency administrative decision on the interim financial statements (UGB/BWG) for 1 March 2015. In a next step, the translation of the second emergency administrative decision to the balance sheet (separate financial statements according to UGB/BWG) for 31 December 2015 was prepared in a second company presentation for creditors on 29 April 2016.

A second credit information event on 5 August 2016 answered a lot of questions that may be of relevance to Heta's creditors.

This was followed by a company presentation on the wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) on 25 August 2016, which illustrated in particular the main parameters of the wind-down plan prepared by the Management Board, as well as the implementation of Emergency Administrative Decision II in Heta's semi-annual consolidated financial statements.

## 6.2. Guarantee agreement with the Republic of Austria

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

Guarantee commission payments were suspended on 1 March 2015 due to the moratorium imposed by the Financial Market Authority (FMA). Based on Emergency Administrative Decision II from 10 April 2016, both the guarantee fee not yet paid by 1 March 2015 as well as all future payment obligations under the guarantee commission were subjected to a haircut and thus were reduced to 46.02%. The

claims by the Republic of Austria are deferred until latest 31 December 2023.

At this time the Republic of Austria has paid EUR 11.2 million to Heta.

Drawdowns from the guarantee totalled EUR 67.1 million by 31 December 2016. Additional drawdowns totalling EUR 83.8 million were made in January 2017.

A separate receivable from the Republic of Austria is added to the balance sheet for those cases that were drawn and not yet serviced by the Republic of Austria. As at 31 December 2016, the claim is EUR 55.9 million. A waiver until the end of 2017 was obtained from the Republic of Austria in order to prevent the limitation of possible claims in relation to the already drawn cases.

At this time, a settlement for terminating the agreement is being considered. To this end, discussions have been initiated with representatives of the Republic of Austria. Since Heta did not receive any additional payments from the Republic of Austria (with the exception of one payment), it can be expected that the Republic of Austria could object to making the remaining payments to Heta. It is conceivable that the resolution regime under the Federal Act on the Recovery and Resolution of Banks (BaSAG), the interpretation of various provisions under the guarantee itself, or the existence of drawdown preconditions in individual cases may be cited as reasons. Against this background, Heta has reassessed the recoverability of its claim against the Republic of Austria for the current consolidated financial statements. The initiated discussions regarding the settlement let the valuation in the 2016 financial statements seem adequate.

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

Heta Asset Resolution has an organisational structure that corresponds to the obligations of a wind-down unit. The structure is optimised in accordance with the reduction in portfolios and employees.

### **6.4. Parliamentary commission of enquiry**

The commission of enquiry for investigating the political responsibility for the events surrounding Hypo Group Alpe Adria (Hypo commission of enquiry) was established in February 2015. Its activities ended on 12 October 2016 when the final report was discussed in the Austrian National Council.

In June 2015, Heta received a request for the voluntary submission of certain files and documents from the Chairperson of the Hypo commission of enquiry.

In principle, Heta was not legally obliged to forward documents and information to the parliamentary commission of enquiry. In the interest of complete transparency, the executive bodies of Heta have signalled their willingness to

respond to this request, whereby documents are forwarded in protection of the justified interests of the company (particularly those regarding on-going court and disposition proceedings) and its employees (data protection), and in adherence to bank secrecy. Because of the large volume of requested documents, the documents were submitted in parts. As part of the completed questioning of persons with information, Heta issued, at the request of the affected persons, declarations to release them from the confidentiality obligation that applies to former and active employees/advisors. The final report, which was released on 10 October 2016, describes the political responsibility with regard to three key phases (bank under majority ownership of the State (2000 - 2008); emergency nationalisation of the bank (2009); and the period under the ownership of the Republic of Austria (2010 - 2014)).

### **6.5. Rating**

In November 2011, the former Hypo Alpe-Adria-Bank International AG resigned its institutional rating. All state and federally guaranteed bonds, along with the Pfandbrief rating, were not affected by this step.

Heta redeemed the last outstanding Pfandbrief on 13 June 2016, and the Pfandbrief rating was subsequently put aside.

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

### **6.6. Annual financial statements for Heta Asset Resolution AG as at 31 December 2016 pursuant to the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG)**

Due to the special situation at Heta Asset Resolution AG (Heta), the Management Board believes that Heta's annual financial statements pursuant to the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) (separate financial statements) provide creditors with a more relevant presentation of a correct description of the asset, financial and earnings position.

The annual financial statements, which consist of the balance sheet, income statement and the notes as well as the management report were audited and certified with an unqualified audit opinion, albeit with additional comments to the audit opinion, and are published at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (-> Investor Relations -> Financial reports & presentations).

Significant deviations occur as a result of the different accounting principles that are applied to the consolidated financial statements (IAS/IFRS) and the separate financial statements (UGB/BWG). In addition to the measurement differences that apply in the various financial reporting concepts, expected future operating losses in particular cannot be anticipated in the consolidated financial state-



ments. Such expected losses, which are not taken into account under IFRS, result, among others, from differences in the consideration of events after the balance sheet date, operating expenses yet to be incurred, and expected losses on disposals for performing loans and real estate.

The main deviations with regard to the loss-free measurement of the assets of the parent company pursuant to the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) could not be recognised in the IFRS consolidated financial statements:

- Expected future operating losses by the subsidiaries included in the consolidated financial statements (EUR -0.4 billion), which were included in the measurement of the refinancing lines to subsidiaries under the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG).
- Future expected losses from the sale of performing loans (EUR -0.1 billion) for which an impairment was also recognised pursuant to section 57 (1) Austrian Banking Act (BWG).
- Future expected personnel and administrative costs for Heta's wind-down process (EUR -0.2 billion), for which a (closing costs) provision was recognised under the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG).

The application of Emergency Administrative Decision II resulted in a reduction to zero (issued capital and subordinated liabilities) and 46.02% (other "eligible liabilities"). The amount resulting from the reduction is reported in the income statement for the 2016 financial year.

Since providers of equity capital can only be paid out of any surplus net assets after all of the creditors' claims have been satisfied, these claims must be set to a value of zero (equity capital) as at 31 December 2016.

A provision for contingent liabilities related to resolution procedures was formed in the amount of the difference by which the assets reported in the balance sheet exceed the liabilities in the statement of financial position for 31 December 2016. As at 31 December 2016, this provision amounts to EUR 3.2 billion.

## 7. Economic results in the Group

### 7.1. Development of results

By way of introduction, it is noted that the measurement that forms the basis for the consolidated financial statements is based on the gone concern assumption.

The main focus of operating activities continues to be the wind-down of the portfolio pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA), which is implemented as planned. The development of results during 2016 was greatly affected by the implementation of the new Emergency Administrative Decision II on 10 April 2016. Overall, Heta reports a positive group result after tax and

before minorities of EUR 6,713.9 million in 2016 (adjusted value 2015: EUR -496.2 million), which is for the most part due to one-time effects from the application of the wind-down instrument of the "bail-in" of creditors.

The net interest income for the group increased over the previous year from EUR 45.5 million (adjusted value 2015) to EUR 74.6 million.

#### Net interest result

in EUR m

47.7	31.12.2014
45.5	31.12.2015
74.6	31.12.2016

Even though interest and similar income fell by EUR -296.2 million compared to the previous year, the disproportionate reduction in interest and similar expenses (EUR 325.2 million) led to an overall improvement in the net interest income of EUR 29.1 million. In addition, the haircut also led to the derecognition of the hedge adjustments, so that starting on 10 April 2016, no interest income is recognised from the amortisation of hedge adjustments. As a result, interest income has decreased by EUR 105.5 million compared to the same period of the previous year. Income from the derecognition of the hedge adjustments is no longer reported in the interest result but in the result of "bail-in" of creditors according to the Federal Act on the Recovery and Resolution of Banks (BASAG). Interest income from loans and advances to customers (non-performing loans) from unwinding, the interest collected on the basis of the present value of the net receivables, continues to decline to EUR 77.3 million, after EUR 114.5 million in the previous year.

Interest expenses decreased compared to the previous year's period due to the reduction in "eligible liabilities" (including accrued interest until 28 February 2015) ordered by the Financial Market Authority (FMA). The decrease in interest expenses is mainly due to two effects: first, the reduction in "eligible liabilities" ordered by Emergency Administrative Decision II significantly reduced the volume of interest-bearing liabilities. A total of EUR 7.1 billion in "eligible liabilities" (including interest liabilities recognised for the period 1 March 2015 to 9 April 2016) was derecognised as at 9 April 2016. Second, according to Emergency Administrative Decision II, the interest rate for the "eligible liabilities" affected by the haircut, which were reduced to 46.02% (with the subordinated capital reduced to zero), is reduced to zero; therefore no interest expenses have been recognised for the affected liabilities since 10 April 2016. In contrast, all of the interest was shown as interest expenses for the 2015 financial year under the moratorium of Emergency Administrative Decision I; however, this interest was subject to a moratorium.

The interest result also contains expenses from the guarantee commission in the amount of EUR -14.5 million for the subordinated bond of EUR 1.0 billion that was issued in December 2012 with a guarantee from the Republic of Austria, even if it was not paid on account of the payment moratorium imposed by the Financial Market Authority (FMA) that took effect on 1 March 2015. Since this concerns an "eligible liability", expenses were only recognised under interest expenses until the effective date of Emergency Administrative Decision II. The future obligations, which have been reduced to 46.02% pursuant to the decision, are shown in the result from the "bail-in" of creditors pursuant to the Federal Act on the Recovery and Resolution of Banks (BASAG).

The net fee and commission income for 2016 improved by EUR 37.1 million over the previous year from EUR -39.2 million (adjusted value) to EUR -2.1 million. The result for the 2015 financial year was encumbered by EUR -17.6 million in expenses for guarantee commissions (among others), which were related to the guarantees granted by the Republic of Austria.

The result from financial assets that are not measured at the fair value in the income statement amounted to EUR -24.9 million (2015: EUR 3.5 million) and is mainly due to the disposal/maturity of securities.

The result from the "bail-in" of creditors according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) relates to the implementation of the haircut ordered by the Financial Market Authority (FMA), and amounts to EUR 7,125.5 million (2015: EUR 0.0 million). With Emergency Administrative Decision II from 10 April, the Financial Market Authority (FMA) is applying the wind-down instrument of the "bail-in" of creditors. Accordingly, all "eligible liabilities" must be reduced to 46.02% of the nominal value or the amount outstanding by 1 March 2015, including interest accrued until 28 February 2015; subordinated "eligible liabilities" are reduced to zero. In addition, the due dates for the "eligible liabilities" were changed to the date of the resolution on dissolution for Heta, or 31 December 2023 at latest, and the interest rate was retroactively set to zero as at 1 March 2015. These changes in the terms initially lead to the complete derecognition of the currently accounted for "eligible liabilities" and the re-recognition of the new liabilities that have been reduced to 46.02%. The derecognition on 9 April 2016 and the re-recognition of the new liabilities on 10 April 2016 results in net income of EUR 9,078.0 million. The new liabilities of 46.02% had to be recognised at the fair value on 10 April 2016. This fair value approach that is applied to the liabilities results in a contrary effect on the result of EUR -1,997.4 million. This effect from the fair value measurement for the most part takes into account the obligation that Heta's expected net assets must be distributed to the creditors covered by the "bail-in" of creditors at the time of the resolution on dissolution, but at the latest on 31 December 2023.

The trading result amounted to EUR 10.8 million (2015: adjusted value EUR -147.5 million), and includes EUR 18.0 million (2015: EUR -22.3 million) for a positive result from interest-related transactions (banking book derivatives). Currency-related transactions give rise to a result of EUR -7.2 million (2015 adjusted: EUR -125.6 million), which was affected by the appreciation in the Swiss Franc during the comparative period.

No balance sheet-related valuation units exist as at 31 December 2016, which means that the result from hedge accounting for 2016 is reported at EUR 0.0 million (2015: EUR -0.2 million).

The result from financial instruments - designated at fair value through profit or loss, which must be accounted for at the fair value through profit or loss (fair value option), amounted to EUR -1,071.1 million, compared to EUR 1.5 million in the previous year's comparative period. The "eligible liabilities" that were reduced as a result of Emergency Administrative Decision II and that were fully derecognised as at 9 April 2016 are measured at their fair value as at 10 April 2016 and were allocated to the category "liabilities measured at fair value through profit or loss". The fair value measurement of these liabilities as at 31 December 2016 leads to a result of EUR -1,071.3 million (P&L effect from 10 April to 31 December 2016).

The operating result from investment properties, which was EUR 36.9 million in 2015 (adjusted value), was again positive in 2016 at EUR 27.8 million. This result is due to the net balance of income and current amortisation and other expenses from investment properties.

In the previous year (EUR 778.7 million, adjusted value), the other operating result (EUR 255.6 million) was affected by special items, in particular income from the reversal of provisions in connection with the judgement in the BayernLB-EKEG proceedings in the amount of EUR 886.8 million, and expenses of EUR -124.1 million for fees from the disposal of the SEE network. During the year under review, most of the discount and the provisions for the guarantee agreements with the Republic of Austria were reversed as at 31 December 2016 on the basis of the settlement reached by Heta and Addiko Bank AG on 23 December 2016. At the group level, the settlement resulted in other operating income of EUR 258.2 million. The other operating result for 2016 includes EUR -24.4 million in expenses from the result of derecognition of the Centrice companies.

In 2016, EUR 465.0 million in risk provisions on loans and advances were reversed (adjusted value 2015: EUR 816.8 million). Of the reversals, EUR 166.0 million relate to the former Italian subsidiary bank HBI. The remaining reversals are due to successful disposals that were above the expected return flows.

The result from the impairment of non-financial assets was EUR -15.9 million in 2016, after EUR -24.6 million (adjusted value for 2015) in the previous year's comparative

period. These results are connected to the measurement of investment properties and repossessed assets.

On the cost side, expenses declined by EUR 44.6 million over the previous year. Personnel expenses also declined as a result of the progressive reduction in the workforce, by EUR 14.3 million from EUR -77.1 million (adjusted 2015 value) to EUR -62.8 million in 2016. Moreover, personnel expenses for the comparative period also included the employees who were transferred to Addiko Bank AG during the first six months of 2015. Other administrative expenses amount to EUR -84.7 million, and therefore fell by EUR 28.9 million (2015 adjusted value: EUR -113.6 million). This cost reduction is mostly due to the reduction in expenses for legal and consulting services.

Depreciation on tangible and intangible assets amounted to EUR -3.2 million (adjusted value 2015: EUR -4.6 million).

Overall, operating income of EUR 6,450.2 million (adjusted value 2015 value: EUR -1,029.8 million) was accompanied by impairments of financial and non-financial assets of EUR 461.8 million (adjusted value 2015: value: EUR 788.4 million) and operating expenses of EUR -150.7 million (adjusted value 2015: EUR -195.3 million). This results in an operating result of EUR 6,761.3 million (adjusted value 2015: EUR -436.7 million). Taking into account the result from companies accounted for at equity in the amount of EUR -0.6 million (2015: EUR 1.7 million), Heta obtains a result before taxes from continued operations of EUR 6,760.7 million (adjusted value 2015: EUR -435.0 million).

Following the consideration of income taxes of EUR -0.1 million (adjusted value 2015: EUR -0.5 million), the result after tax from continued operations amounts to EUR 6,760.7 million (adjusted value 2015: EUR -435.5 million).

The result after tax from discontinued operations amounts to EUR -46.8 million in 2016 (adjusted value 2015: EUR -60.7 million); in addition to the current result for the subsidiary Heta Asset Resolution S.r.l. (HARIT) in the amount of EUR -8.2 million it also includes the loss from disposal that was calculated on the basis of the expected purchase price, taking into account expected utilisations from seller warranties and guarantees in the amount of EUR -39.1 million. HARIT is reported as a separate business segment in the "Italy" segment. The closing for the disposal of HARIT was completed on 21 February 2017. Following the disposal of the Italian subsidiary, Heta no longer carries out any operating activities in Italy.

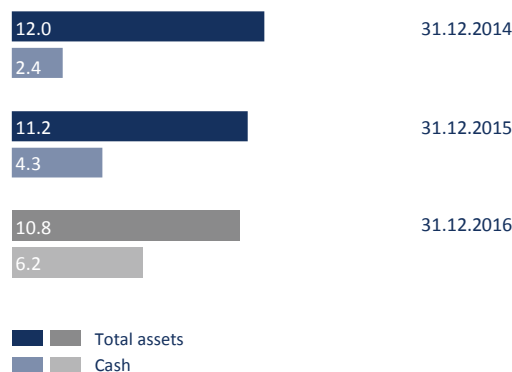
Overall, in 2016 Heta reported a group result after tax characterised by the "bail-in" of creditors of EUR 6,713.9 million, after EUR -496.2 million in the previous year (adjusted value 2015).

## 7.2. Development of the statement of financial position

Heta's consolidated total assets continued to decline in 2016, from EUR 11.2 billion to EUR 10.8 billion (EUR-0.4 billion).

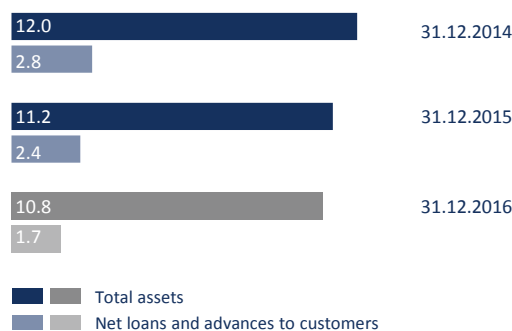
### Total assets/cash

EUR bn



### Total assets/net loans and advances to customers

in EUR bn



Heta's entire cash and balances at central banks increased by EUR 1.9 billion during the 2016 financial year, and total EUR 6.2 billion by 31 December 2016. The maturity dates of own issues, which as secured liabilities (cover pool) were not subject to the payment moratorium under Emergency Administrative Decision I, led to an outflow of liquidity in the amount of EUR -0.2 billion. On the other hand, the inflows of liquidity are mainly due to the disposal of Centrice Real Estate GmbH (EUR 0.3 billion), the disposal/redemption of securities (EUR 0.4 billion), repayments of refinancing lines from customer financing (EUR 0.4 billion) and asset sales (EUR 0.9 billion), along with cash collateral collected as a result of the termination of derivative contracts (EUR 0.1 billion).

(Gross) loans and advances to credit institutions declined over the previous year by EUR 0.6 billion from EUR 2.7 billion to EUR 2.1 billion, mostly because of the repayments of refinancing lines of HBI in the amount of EUR 0.3 billion, and Addiko Bank AG of EUR 0.2 billion.

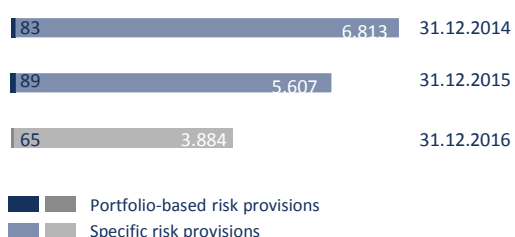
Net loans and advances to customers (gross amount after consideration of credit risk provisions) decreased in 2016 from EUR 2.4 billion to EUR 1.7 billion, which corresponds to a change of EUR 0.7 billion or around -29.1%.

(Gross) loans and advances to customers declined by 30.2% from EUR 7.6 billion to EUR 5.3 billion. Following the

utilisation of the risk provision (EUR 1.1 billion) and reorganisations in the balance sheet item Assets classified as held for sale according to IFRS 5 (EUR 0.2 billion), the status of the risk provision on loans and advances fell by 32.6% from EUR -5.2 billion (31 December 2015) to EUR -3.5 billion on 31 December 2016.

#### Development of risk provisions on loans and advances

in EUR m



During the 2016 financial year, the wind-down of the loan portfolio continued with repayments and individual disposals of non-performing loans.

Similarly, the derivative portfolio was also significantly reduced. The positive market values from derivative transactions, which are reported on the assets side under derivative instruments, are therefore EUR -0.5 billion under the level of the previous year (2015: EUR 0.6 billion), and total EUR 0.1 billion as at 31 December 2016.

The financial assets in the category “designated at fair value through profit or loss” (FVO) totalled EUR 0.2 billion as at 31 December 2016, which was at the level of the previous year (2015: EUR 0.2 billion). The carrying amount for available for sale financial instruments (AFS) declined in 2016 by EUR -0.3 billion to EUR 0.1 billion. This was mainly due to the disposal of debt instruments and fixed-income securities.

Investment properties amounted to EUR 0.2 billion as at 31 December 2016, EUR 0.2 billion lower than on 31 December 2015. The portfolio of investment properties of the Italian subsidiary HARIT in the amount of EUR 0.1 billion was reclassified into assets classified as held for sale.

Assets classified as held for sale amounted to EUR 0.2 billion (31 December 2015: EUR 0.4 billion). This item consists mainly of HARIT’s entire assets as well as properties of the project company Tridana d.o.o. The assets from a Croatian real estate project, which were reported in this item in the comparative period, had to be reclassified from this item due to the suspension of the disposal process.

The liabilities side of the consolidated statement of financial position for 2016 is characterised by the haircut. With Emergency Administrative Decision II from 10 April 2016, which was issued by the Financial Market Authority (FMA), the wind-down measures listed in section (3.1) Emergency administrative decisions by the Financial Market Authority (FMA) pursuant to the Federal Act on the Recov-

ery and Resolution of Banks (BaSAG) were applied to Heta. The derecognition (at the carrying amount) and re-recognition (at the fair value) of the “eligible liabilities” as a result of the “bail-in” of creditors reduces the amount of liabilities and provisions by EUR 7.1 billion. In addition, Heta’s issued and subordinated capital was reduced to zero. This had the effect of changing the entire presentation of the group’s liabilities, since this process involved an exchange of liabilities. While liabilities decline as a result of their de- and re-recognition through profit or loss, the positive result from the derecognition is applied against the negative cumulative result accrued in equity in previous years, which leads to the equalisation of the previously reported negative equity.

Liabilities to credit institutions at EUR 1.5 billion were well below the reference value of the previous year (EUR 3.4 billion). In addition to the reduction in liabilities due to the application of Emergency Administrative Decision II, liabilities to customers were reorganised; this step was required after the Kärntner Ausgleichszahlungs-Fonds (K-AF) purchased bonds previously held by credit institutions.

As at 31 December 2016, liabilities to customers as well as liabilities evidenced by certificates totalled EUR 7.4 billion (2015: EUR 9.1 billion). The decrease of EUR -1.7 billion is mainly due to Emergency Administrative Decision II. It must be noted that the liabilities to Pfandbriefbank, which were issued through Pfandbriefbank (Österreich) AG, were shown in a separate balance sheet item in 2015. Because of the State of Carinthia’s repurchase programme, the titles that were held by third parties were transferred to the Kärntner Ausgleichszahlungs-Fonds (K-AF), and were therefore reorganised into the liabilities evidenced by certificates or liabilities to customers.

The IFRS equity capital for the group improved overall from EUR -5.7 billion on 31 December 2015 to EUR 1.0 billion on 31 December 2016. The amount of equity shown on the reporting day in the IFRS consolidated financial statements does not establish a claim on the part of Heta’s owner however. Rather, the amount is used to cover future operating expenses as well as losses that are expected but must not be taken into account at this time, particularly from the wind-down of performing loans and closing costs.

With regard to the effects from the “bail-in” of creditors and the “bail-in” of owners of relevant capital instruments on the individual items in the IFRS consolidated statement of financial position for 31 December 2016, please see note (3) Effects of the haircut on the consolidated financial statements in the notes.

### 7.3. Key profit indicators relevant to the wind-down process

Since Heta’s business purpose is orderly, active and best possible wind-down of its assets, those key profit indicators that are used for internal management purposes cannot be compared to the financial key performance indicators that are normally used by credit institutions. Rather, Heta con-



ducts its management activities in accordance with key indicators that are used to measure, in particular, the success of the wind-down process, the resulting increase in cash and balances at central banks (proceeds or cash-in) and the costs incurred in this context. These key indicators are regularly calculated on both an absolute and relative basis, and are reported at the operating and strategic level. The starting point for the presentation of the success of the wind-down of the entire portfolio is the annual financial statements of the previous year.

During the 2016 liquidation year, Heta was able to significantly surpass the level of income compared to the net carrying values with the figures in the 2016 budget. In terms of the most obvious result, cash and balances at central banks rose by EUR 1,886.9 million, from EUR 4,278.0 million to EUR 6,164.9 million. It must be noted, however, that the year 2016 was also characterised by repayments of "non-eligible liabilities", which had the effect of temporarily decreasing cash and balances at central banks by approximately EUR 250.0 million. The big increase in cash and balances at central banks is mainly due to the sustained and value-oriented wind-down of securities and receivables at Heta and the subsidiaries. The wind-down process in the segment of repossessed assets (real estate and moveable assets) was more difficult however. The planned wind-down performance for 2016 could not be achieved across the group due to the delays in the wind-down of large projects. Furthermore, additional impairments also had to be applied to some properties. Moreover, the balance sheet total was also significantly reduced due to the wind-down of derivatives and cash collaterals, which considerably reduced the amount of complexity.

The costs used to generate the proceeds (cash-in) came in under the 2016 budget, and also the previous year, which also reflects the continuous adjustment of the group structure to the remaining portfolio. The ratio between costs incurred and the generated cash-in improved by approximately 2.1% over the previous year.

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

In the area of Human Resources Management, Heta continued to focus on implementing its wind-down objectives in 2016, i.e. the gradual reduction of personnel resources in connection with continuous restructuring measures. Measures were taken to ensure that an adequate number of personnel resources were available in the neuralgic functions.

### Active employees

#### Figures from 2014 to 2016

1,805	31.12.2014
1,351	31.12.2015
1,015	31.12.2016

The total number of employees in the Heta network (measured in full-time equivalents - FTEs) dropped to 1,015 on 31 December 2016, compared to 1,351 employees as at 31 December 2015.

Accordingly, efficient employee reduction measures were implemented in all Heta companies in line with the continuous restructuring process.

### Wind-down and change management

In order to reach the statutory wind-down objectives, human resources management activities centred on supporting change management measures in line with the comprehensive transformation process. Accordingly, the HR teams managed the restructuring process and reduction in employees on the basis of a special "Change Master Plan" - with the executives as the main multipliers. The internal exchange of knowledge and experience was the top priority of the supporting measures and also "knowledge management". Team development programmes for the rapid stabilisation of changes were implemented in addition to a large number of focused offers for executives.

### Compensation

Strict compensation rules continued to apply in the entire group. The constant monitoring of personnel costs and a "stop" for variable compensation were continued without changes.

## 9. Internal Control System for accounting procedures

Heta has an Internal Control System (ICS) for accounting procedures, in which appropriate structures and procedures are defined and implemented.

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

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

- Safeguarding and implementing the business and risk strategies as well as group policies,
- Effective and efficient use of all of the organisation's resources in order to achieve the targeted wind-down objectives,

- Ensuring reliable financial reporting,
- Supporting adherence to all the relevant laws, rules and regulations.

The particular objectives with regard to the accounting process are that the ICS ensures that all business transactions are recorded immediately, correctly and in a uniform manner for accounting purposes. It ensures that the accounting procedures and measurement standards and the internal Group Policy Financial Management, which are mandatory for all companies consolidated in the financial statements, are upheld. The aforementioned group policy specifies the organisation and process of financial reporting as regards accounting procedures.

The ICS is based on:

- The complete documentation of all relevant processes in Group Accounting and Reporting,
- Working instructions and documentation of individual workflows,
- The complete presentation of all relevant risks and their respective control mechanisms as part of the process documentation,
- Independently operating control mechanisms and measures in the formal organisational structure and workflow management (programmed controls in the IT system),
- Observance of the principles of separation of duties and dual control,
- Internal audit – as a separate organisational unit – which is concerned with monitoring all group business areas.

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

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

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

- The chart of accounts and structure of financial reporting conform to national and international standards and Heta's internal requirements,
- The business activities of Heta are correctly and appropriately documented and reported,
- All relevant records are systematically submitted in a traceable manner,
- All data required for financial reporting is documented in a traceable manner,

- The accounting processes prevent Heta's assets from being used, sold or acquired without the appropriate approval,
- All subsidiaries and group units involved in preparing financial reports are capable of fulfilling this function in terms of both levels of training and staff capacity,
- The responsibilities related to the accounting processes for the set-up of the consolidated financial statements are clearly and unambiguously set out,
- Access to the IT systems which are crucial to the accounting process (Arctis, Lotus Notes financial accounting database, SAP) is restricted in order to avoid misuse,
- All relevant legal provisions are adhered to.

The processes, policies and control procedures implemented at Heta are subject to ongoing evaluation and further development.

The group subsidiaries draw up their financial statements on the basis of local accounting regulations and transmit their data – which is prepared according to IFRS across the group – using a standard, group-wide reporting tool (package). They are responsible for complying with the group policies valid throughout the group and for the proper and timely execution of the processes and system. The local group subsidiaries are supported throughout the whole group accounting process by central contact persons in Group Accounting & Reporting.

Management at the subsidiaries is responsible for the implementation and monitoring of the local ICS and confirms its compliance on a semi-annual basis.

Data submitted by the group subsidiaries is assessed in the Group Accounting & Reporting division for plausibility and is then entered into the Cognos Controller consolidation software. The consolidation steps (which include consolidation of expenses and earnings, consolidation of capital and consolidation of debt) are carried out directly in the system, followed by the elimination of any intra-group profits. The related coordination activities, supervision of required time frames, processes and contents and the performance of system controls and manual reviews also form a part of this process. Finally, the notes and the group management report are produced for the reporting dates 30 June and 31 December.

Throughout the year, internal financial reporting is performed by Group Financial & Risk Controlling on a monthly basis. Detailed reports and analyses as well as periodic target/actual comparisons and forecasts are produced. The budgeting process includes a wind-down plan according to the Federal Law on the Creation of a Wind-Down Entity (GSA).

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



### 9.1. Internal control system related activities in the 2016 financial year

Heta's organisational structure changed significantly since the 2014 financial year as a result of the transformation process into a wind-down unit.

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

### 9.2. Planned internal control activities for the 2017 financial year

The adjustment of processes resulting from the wind-down process will be continued during the 2017 financial year. This process will be accompanied by changes to the process environment.

It is anticipated that in 2017 the internal control system will be continuously enhanced and adapted to the conditions inherent in the new processes. In this context, the focus will remain on the key processes of the wind-down unit and additional process support.

## 10. Public Corporate Governance Code

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

Concrete measures include the adaptation of the internal rules and procedures for the Supervisory Board and Management Board to the strict provisions of the Austrian Federal Public Corporate Governance Code (B-PCGK), which serve as the basis for the business practices of these executive bodies. On this basis, the provisions of the Austrian Federal Public Corporate Governance Code (B-PCKG) are gradually adopted as they are implemented in the respective statute-related documents of the various group companies.

As an additional consequence, Heta has also committed to report on compliance with the code on an annual basis. Compliance with the code's provisions is supposed to be audited by an external specialist every five years. This review (covering the 2015 financial year) was performed for the first time in 2016 by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. During the audit, KPMG did not identify any facts that are contrary to the information provided by Heta.

## 11. Research and development

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

## 12. Other disclosures

Information in accordance with section 267 of the Austrian Commercial Code (UGB) with regard to events after the balance sheet date (in the notes under note (123) Events after the balance sheet date) and the risk report including the notes on the application of risk management targets and methods for the use of financial instruments, are presented in the notes to the consolidated financial statements

### 13. Forecast

In the year 2016, Heta was confronted with changes to a number of important conditions. The decisions made by the resolution authority in line with Emergency Administrative Decision II and the acceptance by the majority of Heta creditors of a purchase offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF) for Heta debt instruments had the effect of setting an important course for Heta and significantly reducing the risk factors for operating activities in the year 2017.

Accordingly, the Management Board expects that activities in 2017 will focus primarily on disposal activities in line with the wind-down plan pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA), which was published in the 2016 financial year. According to the plan, approximately 80% of the portfolio is to be wound-down by 2018 (based on the comparative figure for the 2014 year-end). For 2017, the wind-down plan expects that the portfolio will be reduced by approximately EUR 900 million. Based on the positive progress of the disposals, the originally (2015) expected cash and balances at central banks for the year 2020 were raised from EUR 6.3 billion to EUR 7.7 billion in August 2016. Due to the general settlement initiated with Addiko Bank AG (previously HGAA) in December 2016, and the earlier repayment of the Heta financing lines provided until 2022 in the amount of approximately EUR 1 billion, the expected amount of cash and balances at central banks in 2020 will continue to rise.

The sales agreement for Heta Asset Resolution Italia S.r.l. (HARIT) with an alternative investment fund that is affiliated with Bain Capital Credit (European Advisors), Ltd will also have a positive effect on cash flows. Following the successful closing on 21 February 2017, Heta no longer carries out any direct operating activities in Italy.

Business activities in Liechtenstein and Macedonia were discontinued in the 2016 financial year. New disposal processes will be started in 2017 for subsidiaries in other countries, and also for sub-portfolios in the area of performing and non-performing loans. In addition, the wind-down on an individual basis and the disposal of real estate and other collateral will also be intensified.

The reduction in the portfolio is also accompanied by a reduction in Heta's workforce. The number of employees working in the central controlling unit is supposed to be gradually reduced from 336 persons (as at 31 December 2016) to approximately 220 persons. The number of employees in the entire group (1,007 persons as at 31 December 2016) will also fall in accordance with the wind-down progress. An already existing social plan continues to apply, and is supposed to ensure that the reduction in the workforce continues in an orderly and socially compatible way.

The disposal of portfolios is accompanied by a moderate economic recovery in Europe. For the year 2017, the EU Commission expects GDP to grow by 0.1% to 2.0% (EU

level), but also warns of increasing risks such as changes in the political environment, stricter US monetary policies and a possible increase in commodity prices. The continued favourable financing opportunities in the Euro zone are again noted as stimulating factors, although investments are lagging considerably behind expectations, which further delays the upswing in the labour market. For the countries in which Heta undertakes operating activities, the EU presents a cautiously optimistic picture: In 2017, the GDP is expected to grow by 1.6% in Austria (2016: 1.7%), 2.3% in Slovenia (2016: 1.8%), 2.1% in Croatia (2016: 2.1%), 2.5% in Hungary (2016: 2.1%), 2.5% in Serbia (1.6%) and 4.1% in Montenegro (4.0%).

While the low-interest policy pursued by the European Central Bank is considered a positive stimulus effect, it also creates considerable challenges for long-term investors. In this vein, Heta's interest situation cannot be described as satisfactory, after negative interest was applied to the cash deposited at the Austrian National Bank (OeNB) (-0.4% p.a.). Heta does not expect a reversal in the ECB's interest rate policy in 2017.

Developments in the area of legal disputes can be assessed as positive for 2017. Following the acceptance of a purchase offer for Heta debt instruments by a majority of Heta creditors, the plaintiffs withdrew most of the lawsuits that were filed in connection with the banking wind-down and restructuring act (Federal Act on the Recovery and Resolution of Banks (BaSAG)). In addition, all submission proceedings pending before the European Court of Justice (ECJ) regarding the application of BaSAG to Heta as a wind-down unit were also abandoned. Still pending is the legal dispute between BayernLB and Heta in connection with the assessment of the possible application of the Austrian Equity Substituting Capital Act (EKEG) to the refinancing lines that were previously provided by BayernLB to the former Hypo Alpe-Adria-Bank International AG, whereby a statement submitted by BayernLB in the fall of 2015 significantly minimised the risk. The proceedings solely serve to provide legal certainty, and would eventually result in a positive inflow of funds for Heta in the case of a victory.

Emergency Administrative Decision II provides the option for the early distribution of sales proceeds to creditors. On this point, Heta's statutes were adjusted accordingly in June 2016. The first such early distribution to those creditors is planned to take place in 2017. The Management Board must prepare a corresponding distribution resolution, and must submit the same to the general shareholders' meeting for adoption.

In conclusion, the Management Board once again advises that with Emergency Administrative Decision II from 10

April 2016, the Financial Market Authority (FMA) assumed control of Heta and exercises all of the management and controlling rights associated with the shares. Based on the effects from Emergency Administrative Decision II, the Management Board expects at minimum a balanced annual result for 2017 - subject to the current environment remaining the same.

(Sources: WKO, EU Commission, OECD)

Klagenfurt am Wörthersee, 15 March 2017  
Heta Asset Resolution AG

THE MANAGEMENT BOARD

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

Mag. Martin Handrich  
(Member)

Mag. Arnold Schiefer  
(Member)

Mag. Alexander Tscherteu  
(Member)

# Consolidated Financial Statements

as at 31 December 2016

# I. Consolidated statement of comprehensive income

## Income statement

EUR m

	Note	1.1. - 31.12.2016**	1.1. - 31.12.2015*
Interest and similar income	(44)	270.5	566.7
Interest and similar expenses	(45)	-195.9	-521.1
<b>Net interest income</b>		<b>74.6</b>	<b>45.5</b>
Fee and commission income	(46)	1.3	2.3
Fee and commission expenses	(47)	-3.5	-41.5
<b>Net fee and commission income</b>		<b>-2.1</b>	<b>-39.2</b>
Gains/losses on financial instruments that are not measured at fair value	(48)	-24.9	3.5
Result from the resolution/application of HaaSanG	(49)	0.0	-1,709.0
Result from the "bail-in" of creditors pursuant to BaSAG	(50)	7,125.5	0.0
Result from trading	(51)	10.8	-147.5
Result from hedge accounting	(52)	0.0	-0.2
Result from financial investment – designated at fair value through profit or loss	(53)	-1,017.1	1.5
Operating result from investment properties	(54)	27.8	36.9
Other operating result	(55)	255.6	778.7
<b>Operating income</b>		<b>6,450.2</b>	<b>-1,029.8</b>
Impairment of financial assets	(56)	477.7	813.0
thereof financial assets – at cost (risk provision)		465.0	816.8
thereof financial assets– available for sale		12.8	-3.8
Impairment of non financial assets	(57)	-15.9	-24.6
<b>Operating income after impairment</b>		<b>6,912.0</b>	<b>-241.4</b>
Personnel expenses	(58)	-62.8	-77.1
Other administrative expenses	(59)	-84.7	-113.6
Depreciation and amortisation on tangible and intangible assets	(60)	-3.2	-4.6
<b>Operating expenses</b>		<b>-150.7</b>	<b>-195.3</b>
<b>Operating result</b>		<b>6,761.3</b>	<b>-436.7</b>
Result from companies accounted for at equity	(61)	-0.6	1.7
<b>Result before tax from continued operations</b>		<b>6,760.7</b>	<b>-435.0</b>
Taxes on income	(62)	-0.1	-0.5
<b>Result after tax from continued operations</b>		<b>6,760.7</b>	<b>-435.5</b>
<b>Result after tax from discontinued operations</b>		<b>-46.8</b>	<b>-60.7</b>
<b>Result after tax</b>		<b>6,713.9</b>	<b>-496.2</b>
thereof attributable to non-controlling interests	(63)	0.0	11.6
thereof from continued operations		0.0	11.6
thereof from discontinued operations		0.0	0.0
thereof attributable to equity holders of parent (result after tax and non-controlling interest)		6,713.9	-507.8
thereof from continued operations		6,760.7	-447.1
thereof from discontinued operations	(12)	-46.8	-60.7

The values in the consolidated financial statements as at 31 December 2016 and 31 December 2015 are based on the gone concern premise.

\*) Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations

\*\*\*) The haircut also affects the current income statement; we refer to the information in the notes (in particular note (45) Interest and similar expenses).

## Other comprehensive income

EUR m

	1.1. - 31.12.2016**	1.1. - 31.12.2015*
<b>Result after tax</b>	<b>6,713.9</b>	<b>-496.2</b>
Remeasurement of the net defined benefit liability	-0.4	0.2
Deferred tax relating to items that will not be reclassified to profit or loss	0.0	0.0
<b>Items, that will not be reclassified to profit or loss</b>	<b>-0.4</b>	<b>0.2</b>
Available for sale-reserve	4.9	13.4
Gains/losses on available for sale evaluation	-9.3	11.6
Effects of deferred taxes	0.0	0.0
Gains/losses on available for sale disposal (reclassification)	27.0	-2.0
Effects of deferred taxes	0.0	0.0
Gains/losses on available for sale impairment (reclassification)	-12.8	3.8
Foreign exchange differences (change in foreign currency reserve)	-1.2	-4.4
<b>Items, that will be reclassified to profit or loss</b>	<b>3.7</b>	<b>9.0</b>
<b>Total other comprehensive income</b>	<b>3.3</b>	<b>9.2</b>
<b>Total comprehensive income</b>	<b>6,717.2</b>	<b>-487.0</b>
thereof attributable to non-controlling interests	0.0	12.6
thereof from continued operations	0.0	12.6
thereof from discontinued operations	0.0	0.0
thereof attributable to equity holders of parent	6,717.2	-499.6
thereof from continued operations	6,764.0	-438.8
thereof from discontinued operations	-46.8	-60.7

The values in the consolidated financial statements as at 31 December 2016 and 31 December 2015 are based on the gone concern premise.

\*) Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations

\*\*\*) The haircut also affects the current income statement; we refer to the information in the notes (in particular note (45) Interest and similar expenses).



## II. Consolidated statement of financial position

EUR m

	Note	31.12.2016	31.12.2015
<b>ASSETS</b>			
Cash and balances at central banks	(64)	6,164.9	4,278.0
Loans and advances to credit institutions	(65)	2,132.8	2,691.1
Risk provisions on loans and advances to credit institutions	(67)	-345.3	-490.7
Loans and advances to customers	(66)	5,294.7	7,550.3
Risk provisions on loans and advances to customers	(67)	-3,581.3	-5,165.4
Derivative financial instruments	(68)	61.6	596.2
Financial assets – designated at fair value through profit or loss	(69)	225.2	205.2
Financial assets – available for sale	(70)	84.8	395.9
Investments in companies accounted for at equity	(71)	1.5	3.8
Investment properties	(72/74)	222.7	405.4
Tangible assets	(73/74)	18.4	27.1
Tax assets	(62)	10.0	40.5
thereof current tax assets		10.0	40.4
thereof deferred tax assets		0.0	0.1
Assets and disposal groups classified as held for sale	(75)	246.7	431.7
Other assets	(76)	252.6	190.9
Risk provisions on loans and advances on other assets	(67)	-1.9	-6.4
<b>Total assets</b>		<b>10,787.5</b>	<b>11,153.5</b>
<b>EQUITY AND LIABILITIES</b>			
Liabilities to credit institutions	(77)	1,533.5	3,400.0
Liabilities to customers	(78)	1,369.3	1,509.8
Liabilities to Pfandbriefbank	(79)	0.0	1,241.9
Liabilities evidenced by certificates	(80)	5,985.4	7,600.1
Derivative financial instruments	(81)	184.5	480.2
Provisions	(82)	514.7	462.7
Tax liabilities	(62)	2.4	3.8
thereof current tax liabilities		1.6	1.9
thereof deferred tax liabilities		0.8	1.9
Liabilities included in disposal groups classified as held for sale	(83)	30.9	13.3
Other liabilities	(84)	170.3	156.9
Subordinated capital	(85)	0.0	2,005.1
Hybrid capital	(86)	0.0	0.2
Equity	(87)	996.5	-5,720.6
thereof attributable to equity holders of parent		996.5	-5,720.6
thereof attributable to non-controlling interests		0.0	0.0
<b>Total equity and liabilities</b>		<b>10,787.5</b>	<b>11,153.5</b>

The values in the consolidated financial statements as at 31 December 2016 and 31 December 2015 are based on the gone concern premise.

### III. Group statement of changes in equity

EUR m

	Share capital	Participation capital	Available for sale reserve	Foreign currency translation	Cumulative results	Owners of the parent	Non-controlling interests	Total
<b>Negative equity as at 1.1.2016</b>	<b>2,419.1</b>	<b>1,075.1</b>	<b>-6.2</b>	<b>5.5</b>	<b>-9,214.1</b>	<b>-5,720.6</b>	<b>0.0</b>	<b>-5,720.6</b>
Total comprehensive income	0.0	0.0	4.9	-1.2	6,713.5	6,717.2	0.0	6,717.2
Result after tax	0.0	0.0	0.0	0.2	6,713.9	6,714.1	0.0	6,714.1
Other comprehensive income	0.0	0.0	4.9	-1.4	-0.4	3.1	0.0	3.1
Capital decrease pursuant to BaSAG	-2,419.1	-1,075.1	0.0	0.0	3,494.2	0.0	0.0	0.0
<b>Equity as at 31.12.2016</b>	<b>0.0</b>	<b>0.0</b>	<b>-1.3</b>	<b>4.3</b>	<b>993.7</b>	<b>996.5</b>	<b>0.0</b>	<b>996.5</b>

The equity capital shown on the reporting day in the IFRS consolidated financial statements does not establish a claim on the part of Heta's owner. Rather, this amount is used to cover future losses, particularly from the disposal of performing loans, companies and closing costs.

EUR m

	Share capital	Participation capital	Additional paid-in capital	Available for sale reserve	Foreign currency translation	Cumulative results	Owners of the parent	Non-controlling interests	Total
<b>Negative equity as at 1.1.2015</b>	<b>2,419.1</b>	<b>1,075.1</b>	<b>0.0</b>	<b>-18.8</b>	<b>9.9</b>	<b>-8,706.4</b>	<b>-5,221.1</b>	<b>521.0</b>	<b>-4,700.1</b>
Reclassification of minority shareholder	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-512.6	-512.6
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-15.4	-15.4
Total comprehensive income	0.0	0.0	0.0	12.5	-4.4	-507.7	-499.6	12.6	-487.0
Result after tax	0.0	0.0	0.0	0.0	0.0	-507.8	-507.8	11.6	-496.2
Other comprehensive income	0.0	0.0	0.0	12.5	-4.4	0.1	8.2	1.0	9.2
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-5.6	-5.6
<b>Negative equity as at 31.12.2015</b>	<b>2,419.1</b>	<b>1,075.1</b>	<b>0.0</b>	<b>-6.2</b>	<b>5.5</b>	<b>-9,214.1</b>	<b>-5,720.6</b>	<b>0.0</b>	<b>-5,720.6</b>

For further information on equity, please refer to note (87) Equity.

## IV. Group statement of cash flows

EUR m

	2016	2015
<b>Result after tax from continued operations</b>	<b>6,760.7</b>	<b>-435.5</b>
<b>Result after tax from discontinued operations</b>	<b>-46.8</b>	<b>-60.7</b>
<b>Result after tax</b>	<b>6,713.9</b>	<b>-496.2</b>
<b>Non-cash items included in profit and reconciliation to cash flows from operating activities:</b>		
Gains/losses from the sale of subsidiaries	10.3	-4.1
Result from the resolution/application of HaaSanG	0.0	1,709.0
Result from the "bail-in" of creditors pursuant to BaSAG	-7,125.5	0.0
Valuation from the "eligible liabilities" and provisions at fair value	1,164.4	0.0
Depreciation and amortisation of tangible fixed assets and financial investments	19.7	58.9
Financial assets	2.8	2.3
Intangible, tangible assets and investment properties	17.0	56.5
Change in risk provisions	-512.6	-874.6
Change in provisions	155.9	-895.3
Gains (losses) from disposals of tangible fixed assets, financial assets and investment properties	9.2	-26.0
Financial assets	27.0	-5.0
Intangible, tangible assets and investment properties	-17.8	-21.0
<b>Subtotal</b>	<b>435.2</b>	<b>-528.3</b>
<b>Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:</b>		
Loans and advances to credit institutions and customers	1,559.7	2,126.1
Financial assets	631.9	994.4
Other assets	118.7	388.7
Liabilities to credit institutions and customers	-465.9	-343.9
Liabilities to Pfandbriefbank	0.0	1,241.9
Liabilities evidenced by certificates	-210.5	-1,150.6
Provisions	-278.9	-85.3
Other liabilities from operating activities	-254.9	-277.8
<b>Cash flows from operating activities</b>	<b>1,535.2</b>	<b>2,365.2</b>
Proceeds from the sale of:	409.9	136.0
Financial assets and participations	-27.0	5.0
Tangible assets, investment properties and intangible assets	436.9	131.0
Payments for purchases of:	-57.3	-58.8
Financial assets and participations	-0.3	0.0
Tangible assets, investment properties and intangible assets	-57.0	-58.8
Payments/proceeds from the purchase of subsidiaries	0.5	6.8
Payments in connection with the recapitalization of affiliated, non-consolidated companies (>50%)	-0.1	-4.0
Other changes	0.1	0.0
<b>Cash flows from investing activities</b>	<b>353.1</b>	<b>80.0</b>
Capital contributions/disbursements	0.0	0.0
Reclassification of minority shareholder	0.0	-512.6
Subordinated capital and other financing activities	0.0	0.0
Dividends paid	0.0	-15.4
thereof dividends paid to owners of the parent	0.0	0.0
thereof dividends paid to non controlling interest	0.0	-15.4
<b>Cash flows from financing activities</b>	<b>0.0</b>	<b>-528.0</b>

	2016	2015
<b>Cash flows for taxes, dividends and interests</b>	<b>107.5</b>	<b>63.9</b>
Payments for taxes on income	-13.1	-19.3
Payments for interests	-87.1	-226.5
Dividends received	0.0	0.0
Interests received	207.7	309.7

	2016	2015
<b>Cash and cash equivalents at end of previous period (1.1.)</b>	<b>4,278.0</b>	<b>2,365.3</b>
Cash flows from operating activities	1,535.2	2,365.2
Cash flows from investing activities	353.1	80.0
Cash flows from financing activities	0.0	-528.0
Effect of exchange rate changes	-1.4	-4.7
<b>Cash and cash equivalents at end of period (31.12.)</b>	<b>6,164.9</b>	<b>4,278.0</b>

Cash and cash equivalents at the end of the period include the cash and balances at central banks, and correspond to the balance sheet item cash and balances at central banks.

Liquidity holdings rose during the 2016 financial year from EUR 4,278.0 to EUR 6,164.9 million. This increase is almost entirely due to operating activities. Operating cash flow is calculated from the result for the period after taxes, and is adjusted for events that do not affect payments, in particular the result from the "bail-in" of creditors pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) in the amount of EUR 7,125.5 million. The result from the "bail-in" of creditors pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) relates to the implementation of the haircut ordered by the Financial Market Authority (FMA) and the "eligible liabilities" that were reduced to 46.02% in this context; subordinated liabilities were reduced to zero. The reduction did not lead to any outflows of liquidity.

Overall, a positive cash flow from operating activities in the amount of EUR 1,535.2 million was generated in 2016 (2015: EUR 2,365.2 million). Particularly inflows of payment instruments as a result of repayments by borrowers, as well as dispositions of assets and subsidiaries had the effect of increasing liquidity holdings by EUR 1,559.7 million. The decline in liabilities evidenced by certificates by EUR -210.5 million is mainly due to payments on account of the maturity of own issues, which, as secured liabilities, were not covered under the payment moratorium of Emergency Administrative Decision I (cover pool). The Pfandbrief liabilities, which were shown in a separate balance sheet item in the previous year, were transferred to the Kärntner Ausgleichszahlungs-Fonds (K-AF) during the year under review as a result of the repurchase programme of the State of Carinthia, and are therefore shown under liabilities evidenced by certificates and liabilities to customers. Therefore, in the year under review the change in the liabilities to Pfandbriefbank is shown in the statement of cash flows under liabilities evidenced by certificates and liabilities to customers.

Fund inflows of approximately EUR 0.3 billion from the disposal of real estate assets of the Centrice Group, which was processed in the form of a share deal, are shown in the statement of cash flows as a deposit from the disposal of investment properties.

For further information on the statement of cash flows, please refer to note (88) Statement of cash flows.

## V. Notes to the consolidated financial statements

### Accounting policies and basis of consolidation

#### (1) The Company

Heta Asset Resolution AG (the former Hypo Alpe-Adria-Bank International AG) was founded in 1896 as the Kärntner Landes- und Hypothekenbankanstalt, and operates as the parent company of the Heta Group (formerly Hypo Alpe Adria). Since 30 December 2009, it has been 100% owned by the Republic of Austria.

In implementing the legal mandate to wind-down the former Hypo Alpe-Adria-Bank International AG, the Austrian Financial Market Authority (FMA), in its decision from 30 October 2014, announced the termination of the banking license. The company has since been continued as Heta Asset Resolution AG (Heta) in the form of a partially-regulated wind-down unit in accordance with the Federal Act on the Creation of a Wind-down Entity (Federal Law Gazette I 2014/51, GSA). The business purpose of Heta is the full wind-down of its assets. According to section 3 (1) Federal Act on the Creation of a Wind-down Entity (GSA), the wind-down unit must “ensure the orderly, active and best possible exploitation (portfolio wind-down)”. The company must subsequently be liquidated. Within this context, it is also authorised, on the basis of the legal concession under the Federal Act on the Creation of a Wind-down Entity (GSA), to continue to enter into banking or leasing transactions that serve this purpose. According to section 3 (4) Federal Act on the Creation of a Wind-down Entity (GSA), Heta is subject to some of the provisions of the Austrian Banking Act (BWG) and accordingly has assumed certain reporting and notification duties vis-a-vis the Financial Market Authority (FMA).

Following the determination of a considerable capital shortfall in February 2015, and the imposition of a payment moratorium on 1 March 2015 by the Financial Market Authority (FMA), the company has been subjected to an orderly wind-down process pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG). The Financial Market Authority (FMA) has exercised the rights associated with the shares and property titles in Heta since 10 April 2016.

#### (2) Legal information and important events in 2016

##### 2.1. Decision of the Commission of the European Union from 3 September 2013

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

The decision provided for the division of the company into the marketable, reprivatisable units of the South-Eastern European Network (SEE) and the wind-down unit. A reprivatisation process was stipulated for the banks of the SEE network in Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro; it had to be completed by the end of 2015 (Closing). The closing for the sale of the SEE network was completed in July 2015 as scheduled. Furthermore, the former Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A. (Udine) was allocated to the wind-down segment during the second half of 2013. The requirements relating to Hypo Alpe-Adria-Bank S.p.A. under European law are no longer relevant to Heta as ownership of Hypo Alpe-Adria-Bank S.p.A. was transferred to HBI-Bundesholding AG, Vienna in September 2014. Heta is subject to new business restrictions and in particular the requirement that assets must be wound-down in a manner that preserves assets and values.

Compliance with the restructuring plan and the imposed requirements has so far been monitored by an independent trustee appointed by the European Commission, the “Monitoring Trustee”. The Trustee's quarterly reports are submitted to the Commission. The activities of the Monitoring Trustee are expected to be completed once the reporting for the year 2016 has been finalised. Quarterly reporting is supposed to be replaced with annual reports to the European Commission.

##### 2.2. Federal Act on the Creation of a Wind-Down Unit (GSA)

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

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

Heta's responsibility as a wind-down unit consists of winding-down its assets, which it must liquidate in a manner that is orderly, active and to the best possible advantage. The wind-down unit may only undertake transactions that are suited to winding-down the portfolio. Pursuant to section 3 (4) GSA, Heta is subject to a limited extent to the provisions of the Austrian

Banking Act (BWG) but not the minimum capital regulations. The Financial Market Authority (FMA) continues to be the responsible regulatory authority and is obligated, pursuant to section 8 Federal Act on the Creation of a Wind-down Entity (GSA), to assess compliance with the applicable provisions of the Austrian Banking Act (BWG).

Following the resolution of the general shareholders' meeting on 29 October 2014, the company's statutes were amended in view of the transformation into a wind-down unit; the name of the parent company was also changed from "HYPO ALPE-ADRIA-BANK INTERNATIONAL AG" to "HETA ASSET RESOLUTION AG". The company's business purpose was restricted - with the exception of those tasks specified in the Federal Act on the Creation of a Wind-down Entity (GSA) - to transactions that are required to fulfil the company's task (complete reduction of the portfolio as quickly as possible). These amendments were entered in the commercial register on 31 October 2014 and are effective as from that date. The change in the name of the company does not constitute a reorganisation under corporate law, as the change does not affect the legal person of the company itself or any of its contractual obligations. Article 2.3 of Heta's statutes provides that a resolution on dissolution has to be passed as soon as the portfolio is completely wound-down.

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

The EU Bank Recovery and Resolution Directive (BRRD) (Directive 2014/59/EU), harmonises the instruments for the recovery or resolution of banks and investment firms in the EU. When a bank fails, the Bank Recovery and Resolution Directive (BRRD) provides for a "write-down and conversion cascade", according to which the risks and losses must initially be borne by the owners and creditors. The Bank Recovery and Resolution Directive (BRRD) went into force when it was published in the official gazette of the EU on 12 June 2014, and had to be implemented into national law by the member states within two years. The implementation of the Bank Recovery and Resolution Directive (BRRD) into Austrian law through the Federal Act on the Recovery and Resolution of Banks (BaSAG) created a national framework for the wind-down of banking institutions. The Federal Act on the Recovery and Resolution of Banks (BaSAG) went into force on 1 January 2015.

According to section 162 (6) Federal Act on the Recovery and Resolution of Banks (BaSAG), Heta is subject to the provisions of the fourth part of the act, which sets out the wind-down measures. This ensures the orderly wind-down of Heta in application of the Federal Act on the Recovery and Resolution of Banks (BaSAG).

### 2.4. Emergency administrative decisions by the Financial Market Authority (FMA) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG)

#### 2.4.1. CONTENTS OF THE EMERGENCY ADMINISTRATIVE DECISIONS

In order to ensure that the objective of the "quickest possible wind-down of the portfolio" as set out in the Federal Act on the Creation of a Wind-down Entity (GSA) is reflected in the measurement approaches, Heta performed a comprehensive measurement of the assets that are relevant with regard to the wind-down of the portfolio, a so-called "Asset Quality Review (AQR)", at the end of 2014. After the first interim results of the group-wide AQR, which with regard to Heta's annual financial statements for 31 December 2014 pursuant to the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) indicated a capital shortfall ranging from EUR -4.0 billion to EUR -7.6 billion, which was above the state aid range approved by the EU Commission, became known in February 2015, the Republic of Austria, in its capacity as Heta's owner, let it be known that no further measures would be implemented for Heta under the Financial Market Stability Act (FinStaG).

As a consequence, on 1 March 2015 the Financial Market Authority (FMA) issued an emergency administrative decision (Emergency Administrative Decision I) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG), which subjected all of Heta's "eligible liabilities" to a moratorium until 31 May 2016 in preparation for the application of the "bail-in" of creditors instrument.

On 10 April 2016, the Financial Market Authority (FMA) issued an emergency administrative decision about the challenge procedure ("Vorstellungsbescheid") that both confirmed and replaced Emergency Administrative Decision I. Objections against this decision could be submitted to the Federal Administrative Court within a four week period starting on 10 April 2016. The decisions were published on the Financial Market Authority (FMA) website, and can be found at <https://www.fma.gv.at/en/resolution-of-heta-asset-resolution-ag/>. In addition, they can also be obtained from Heta's website at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Ad hoc releases 2015 respectively 2016).

Also on 10 April 2016, the Financial Market Authority (FMA) announced another decision containing wind-down measures relating to Heta ("Emergency Administrative Decision II"). With this emergency administrative decision, the following wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) were applied to Heta with immediate effect:

- Reduction of common equity tier 1 and supplementary capital to zero;
- "Bail-in" of creditors, in particular:
  - Reduction of subordinated "eligible liabilities" as at 1 March 2015 including the respective interest accrued up to 28 February 2015 to zero;



- Reduction of non-subordinated “eligible liabilities” as at 1 March 2015 including the respective interest accrued up to 28 February 2015 to 46.02%;
- Reduction of the nominal values or outstanding residual amounts of “eligible liabilities” arising from court proceedings against Heta or of the other disputed “eligible liabilities”, including those with regard to the facts which were already established as of 1 March 2015, even though the occurrence or amount is uncertain, to 46.02%, including the respective interest accrued up to 28 February 2015;
- Change in interest rates: reduction in the interest rate on “eligible liabilities” of Heta as at 1 March 2015 to zero;
- Change in maturity dates: change in scheduled maturity dates for all “eligible liabilities” to the date of the decision to dissolve the company pursuant to section 84 (9) of the Federal Act on the Recovery and Resolution of Banks (BaSAG), but not later than 31 December 2023;
- Cancellation of rights associated with the shares and titles of ownership, exercise of control and management; and rights associated with the shares and titles of ownership by the Financial Market Authority (FMA).

The Emergency Administrative Decision II can be found at <https://www.fma.gv.at/en/resolution-of-heta-asset-resolution-ag/> and on Heta’s website at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Ad hoc releases 2016). An appeal against the Financial Market Authority’s (FMA) Emergency Administrative Decision II could have been submitted within three months after it was released (10 April 2016), although this would not have had any suspensory effect. A decision by the Financial Market Authority (FMA) on the appeals has not been made available at this time.

Both emergency administrative decisions are based on the Federal Act on the Recovery and Resolution of Banks (BaSAG), by which the Bank Recovery and Resolution Directive (BRRD) was implemented in Austria. This has the effect that the decisions must also be recognised in all EU member states.

#### 2.4.2. IMPLEMENTATION OF EMERGENCY ADMINISTRATIVE DECISION II

The “bail-in” of creditors as outlined in Emergency Administrative Decision II - particularly the reduction in “eligible liabilities” and changes to interest rates and due dates - was implemented by Heta with the assistance of external advisors and in coordination with the Financial Market Authority (FMA). This became necessary because the first-time application of the Federal Act on the Recovery and Resolution of Banks (BaSAG) led to numerous legal questions and accounting-related issues.

In very few individual cases, Emergency Administrative Decision II could not be implemented in the financial statements in accordance with the decision, particularly because the emergency administrative decision, in terms of its approach, uses 1 March 2015 as a basis (retroactively). Due to the fact that the daily due accounts in Emergency Administrative Decision I were not explicitly shown as “eligible liabilities” but are nevertheless covered by the “bail-in” of creditors pursuant to item II 2.5. of Emergency Administrative Decision II, the implementation of the haircut required that the affected creditors were informed of their inclusion in the “bail-in” of creditors by way of information or recovery letters.

Based on item II 3.1., Emergency Administrative Decision II also includes a reduction in the nominal value or outstanding remaining amount of the “eligible liabilities” from court proceedings against Heta, or Heta’s other disputed “eligible liabilities”. With regard to this particular item, Emergency Administrative Decision II also includes a non-conclusive listing of pending legal proceedings against Heta. At this time, Heta is involved in two proceedings in Croatia and one in Austria, which conflict with the impact of Emergency Administrative Decision II. No legally binding decisions are available to date. Some of the proceedings affected by the emergency administrative decision are pending in other EU countries. These cases are associated with the risk that the impact of the emergency administrative decision and hence the Federal Act on the Recovery and Resolution of Banks (BaSAG) might not be recognised in other EU states due to a lack of a basis under European law. This risk has not materialised to date. Heta has informed all of the lawyers working on the cases of the impact of Emergency Administrative Decision II in view of the court proceedings, so that objections may be raised during the proceedings in a timely manner.

According to item II 2.4 in Emergency Administrative Decision II, the “bail-in” of creditors measure also covers taxes and duties. With regard to this item, Emergency Administrative Decision II was implemented in consideration of the deviations from the decision itself, since some of the data basis on which Emergency Administrative Decision II was issued and the data basis that existed at the time the measures were implemented have already resulted in new insights. Particularly with regard to the question of whether liabilities from wage-related taxes and fees as at 1 March 2015 are affected by the instrument of “bail-in” of creditors pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) as “eligible liabilities”, the Financial Market Authority (FMA) found that an exemption pursuant to section 86 (2) line 7 A Federal Act on the Recovery and Resolution of Banks (BaSAG) does not apply to these taxes and fees. As a result, the wage-related tax claims against the Austrian authorities were recognised on the asset side of the balance sheet, and the authorities were informed accordingly via recovery and information letters.

With a report to the Financial Market Authority (FMA), Heta has provided comprehensive information about the implementation of Emergency Administrative Decision II and the deviations that have been identified.

## 2.5. Repurchase offer from the State of Carinthia

On the basis of the statutory authorisation pursuant to section 2a of the Financial Market Stability Act (FinStaG), the Kärntner Ausgleichszahlungs-Fonds (K-AF) on 20 January 2016 submitted offers for those Heta debt instruments for which the State of Carinthia and also the Kärntner Landes- und Hypothekenbank - Holding (KLH) have assumed a guarantee. The offers required the approval of at least two-thirds of the affected creditors of non-subordinated and subordinated debt instruments. On 14 March 2016, the Kärntner Ausgleichszahlungs-Fonds (K-AF) announced that the creditors of the debt instruments had not accepted the offer.

The Republic of Austria and a significant number of creditors of Heta's state-guaranteed debt instruments signed a Memorandum of Understanding (MoU) on 18 May 2016, in which the parties confirmed their common intention to achieve an amicable agreement regarding the restructuring of Heta's state-guaranteed liabilities. Heta itself was not a party to the MoU, and was not involved in the negotiations.

On 6 September 2016, the Kärntner Ausgleichszahlungs-Fonds (K-AF) submitted a new public offer for those Heta debt instruments for which the State of Carinthia, the public law institution "Kärntner Beteiligungsverwaltung" and the fund "Sondervermögen Kärnten" as the legal successors of the Kärntner Landesholding (KLH), have assumed deficiency guarantees directly on the basis of a directive under Carinthian state law. The deadline for acceptance ended on 7 October 2016. The final results were announced on 12 October 2016: the offer was accepted by the required majority of creditors. In total, the offer was accepted by creditors who together represent 98.71% of the accumulated outstanding total nominal amounts of all debt instruments covered by the offer. This includes 99.55% of the outstanding total nominal amounts of non-subordinated debt instruments and 89.42% of the outstanding total nominal amounts of subordinated debt instruments. Accordingly, Heta was informed of the full pledging of all debt instruments acquired by the Kärntner Ausgleichszahlungs-Fonds (K-AF) including existing and future claims vis-a-vis the Abbaumanagementgesellschaft des Bundes (ABBAG). Taking into account the Kärntner Ausgleichszahlungs-Fonds' (K-AF) ownership of Heta liabilities, a nominal amount of approximately EUR 46.5 million (around EUR 21.4 million nominal after the haircut) of non-subordinated liabilities and a nominal amount of approximately EUR 1,094.4 million of subordinated liabilities (nominal of EUR 0 million after the haircut) are in the hands of third-party creditors.

The repurchase offers of the Kärntner Ausgleichszahlungs-Fonds (K-AF) and the successful acceptance of the offer in October 2016 do not have a direct effect on Heta's consolidated financial statements for 31 December 2016, since they only pertain to the level between Heta's creditors and the Kärntner Ausgleichszahlungs-Fonds (K-AF) and thus are outside of Heta's sphere.

The successful acceptance of the offer has had the effect of significantly improving Heta's activity area, and has greatly reduced the threat from creditors who refused to recognise the wind-down measures of the Financial Market Authority (FMA), or contested the same in the courts. That is because those creditors who accepted the repurchase offer had to submit a comprehensive waiver in favour of Heta, according to which they waived, unconditionally and with irrevocable effect, all present and future claims (including all claims to interest, costs and cost decisions), lawsuits and actionable claims. As a result, all creditor proceedings against Heta (except five) have been terminated. This also has the effect of significantly reducing the risk of Heta becoming insolvent (see note 2.6.7 Possible consequences of a judgement against Heta in connection with the Federal Act on the Recovery and Resolution of Banks (BaSAG)).

## 2.6. Status of Heta's main proceedings

### 2.6.1. PROCEEDINGS IN CONNECTION WITH EMERGENCY ADMINISTRATIVE DECISION I AND II

In mid-2016, eleven lawsuits were pending at the Regional Court of Frankfurt am Main (Frankfurt Regional Court) by investors in Germany for payment of bonds and applicable interests, which were not paid on the original payment day as a result of the moratorium. The lawsuits related to bonds with a nominal amount of EUR 2.2 billion and CHF 33.0 million. The plaintiffs disputed the recognition of the measures taken by the Financial Market Authority (FMA) according to the Federal Act on the Recovery and Resolution of Banks (BaSAG), and, contrary to the "bail-in" of creditors and deferral ordered in the emergency administrative decisions, demanded full payment.

According to German law, judgements by courts of first instance may be declared provisionally enforceable against collateral (section 709 Code of Civil Procedure (ZPO)), which led to the risk that plaintiffs would already apply for enforcement on the basis of a judgement by a court of first instance. Since the beginning of the proceedings, Heta, referring to the need to clarify the basic question under European law - namely whether Heta falls under the scope of the Bank Recovery and Resolution Directive (BRRD) - requested that the court proceedings pending at the Frankfurt Regional Court are suspended until a decision is handed down by the European Court of Justice (ECJ). The Financial Market Authority (FMA) also submitted applications to the competent Frankfurt Regional Court pursuant to section 59 (1) Federal Act on the Recovery and Resolution of Banks (BaSAG), requesting the suspension of all pending court proceedings or alternatively the preliminary enforcement measures, or to make a submission to the European Court of Justice (ECJ) (see note 2.6.4 Proceedings before the European Court of Justice (ECJ)).

On 21 June 2016, the Frankfurt Regional Court suspended its original decision to announce a ruling and submitted the legal questions regarding the applicability of the BRRD to Heta and the recognition of the wind-down measures in other member states, which must be assessed from the viewpoint of European law, to the European Court of Justice (ECJ) as a preliminary question.

As a result of the creditors' successful acceptance of the repurchase offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF), all eleven proceedings in front of the Frankfurt Regional Court were successfully terminated in late fall 2016 with mutual cancellation of costs. The Frankfurt Regional Court also withdrew its submission of questions to the European Court of Justice (ECJ). The court subsequently suspended the submission proceedings.

During the first six months of 2016, other thirty-four lawsuits were pending against Heta in Austria in connection with the subordinated debt instruments that are affected by the Hypo Alpe Adria Restructuring Act (HaaSanG). The Emergency Administrative Decisions I and II were also the subject of these lawsuits. With the decision of the Constitutional Court of Austria (VfGH), which repealed the Hypo Alpe Adria Restructuring Act (HaaSanG) and the regulation issued under the act, the disputed issue in the proceedings was restricted to the applicability of the payment moratorium (which has been in place since 1 March 2015) to Heta, and the applicability of the wind-down measures ordered in the meantime pursuant to Emergency Administrative Decision II. One of these proceedings also resulted in a submission to the European Court of Justice (ECJ) in May 2016.

As a result of the acceptance of the repurchase offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF), twenty-nine of the thirty-four proceedings were successfully terminated with mutual cancellation of costs. The submission to the European Court of Justice (ECJ) was also withdrawn (see note 2.6.4 Proceedings before the European Court of Justice (ECJ)).

Only five plaintiffs have not accepted the offer from the Kärntner Ausgleichszahlungs-Fonds (K-AF); they will continue the lawsuits against the State of Carinthia and the legal successors of the Kärntner Landesholding (KLH). However, a "simple suspension" has been agreed for these five proceedings.

#### 2.6.2. PROCEEDINGS IN CONNECTION WITH THE DEFICIENCY GUARANTEE BY THE STATE OF CARINTHIA

Three legal proceedings were initiated against Heta by the State of Carinthia and the Kärntner Landesholding (KLH) in relation to legal proceedings initiated by investors against the State of Carinthia and the Kärntner Landesholding (KLH) on the basis of the deficiency guarantee ordered by state law in connection with the bonds affected by the moratorium. Heta initially joined these proceedings on the side of the state and the Kärntner Landes- und Hypothekenbank - Holding (KLH) as an intervenor.

Two proceedings resulted in a judgement of the first instance against the plaintiff. The plaintiff has appealed these decisions. The plaintiff also lost both proceedings at the appeal stage before the Higher Regional Court (OLG), and subsequently attempted to bring about a decision by the Supreme Court (OGH) by way of a further appeal. Because of changes in the facts and the legal situation, Heta decided to withdraw as an intervenor in these two proceedings in 2016. Both proceedings were terminated at the end of 2016 as a result of the acceptance of the offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF). The third proceeding was suspended in the spring of 2016, and also ended with the plaintiff's acceptance of the offer.

#### 2.6.3. AUSTRIAN EQUITY SUBSTITUTING CAPITAL ACT (EKEG) PROCEEDINGS

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

On 18 May 2016, Heta received an order from the Munich Higher Regional Court (OLG München) in which the court is considering, on the basis of the applicable Federal Act on the Recovery and Resolution of Banks (BaSAG) and Emergency Administrative Decision II issued in the meantime by the Financial Market Authority (FMA) on 10 April 2016, to interrupt the proceedings and to withdraw recognition of the mutual need for legal protection due to the Memorandum of Understanding (MoU) concluded between the Republic of Austria and the Free State of Bavaria. Both Heta and BayernLB have objected to an interruption of the proceedings. The Munich Higher Regional Court has not yet commented on the submissions of the parties.

#### 2.6.4. PROCEEDINGS BEFORE THE EUROPEAN COURT OF JUSTICE (ECJ)

Both the Vienna Commercial Court and the 12th civil division of the Frankfurt Regional Court submitted to the European Court of Justice (ECJ), in line with "preliminary ruling procedure", various questions regarding the applicability of the Bank Recovery and Resolution Directive (BRRD) and the applicability of the haircut to Heta, and regarding the recognition of these measures in other member states. In another proceeding in which the Financial Market Authority (FMA) rather than Heta is a

participant, the Austrian Federal Administrative Court (BVwG) has also initiated a preliminary ruling procedure and has approached the European Court of Justice (ECJ) with the question regarding the personal/time-related application scope of the BRRD. The preliminary ruling procedures by the Vienna commercial court and the Austrian Federal Administrative Court (BVwG) have in the meantime been combined by the European Court of Justice (ECJ) into one single proceeding.

Preliminary ruling procedures are not used for a concrete review of measures or laws implemented by the member states. Rather, the relevant EU regulations provide the courts in the member states with the opportunity, or an obligation, to submit concrete individual questions about EU law that are relevant to the case to the European Court of Justice (ECJ), so it may decide on the relevant interpretation. Thus the European Court of Justice (ECJ) does not make decisions regarding the existence or non-existence of claims, but rather provides “instructions” regarding the interpretation of issues under EU law, which represent preliminary questions in a legal dispute. National courts that have submitted such questions must then take the questions that have been answered by the European Court of Justice (ECJ) into account when making their decisions.

Based on the creditors’ acceptance of the Kärntner Ausgleichszahlungs-Fonds (K-AF) repurchase offer and the associated termination of the proceedings before the Frankfurt Regional Court, the Vienna Commercial Court and the Austrian Federal Administrative Court (BVwG), on which the submission proceedings are based, all preliminary decision proceedings before the European Court of Justice (ECJ) were terminated in the fall of 2016.

#### 2.6.5. PROCEEDINGS BEFORE THE CONSTITUTIONAL COURT OF AUSTRIA (VfGH)

Two of the three submitted BaSAG-related party applications to the Constitutional Court of Austria (VfGH) regarding a review of the constitutionality of the law and the admissibility of including Heta under this law were dismissed by the Constitutional Court of Austria (VfGH) in the fall of 2015. As a result of the submissions that have been made to the European Court of Justice (ECJ), the Constitutional Court of Austria (VfGH) has suspended its decision regarding the third application until such time as the European Court of Justice (ECJ) hands down its decision. This proceeding was in the end terminated due to the affected investor’s acceptance of the Kärntner Ausgleichszahlungs-Fonds (K-AF) offer.

#### 2.6.6. PROCEEDINGS IN CONNECTION WITH THE IMPLEMENTATION OF EMERGENCY ADMINISTRATIVE DECISION II

The question regarding the impact and recognition of Emergency Administrative Decision II is the subject of proceedings before the Vienna Commercial Court (HG Wien). A lawsuit has been filed against Heta for payment from an issued guarantee, which Heta believes to be included under the wind-down measures and may not be serviced at this time pursuant to Emergency Administrative Decision II. In Croatia, Heta is a party to proceedings concerning the question of the impact of the decision in relation to a cost decision made by a court (at Heta’s expense) which was handed down before the emergency administrative decision was issued. For details, see note 2.4.2 Implementation of Emergency Administrative Decision II.

#### 2.6.7. POSSIBLE CONSEQUENCES OF A JUDGEMENT AGAINST HETA IN CONNECTION WITH THE FEDERAL ACT ON THE RECOVERY AND RESOLUTION OF BANKS (BASAG)

A judgement ordering Heta to pay the liabilities affected by these legal disputes and a possible compulsory enforcement in favour of various creditors would run counter to the wind-down measures ordered by the Financial Market Authority (FMA) with Emergency Administrative Decision II. For this reason, Heta will not only fight any potential judgements handed down by a court of first instance in order to settle the recognition of the Federal Act on the Recovery and Resolution of Banks (BaSAG), but will also initiate all available legal remedies to defend against enforcement measures.

Such a treatment of individual creditors could oppose the principle of equal treatment of creditors under the Federal Act on the Recovery and Resolution of Banks (BaSAG), the (balanced) assumption of losses by the creditors and ensuring that creditors are not put in a worse position as compared to liquidation measures taken in the course of insolvency.

The wind-down measures applied in Emergency Administrative Decision II aim to prevent a situation in which Heta becomes insolvent during the wind-down timetable. Over-indebtedness as a reason for insolvency does not apply to Heta pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA). An application for insolvency can only be filed by the Financial Market Authority (FMA).

### 2.7. Business relationships with the former SEE network

The 2016 financial year was characterised by the implementation and termination of Heta’s obligations and liabilities in the context of the share purchase agreement from 22 December 2014 regarding the disposition of Heta’s former banking and leasing network in South-Eastern Europe (SEE network, Hypo Group Alpe Adria AG (now: Addiko Bank AG)) to Advent International and the European Bank for Reconstruction and Development (EBRD).



### Settlement agreement first quarter 2016

In the first quarter of 2016, Heta and the sole shareholder of Hypo Group Alpe Adria AG (now: Addiko Bank AG) came to an agreement regarding the settlement of all foreign currency and interest hedges agreed in the 22 December 2014 share purchase agreement (exemptions for credit and legal risks mainly from CHF loans), as well as other outstanding issues connected to the share purchase agreement. In essence, the agreement stipulated that the buyer waives the relevant exemptions and Heta in turn waives the CHF denominated credit lines in the amount of EUR 325.0 million vis-a-vis Addiko Bank. The waiver of exemptions also had the effect of reducing Heta's liability for the remaining exemptions and the Republic of Austria's liability under the hedging instrument provided to the buyer. The reduction in the liability under the hedging instrument thus also led to a reduction in the fee that Heta paid to the Republic for providing the hedging instrument.

The agreement was conditional on Addiko Bank AG paying the CHF denominated credit lines at a value of EUR 150.0 million back to Heta. The funds were paid back in March 2016. This did not result in any income-related effects in 2016 because Heta's waiver concerning the credit lines was already provided for in the 31 December 2015 financial statements.

### Other portfolio adjustments

On the basis of the share purchase agreement from 22 December 2014 the buyer of the SEE network had the right to sell certain assets of the SEE banks and leasing companies (consisting mostly of non-performing loan and leasing receivables, properties and other assets from the disposal of collateral) to Heta or Heta group companies ("Purchaser Brush" option). In implementing the "Purchaser Brush" option, assets with a net carrying amount of around EUR 275.0 million were purchased from Heta and its group companies and transferred at the carrying amounts pursuant to the 2014 consolidated statement of financial position. Finally, in implementing the "Purchaser Brush" option, Heta in compliance with the requirements under the share purchase agreement from December 2014, compensated Addiko Bank AG with approximately EUR 62.0 million for loss in value for non-transferable assets by applying the amount against existing credit lines. As per the agreement, Heta reimbursed the Addiko Group for the transaction and ancillary costs that were incurred.

### Early repayment of Heta financing lines against discount; termination of interdependencies

On 23 December 2016, Heta, the sole shareholder of Addiko Bank AG and the bank itself concluded another settlement agreement. It gave Addiko Bank AG the option to conclusively settle the remaining complex mutual claims, rights and obligations of the parties under the share purchase agreement from 22 December 2014, in particular existing and future rights of recourse, against the early repayment of the entire remaining Heta refinancing line with a discount. The agreement also included a waiver by the buyer and sole shareholder of Addiko Bank AG for all claims under the guarantee instrument of the Republic of Austria, which is further reduced significantly vis-a-vis the Republic of Austria, and will be entirely done away with following the expiry of certain deadlines. Only Heta's obligations under exemptions in connection with two legal disputes initiated by borrowers of the Addiko Group are excluded from the agreement. Sufficient provisions had already been built for the potential burden for Heta from these remaining exemptions.

Specifically, Addiko Bank AG was able to exercise the option by 30 April 2017 through the early repayment of all remaining Heta financing lines at a discount of less than a quarter on the existing financing lines. The discount corresponds at minimum with the counter value of the remaining claims, rights and receivables of the buyer and Addiko Bank against Heta from the share purchase agreement from December 2014 and was fully covered by existing provisions in the 2016 consolidated financial statements. On 6 February 2017, Addiko Bank AG exercised the option and repaid the remaining financing lines of just under one billion to Heta.

### 2.8. Changes in the governance structure and Supervisory Board

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

The resolution authority is entitled to extensive supervisory, controlling and reporting rights, which were implemented through a separate governance structure. Heta's new governance structure was developed in 2015 together with the authority, and the required changes to Heta's statutes and the by-laws for the Supervisory Board and Management Board were made in the same year.

The resolution authority has the right to have its representatives attend the committee meetings of the company's executive bodies. At the same time, the forensic investigation of the past as an explicit business purpose of Heta was deleted from the statutes in June 2015. However, it was agreed with the authority that the analysis of forensic cases, that have so far not been finalised in line with the forensic investigation of the past, will be continued taking into account efficiency and practical aspects, and that the investigation will subsequently be completed.

Since Emergency Administrative Decision II, the Financial Market Authority (FMA) also exercises all administrative rights associated with the shares, in particular the right to attend the general shareholders' meeting (section 102 and following of the Stock Corporation Act; AktG), the right to vote (section 12 AktG) and the right to receive information and make applications (section 118 and 119 AktG). The resulting changes to the statutes and the by-laws were implemented in June 2016. Also in June 2016, the statutes were also amended with regard to the option, provided for in Emergency Administrative Decision II, to distribute the sales proceeds at an earlier date. The Management Board is duly obliged, in consideration of the wind-down objectives and the requirements of an orderly wind-down procedure, to conduct a review within four weeks of the adoption of the annual financial statements as to whether existing assets may be distributed to creditors prior to the due date before the company is fully wound-down, and must - regardless of the result of this review - submit a report on this issue to the Financial Market Authority (FMA) and the next meeting of the Supervisory Board. If the Management Board finds that there are sufficient assets to justify such a distribution, it must report to the Financial Market Authority (FMA) and must submit a draft distribution to the general shareholders' meeting for approval.

Several new members were added to the Supervisory Board during the 2016 financial year. Mag. Regina Friedrich, Mag. Alois Hohegger, DI Bernhard Perner and Mag. Christine Sumper-Billinger, who supported Heta's progression from a regulated banking institution to a partial deregulated wind-down unit, left the Supervisory Board effective 29 June 2016. On 29 June 2016, Dr. Stefan Schmittmann and Mag. Regina Ovesny-Straka were appointed to serve as Deputy Chairman of the Supervisory Board and member of the Supervisory Board, respectively. At the extraordinary shareholders' meeting on 18 August 2016, the Financial Market Authority (FMA) appointed Dr. Karl F. Engelhart to the Supervisory Board. Dipl.-Kfm. Michael Mendel remains Chairman of the Supervisory Board.

### **(3) Effects of the haircut on the consolidated financial statements**

With Emergency Administrative Decision II from 10 April 2016, the Financial Market Authority (FMA) ordered the application of the wind-down instrument of the "bail-in" of creditors and the participation of owners of relevant capital instruments at the parent company Heta. Heta's "eligible liabilities" were reduced to 46.02% of the amount outstanding as at 1 March 2015 (including interest), and subordinated liabilities were reduced to zero. Emergency Administrative Decision II also set the interest to zero retroactively from 1 March 2015. As a result, those liabilities that were recognised for the 1 March 2015 to 9 April 2016 period were also subjected to the haircut, and were reduced accordingly.

The terms of the "eligible liabilities", which were amended by intervention of the public authorities, initially led to the complete derecognition (9 April 2016) and re-recognition (10 April 2016) of the new liabilities that had been reduced to 46.02%. The new liabilities in the amount of 46.02% had to be recognised at the fair value as at 10 April 2016. In addition, the reduced liabilities were also classified as liabilities measured at fair value through profit or loss (FV option), and are therefore measured at the fair value in subsequent periods. The changes in Heta's separate financial statements are generally carried forward to the consolidated financial statements.

#### **3.1. Effects on the IFRS consolidated statement of financial position as at 31 December 2016**

The liabilities side in the IFRS consolidated statement of financial position for 31 December 2016 changed accordingly. The derecognition of "eligible liabilities" as a result of the "bail-in" of creditors reduces the amount of liabilities and provisions by EUR 7.1 billion.

In addition, the issued capital, consisting of Heta's share capital and participation capital, was reduced to zero. The "bail-in" of creditors and owners of relevant capital instruments had the following effect on the IFRS consolidated statement of financial position for 31 December 2016:



EUR bn

	31.12.2016	31.12.2015	total change	thereof change from BaSAG
<b>"bail-in" of creditors</b>				
Liabilities to credit institutions	1.5	3.4	-1.9	-1.1
Liabilities to customers	1.4	1.5	-0.1	-0.9
Liabilities to Pfandbriefbank	0.0	1.2	-1.2	0.0
Liabilities evidenced by certificates	6.0	7.6	-1.6	-3.3
Provisions	0.5	0.5	0.0	0.2
Other liabilities	0.2	0.2	0.0	0.0
Subordinated capital	0.0	2.0	-2.0	-2.0
<b>Total</b>	<b>9.6</b>	<b>16.4</b>	<b>-6.8</b>	<b>-7.1</b>
<b>Instrument of participation by holders of relevant capital instruments:</b>				
<b>Equity</b>	<b>1.0</b>	<b>-5.7</b>	<b>6.7</b>	<b>7.1</b>
thereof share capital	0.0	2.4	-2.4	-2.4
thereof participation capital	0.0	1.1	-1.1	-1.1
thereof retained earnings	1.0	-9.2	10.2	10.6

The liabilities to Pfandbriefbank, which were shown in a separate balance sheet item in the previous year, were transferred to the Kärntner Ausgleichszahlungs-Fonds (K-AF) during the second half of 2016 as a result of the repurchase programme of the State of Carinthia, and are therefore shown under liabilities evidenced by certificates and liabilities to customers. Without this reclassification, the change resulting from the Federal Act on the Recovery and Resolution of Banks (BaSAG) would be EUR -0.5 billion with respect to the Liabilities to Pfandbriefbank.

### 3.2. Effect on contingent liabilities as at 31 December 2016

According to Emergency Administrative Decision II, the contingent liabilities that must be reported in the statement of financial position also had to be reduced to 46.02% of the amount outstanding on 1 March 2015 (including interest), in addition to the reduction in "eligible liabilities". Contingent liabilities are reduced by EUR 17.7 million overall.

### 3.3. Effects on IFRS consolidated statement of comprehensive income for 2016

The result from the "bail-in" of creditors pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) amounts to EUR +7.1 billion (2015: EUR 0.0 billion), and is made up of the following components:

EUR bn

	1.1. - 31.12.2016
Result from the derecognition (100%) and renewed recognition (46.02%) of "eligible liabilities"	9.1
Fair value assessment of liabilities reduced to 46.02%, as at 10 April 2016	-2.0
Retirement of basis adjustments in line with the derecognition of "eligible liabilities"	0.2
Consideration of future (reduced) guarantee fees in connection with derecognised liabilities	-0.2
<b>Result from the "bail-in" of creditors according to Federal Act on the Recovery and Resolution of Banks (BaSAG)(IFRS)</b>	<b>7.1</b>

For additional details on this topic, please refer to the statements under note (50) Result from the "bail-in" of creditors pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG).

The result from the "bail-in" of creditors, which was reported at EUR 6,976.8 million in the semi-annual financial statements for 30 June 2016, was adjusted by EUR 148.7 million to EUR 7,125.5 million in the consolidated financial statements for 31 December 2016. During the distribution of the expected net assets (fair value as at 10 April 2016), a provision that had to be created in line with the haircut was erroneously included in the calculation of the basic amount of "eligible liabilities". This means that the recognition of the "eligible liabilities" at their fair value as at 10 April 2016 led to a situation in which expenses were overstated by EUR 148.7 million and the result from the "bail-in" of creditors pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) was understated by EUR 148.7 million. Accordingly, the corrected equity capital as at 30 June 2016 amounts to EUR 1,282.8 million. This adjustment requirement does not affect the annual financial statements according to UGB/BWG (which is more relevant from the creditors' point of view) and the result of the "bail-in" of

creditors reported therein (EUR +9,276.3 million), whereby the UGB/BWG financial statements represent the main assessment basis for future distributions to creditors.

#### (4) Wind-down plan pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA)

According to section 5 of the Federal Act on the Creation of a Wind-down Entity (GSA), the wind-down of the portfolio is to be conducted according to a wind-down plan drawn up by the Management Board and approved by the Supervisory Board. Due to the order requiring the wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG), which left open the further course of action adopted by the Financial Market Authority (FMA) with regard to the time period after 31 May 2016, Heta was forced to suspend the completion of the wind-down plan pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA) until such time as the future course of action was clarified. With regard to the completion of the wind-down plan, it therefore became legally necessary to wait and see whether and (if so) in which form the Financial Market Authority (FMA) creates the conditions for an orderly wind-down process by issuing a directive for wind-down measures.

For this reason, Heta did not publish an official wind-down plan in 2015. In the meantime, Heta did however prepare planning that met the legal requirements for the portfolio wind-down. These activities were given the name "mid-term plan", and were made publicly available in line with the company presentations published in October and December 2015 and in April 2016.

On 10 April 2016, the Financial Market Authority (FMA) issued Emergency Administrative Decision II which imposed wind-down measures with regard to Heta. This had the effect of creating, for the first time, a basis for the completion of the wind-down plan.

Emergency Administrative Decision II has far-reaching implications for the wind-down plan. The following planning-related simplified assumptions were made by Heta with regard to the repayment of the "eligible liabilities" pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG):

- It is assumed that the "eligible liabilities" covered under Emergency Administrative Decision II are not serviced over the course of the 2016-2020 wind-down period and are reduced to zero or 46.02% in accordance with the "bail-in" of creditors specified in the emergency administrative decision. Interest expenses attributable to these liabilities are set to zero as of 1 March 2015;
- The planned return flows from the reduction in Heta's assets increase Heta's cash liquidity position accordingly, since they are not used to repay "eligible liabilities" at an earlier date. In coordination with the Financial Market Authority (FMA), Heta generally invests its entire cash liquidity at the Austrian National Bank (OeNB). The wind-down plan assumes that it will continue to do so during the course of the wind-down;
- The possible earlier distribution of the proceeds from disposals as provided for in Emergency Administrative Decision II was not taken into account in the current wind-down plan, since a corresponding resolution by the Financial Market Authority (FMA) is not available;
- A steady reduction in assets (excluding cash liquidity) of approximately 80% by the end of 2018 remains the intended wind-down objective, starting from year-end 2014. To achieve the targets, receivables and real estate are to be sold to investors mainly through individual transactions;
- The claims against former group companies (Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) and Addiko Bank AG) were examined separately, since at the time the plan was prepared it had to be assumed that some of these would still be in place after 2020. Similarly, some finance lease receivables have terms that exceed the planning period and are not wound-down completely in the current wind-down plan.

The Heta Supervisory Board approved the finalised wind-down plan on 25 August 2016 and subsequently forwarded it to the Federal Minister of Finance and the Chancellor. Heta published the main contents of the wind-down plan on the same day.

Pursuant to section 5 (4) Federal Act on the Creation of a Wind-down Entity (GSA), the wind-down plan must be adjusted and re-submitted to the Supervisory Board for approval if the circumstances that are of relevance to the wind-down plan change. As a result of the current developments regarding the repayments of refinancing lines by Addiko Bank AG, the disposition of subsidiary Heta Asset Resolution Italia, S.r.l., and the insights gained during the preparation of these consolidated financial statements, circumstances have arisen that make it necessary to adjust the wind-down plan. The update of the wind-down plan is currently in preparation, and will be submitted to the Supervisory Board during the first six months of 2017. According to section 6 (1) of the Federal Act on the Creation of a Wind-down Entity (GSA), Heta's Supervisory Board is regularly informed of the progress of the disposals.

## (5) General information regarding the consolidated financial statements

On 15 March 2017, the Heta Management Board released the consolidated financial statements for 31 December 2016 for publication by forwarding the same to the Supervisory Board. It is the responsibility of the Supervisory Board to review the consolidated financial statements and to indicate whether it approves the consolidated financial statements for 31 December 2016.

The consolidated financial statements will be published in the Wiener Zeitung and at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Financial reports & presentations). It will be disclosed in the commercial register and at Heta's address at 9020 Klagenfurt am Wörthersee, Alpen-Adria-Platz 1.

## (6) Measurement basis: Gone concern assumption

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

After the initial interim results of the Asset Quality Review (AQR) were announced, which indicated a capital shortfall between EUR -4.0 billion and EUR -7.6 billion, which was thus above the still available state aid range for capital measures approved by the EU Commission for EUR 2.9 billion, along with the expected implications for the company's capital and liquidity situation, Heta's owner, the Republic of Austria, announced on 1 March 2015 that no further measures would be taken for Heta under the Federal Act on Financial Market Stability (FinStaG). Subsequently the Financial Market Authority (FMA) on 1 March 2015 issued a decision ordering wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) (see note 2.4 Emergency administrative decisions by the Financial Market Authority (FMA) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG)) according to which all of Heta's "eligible liabilities" were subjected to a moratorium.

Based on the amended business purpose, the implications of the Federal Act on the Creation of a Wind-down Entity (GSA), which calls for mandatory self-liquidation after the statutory wind-down objectives have been achieved, the complete disposal of units conducting new business, the over-indebtedness of the company and Emergency Administrative Decision I issued by the Financial Market Authority (FMA) under the Federal Act on the Recovery and Resolution of Banks (BaSAG), the Management Board no longer had a basis for continuing to prepare the consolidated financial statements on the basis of the going concern premise.

With Emergency Administrative Decision II from 10 April 2016 (see note 2.4 Emergency administrative decisions by the Financial Market Authority (FMA) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG)) the authority announced wind-down measures that had the effect of removing all of the negative equity (EUR -7.5 billion) reported as at 31 December 2015. According to this Emergency Administrative Decision, the due date for the reduced liabilities was set to the date of the resolution on dissolution, but not later than 31 December 2023.

The consolidated financial statements prepared in consideration of Emergency Administrative Decision II continue to be based on the gone concern assumption, as there were no developments that would oppose this concept and that would lead to the application of the going concern assumption. In addition, it is noted that the orderly wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) will also depend on whether circumstances that put the wind-down process pursuant to the BaSAG objectives and principles at risk will occur in the future.

## (7) Applicable accounting policies

The consolidated financial statements of Heta as at 31 December 2016 were prepared according to section 87 of the Stock Exchange Act (BörseG) pursuant to the provisions of the International Financial Reporting Standards (IFRS) as they must be applied in the EU, and contain comparative figures from 2015. For information regarding estimates and assumptions pursuant to the International Accounting Standard (IAS) 8, please refer to note (8) Use of estimates and assumptions/main estimate uncertainties. The consolidated financial statements of Heta as at 31 December 2016 were prepared based on the special conditions of a gone concern assumption in conformity with section 245a of the Austrian Commercial Code (UGB) and section 59a of the Austrian Banking Act (BWG) in accordance with the regulation (EC) No. 1606/2002 (IAS Directive) of the European Parliament and Council from 19 July 2002 on the basis of the IFRS and International Accounting Standards (IAS)

issued by the International Accounting Standards Board (IASB), as well as their interpretations by the Standing Interpretations Committee (SIC) and the International Financial Reporting Committee (IFRIC).

The consolidated financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes, which also include segment reporting. The statement of financial position is generally structured by decreasing liquidity. Amounts due or realisable within twelve or more than twelve months after the balance sheet date pursuant to the statutory maturities are described in note (92) Remaining maturity. According to Emergency Administrative Decision II issued by the Financial Market Authority (FMA), the due dates of all “eligible liabilities” were adjusted to 31 December 2023. For additional details, please refer to note (2) Legal information and important events in 2016.

The consolidated financial statements of Heta are based on the reporting packages of all fully consolidated subsidiaries prepared in accordance with group standards and IFRS. All fully consolidated subsidiaries have drawn up their financial statements for the period ended 31 December. As required by IFRS 10, Heta applies uniform accounting principles throughout the group. The consolidated financial statements are generally prepared in line with the cost principle. The exceptions to this are derivative financial instruments and financial investments available for sale, as well as financial investments and liabilities which have been designated for measurement under the fair value principle. The carrying amounts of assets and liabilities shown in the statement of financial position, which are underlying transactions related to fair value hedges and would otherwise be recognised at amortised cost, are adjusted for changes in fair value which arise from hedged risks for effective hedging relationships.

Since the consolidated financial statements for 31 December 2014, both the gone concern assumption (see also note (6) Measurement basis: Gone concern assumption) as well as the requirements of the Federal Act on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG), insofar as these correspond to the international accounting standards (IAS/IFRS), are taken into account during the measurement of assets and liabilities.

All figures in the consolidated financial statements are generally indicated in millions of Euros (EUR m); the euro is the functional currency. The tables may contain rounding differences.

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

The consolidated financial statements contain values that have been calculated on the basis of discretionary decisions, estimates and assumptions. Significant estimate uncertainties exist in particular with regard to the calculation of the credit risk provisions, the calculation of the fair value, the measurements of equity investments, the measurement of legal risks and provisions, the recognition of deferred taxes for tax loss carry forwards, the treatment of latent tax risks, performance-oriented insurance plans and leasing contracts.

The assessment of the recoverability of problematic loans and leasing receivables includes an estimate regarding the amount, duration and probability of the expected repayments. This assessment is based on a detailed analysis of carefully devised assumptions, which however are subject to uncertainties. A different assessment of these assumptions may lead to markedly different valuations of the credit risk provisions. Therefore actual loan defaults may deviate from the credit provisions reported in these consolidated financial statements. Reference is hereby made to note (26) Risk provisions on loans and advances with regard to the methodological basis for the credit risk provisions.

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

With respect to financial instruments that are accounted for at fair value and for which there is no active market, the fair value is calculated on the basis of measurement models. The applied input parameters - where available - relate to observable market-based data. Where this is not possible, the fair value must be calculated on the basis of estimates. Additional details regarding the measurement of financial instruments can be found in note (17) Financial instruments: Recognition and measurement (IAS 39).

The measurement of equity investments in non-consolidated companies mainly refers to real estate project companies. The recoverability of these real estate project companies is verified at regular intervals on the basis of expert opinions, whereby these measurements are based on cash flow forecasts developed on the basis of project- and market-specific terms and discounted interest rates.

Deferred tax assets for losses carried forward are only recognised when it is likely that future tax profits will be generated, which would allow for utilisation. Estimates are based on the respective business plans that in turn are based on a time horizon ending in 2020. Deferred tax assets that are utilised past this planning period are not recognised. With regard to the members of Heta's domestic tax group and the wind-down companies abroad, losses carried forward were not recognised on

the assets side due to the history of losses. Deferred taxes were only recognised on the assets side if the intrinsic value is guaranteed regardless of future tax profits and if collection by the end of the planning horizon (2023) is considered likely. With regard to tax risks, such items are recognised in accordance with the recognition obligation pursuant to IAS 37. Deferred tax risks that are deemed unlikely to occur or the amount of which cannot be reliably estimated are not recognised as a provision or contingent liability.

With regard to the measurement of subsidiaries that are classified as held for sale under IFRS 5, these are recognised on the basis of the lower value of the carrying amount and fair value, less disposal costs. The fair value is calculated on the basis of available offers or, in the event that no binding offer was available by the balance sheet date, on the basis of the Heta-specific measurement guidelines; deviations from the actual sale price cannot be excluded.

## (9) Application of new and amended standards and EU Directives

The following new or amended standards and interpretations according to IFRS and IAS, which were issued by the IASB and adopted by the European Union (EU), were applied by Heta for the first time in 2016 financial year:

Standard	Description		Compulsory for annual period
IFRS 11	Joint Arrangements	Accounting for acquisitions of interests in joint operations	2016
IAS 19	Employee Benefits	Accounting for employee contributions	2016
Collective Standard	IFRS December 2013 (Improvements 2010-2012)	Annual Improvements IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 7, IAS 16/IAS 38, IAS 24	2016
IAS 16, IAS 38	Property, Plant and Equipment and Intangible Assets	Methods of depreciations and amortisation	2016
IAS 16 and IAS 41	Property, Plant and Equipment and Agriculture	Agriculture	2016
IAS 27	Separate Financial Statements	Equity method as an accounting option	2016
IAS 1	Presentation of Financial Statements	Statement initiative	2016
IFRS 10, IFRS 12, IAS 28	Consolidated Financial Statements, Disclosure of Interests in Other Entities	Use of consolidation exceptions	2016
Collective Standard	IFRS September 2014 (improvements 2012-2014)	Annual improvements IFRS 5, IFRS 7, IAS 19, IAS 34	2016

The standards that must be applied by Heta to the consolidated financial statements for 31 December 2016 are described below.

The amendment to **IFRS 11** "Joint Arrangements" clarifies the accounting for acquisitions of interests in joint operations if these constitute a business operation. Where interests are acquired in joint operations that constitute a business operation according to IFRS 3, all principles regarding the accounting for business combinations from IFRS 3 and other standards must be applied, as long as they are not contrary to the guidelines in IFRS 11.

**IAS 19** "Employee Benefits" clarifies the allocation of contributions from employees or those of third parties, which are linked to periods of service. In general, contributions from employees (or third parties) must be taken into account by the affected company, if it accounts for defined-benefit plans. In addition, relief is provided if the amount of the contributions is independent of the number of years in service.

The **collective standard (IFRS December 2013 – Improvement 2010-2012)**, which has been compulsory since 1 February 2015, includes amendments to the standards noted below: **IFRS 2** "Share-based Payment" clarifies the definition of "vesting conditions" and "market condition". The amendment also includes expanded definitions for "performance condition" and "service condition", which were previously part of the defined "vesting conditions". **IFRS 3** "Business Combinations" is concerned with clarifying the accounting of conditional purchase price payments in the case of company acquisitions. This consideration must be classified as an asset or liability, and must be measured at the fair value on each reporting date. **IFRS 8** "Operating Segments" refers to the information in the notes regarding the aggregation of business segments and the obligation to provide various reconciliations of the segment assets to the group assets if the segment assets are reported regularly. The amendment of **IFRS 13** "Fair Value Measurement" relates to the option of measuring short-term receivables and liabilities without a defined interest rate and without discounting at their invoice amount, as long as the effects from the lack of discounting are not material. **IAS 16** "Property, Plant and Equipment" clarifies the proportional adjustment of accumulated depreciation when using the revaluation model. **IAS 38** "Intangible Assets" clarifies the proportional adjustment of accumulated amortization when using the revaluation model. **IAS 24** "Related Party Disclosures" clarifies that a company that renders



company management services for the reporting unit or the parent company of the reporting unit is deemed a related party of the reporting unit.

The amended **IAS 16** "Property, Plant and Equipment" and **IAS 38** "Intangible Assets" also clarify the acceptable depreciation and amortization methods. To this end, guidelines are provided, which consist of methods that can be used to depreciate and amortize tangible and intangible assets. They also include a discussion of revenue-based depreciation and amortization methods.

The amendments to standards **IAS 16** and **IAS 41** had the effect of transferring bearer plants into the application scope of **IAS 16**.

As a result of the amendments to **IAS 27** "Consolidated and Separate Financial Statements", the equity method may again be applied as an accounting option for investments in subsidiaries, joint ventures and associates in an investor's separate financial statements, in addition to accounting at acquisition costs or accounting in accordance with **IFRS 9** "Financial Instruments" (or **IAS 39** "Financial Instruments").

As a result of the information initiative relating to **IAS 1** "Presentation of Financial Statements", a number of recommendations, such as avoiding an excessive degree of detail so that useful information is not concealed, and meaningful cross references between connected sections of parts of reports, were integrated into the standard.

The amended standards **IFRS 10**, **IFRS 12** and **IAS 28** address situations that arise in connection with the application of the consolidation exemption for investment companies.

The **collective standard (IFRS September 2014 - Improvement 2012-2014)**, which was published by the IASB, is compulsory as of the financial years that begin on or after 1 July 2016. It contains amendments to the standards noted below. **IFRS 5** "Non-current Assets Held for Sale and Discontinued Operations" includes additional guidelines for cases in which a company decides to transfer an asset to shareholders as a dividend in kind. This leads to a need to reclassify the asset from the category "held for sale" to the category "held for distribution" and vice versa. **IFRS 7** "Financial Instruments: Disclosures" clarifies, with the goal of providing additional guidance, when and if a servicing contract for a portfolio of sold financial assets constitutes a continuing involvement. **IAS 19** "Employee Benefits" is expanded with a clarification regarding the "required currency equivalence of the interest rate with the commitment from the pension scheme". **IAS 34** "Interim Financial Reporting" specifies that other selected information must be included in the notes for the interim financial statements in addition to the disclosure of important business transactions and events.

There were no major changes to the accounting principles, which result from the application of new or amended standards.

The following new or amended standards and interpretations according to IFRS and IAS, which were issued by the IASB and adopted by the European Union (EU), were not yet mandatory as at 31 December 2016. The group also did not opt for the early application of these standards in the 2016 financial year; they will be applied at Heta as of the compulsory dates.

Standard	Description	Compulsory for annual period
IFRS 9	Financial instruments	Accounting for financial instruments 2018
IFRS 15	Revenue from Contracts with Customers	Recognition of revenues 2018

On 24 July 2014, the IASB published the final version of the amended standard **IFRS 9** "Financial Instruments", which consists mainly of changes pertaining to the classification and measurement of financial instruments, but also regulations in connection with impairments and hedge accounting. With this final version, the accounting of financial instruments, which has hitherto been performed under **IAS 39** "Financial Instruments: Measurement", can now be entirely replaced by accounting according to **IFRS 9**.

In the future, there will only be the three measurement categories instead of the current four measurement categories under **IAS 39** (see note (17) Financial instruments: Recognition and measurement (**IAS 39**) according to **IFRS 9**): "at amortised cost" ("AC category"), "fair value through other comprehensive income" ("FVTOCI category") and "fair value through profit or loss". The classification of financial assets depends on the entity's business model for managing the financial assets and the characteristics of the contractual cash flows of the financial asset that is to be assessed.

Accounting changes also apply to financial liabilities (compared to **IAS 39**). Financial liabilities must still be accounted for at acquisition costs, and designated liabilities at the fair value (under certain conditions). However, according to **IFRS 9**, the changes in value that are due to changes in the company's own credit risk may not longer be recognised in the statement of comprehensive income but in a separate item under equity capital (OCI). At this time, Heta shows all "eligible liabilities" that were reduced on account of Emergency Administrative Decision II (31 December 2016: EUR 8.9 billion) as liabilities



designated at the fair value. Future changes in the fair value for these liabilities resulting from a change in the company's credit risk must be recognised in OCI as of January 2018 pursuant to IFRS 9.

At this time, almost all of the items recognised by Heta are debt instruments (receivables) measured at amortised cost. The effects of the new classification criteria have not been conclusively determined to date.

In general, a uniform impairment model applies to all instruments in the application scope - it must be applied to "AC category financial assets", "FVTOCI category financial assets", financial guarantees in the application scope of **IFRS 9** (except for the voluntary measurements at the fair value recognised as income or expense), leasing receivables in the application scope of IAS 17 "Leases" and contract assets in the application scope of **IFRS 15** "Revenue from Contracts with Customers". Restricted simplifications are provided for receivables from leases, contract assets and accounts receivable. A measurement "at amortised cost" is only permitted if the payment flows associated with the financial instrument have the character of interest and capital repayments, and furthermore the financial instrument is held in a business model whose sole purpose is to generate contractual cash flows. A measurement "fair value through other comprehensive income" is only applied if the payment flows associated with the financial instrument have the character of interest and capital repayments, and furthermore the financial instrument is held in a business model that is used to generate income from contractual cash flows and also from the sale of financial instruments. Financial assets that cannot be attributed to this category must be measured at "fair value through other comprehensive income" according to IFRS 9. The impairment model is changed to a model in which companies, during the first-time recognition of financial assets, must recognise a risk provision in the amount of the credit default that is expected within the next 12 months. Based on the recommendations, the transfer to the new impairment model must be done retrospectively, i.e. the adjustment effect must be entered in equity at the time of transfer. An adjustment to the previous year's figures is not provided for, but may be done on a voluntary basis if certain conditions are met. The effects of the new provisions of IFRS 9 regarding the recognition of measurements have not been conclusively determined to date.

IFRS 9 also contains new provisions for the accounting of hedging relationships, with the objective of ensuring that accounting activities are brought in line with risk management activities. In general, some of the restrictions to the current provisions were removed, leading to a greater selection of hedging instruments and hedged transactions for the accounting of hedging relationships. Heta eliminated all valuation units during the 2016 financial year, which means that the provisions of IFRS 9 for hedge accounting will no longer be relevant to Heta in the future.

IFRS 9 goes into force for financial years that begin on or after 1 January 2018.

In the past financial year, Heta temporarily deferred the priority of the IFRS 9 project, which was set up for the relevant phases in 2013 and that is concerned with the required changes in the group policies, processes and systems, due to the required implementation activities in connection with the haircut. The project is expected to be re-prioritised accordingly during the second quarter of 2017, once the relevant decisions are available. With regard to the system aspects of the implementation, Heta participates in a project group of the Allgemeines Rechenzentrum.

The new **IFRS 15** "Revenues from Contracts with Customers" stipulates when and at what amount revenues must be recognised by an IFRS reporting entity. All IFRS adopters are required to apply this standard, and it applies to almost all contracts with customers, with leases, financial instruments and insurance contracts being the main exceptions. We do not expect any major impact on Heta's consolidated financial statements.

The following new and amended standards and interpretations, which were issued by the IASB and not yet adopted by the EU, were not applied at an earlier date. The date of expected mandatory application is indicated below:

Standard	Description		(estimated) compulsory for annual period
IFRS 10, IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures	Sold or contribution of assets	year unknown
IAS 40	Investment properties	Transfers of investment properties	2018
Collective Standard	IFRS December 2016 (Improvements 2014-2016)	IFRS 1, IFRS 12, IAS 28	2017/2018
IFRS 2	Share-based payments	Share-based payment transactions	2018
IAS 7	Cash flow statement	Disclosure of changes in payables from financing operations	2017
IAS 12	Taxes on income	Recognition of Deferred Tax Assets for Unrealised Losses	2017
IFRS 4	Insurance contracts	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts	2018
IFRS 16	Leases	Accounting for leases	2019

The amendments to **IFRS 10** and **IAS 28** clarify the reporting of gains from transactions with associates or joint ventures. In the case of transactions with an associate or joint venture, the extent of the gain will depend on whether the sold or contributed assets constitute a business activity.

The amendments to **IAS 40** clarify the provisions with regard to transfers in or out of the portfolio of investment properties.

The **collective standard IFRS December 2016 - Improvement 2014-2016**) relates to changes and clarifications for IFRS 1, IFRS 12 and IAS 28.

**IFRS 2** "Share-based Payment" stipulates that companies must disclose business transactions in connection with share-based payments (guaranteed shares, share options or guaranteed appreciation) in their financial statements. The amendment sets out the classification and measurement of business transactions involving share-based payments.

The amendment of **IAS 7** "Statement of Cash Flows" in line with the disclosure initiative pursues the objective that a company must provide information that enables the recipients of financial statements to assess changes in liabilities from financial debt. In this vein, the IASB also requires the disclosure of additional information regarding changes to debt capital as a result of financing activities. The disclosure initiative regarding IAS 7 will have an effect on the consolidated financial statements in the future. In the cash flow statement, information regarding changes to debt capital as a result of financing activities will be considered in detail.

The amendments to **IAS 12** "Income taxes" aim to clarify the accounting of deferred tax claims from unrealised losses for assets that are measured at the fair value.

**IFRS 4** "Insurance contracts" applies, with some limited exceptions, to all insurance contracts (including reinsurance contracts) that are offered by or obtained by a company. With the application of **IFRS 9** "Financial instruments" together with **IFRS 4** "Insurance contracts" (amendments to IFRS 4), companies that issue insurance contracts within the scope of IFRS 4 have two options: they can reclassify some of the expenses and income that result from assets that qualify from the income statement into the other comprehensive income. This is the so-called overlay approach. Companies whose main business activity consists of issuing insurance contracts within the scope of IFRS 4 have the option of temporarily deferring the application of IFRS 9. This is the so-called deferral approach.

The new **IFRS 16** standard sets out the leasing relationship for the lessor and lessee, and replaces the hitherto valid provisions of IAS 17. IFRS 16 results in rather minimal changes for lessors compared to IAS 17, since the required distinction between financing and operating leasing contracts is maintained. For this reason, Heta does not expect that the new standard will result in major changes.

## (10) Scope of consolidation

### 10.1. Change in the scope of consolidation

The consolidated financial statements - including those of the parent company - include 14 (2015: 15) domestic and 31 (2015: 57) foreign companies: The development of the scope of consolidation is as follows:

	2016		2015	
	Fully consolidated	Equity method	Fully consolidated	Equity method
<b>Start of period (1.1.)</b>	<b>68</b>	<b>4</b>	<b>74</b>	<b>4</b>
Newly included in period under review	0	0	0	0
Merged in period under review	-2	0	0	0
Excluded in period under review	-25	0	-6	0
Reclassified	0	0	0	0
<b>End of period (31.12.)</b>	<b>41</b>	<b>4</b>	<b>68</b>	<b>4</b>
thereof Austrian companies	12	2	13	2
thereof foreign companies	29	2	55	2

For additional information, please refer to note (123) Scope of consolidation. No companies were included in the consolidated financial statements for the first time in the 2016 financial year (2015: 0).

During the 2016 financial year, a total of 25 of the fully-consolidated subsidiaries were excluded from the scope (2015: 6), while two subsidiaries (2015: 0) were merged. Not one (2015: 0) company accounted for at equity was removed from the scope of consolidation.

Company	Registered office	Ownership interest in %	Method of consolidation	Reason
Alpe-Adria-Projekt GmbH	Munich	100.0	Fully consolidated	Immateriality
Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG	Wittenburg	100.0	Fully consolidated	Immateriality
Alpe Adria Snow Fun Park Grundstücks GmbH	Munich	100.0	Fully consolidated	Immateriality
HYPO ALPE-ADRIA-Verwaltung 2011 GmbH	Munich	100.0	Fully consolidated	Immateriality
EPSILON GRAĐENJE d.o.o.	Zagreb	100.0	Fully consolidated	Immateriality
HETA 2014 Tanácsadó Kft	Budapest	100.0	Fully consolidated	Immateriality
HETA ASSISTANCE d.o.o.	Sarajevo	100.0	Fully consolidated	Immateriality
Centrice Real Estate GmbH	Vienna	100.0	Fully consolidated	Sale
Centrice Ljubljana d.o.o.	Ljubljana	100.0	Fully consolidated	Sale
BLOK 67 ASSOCIATES DOO BEOGRAD	Beograd - Novi Beograd	100.0	Fully consolidated	Sale
Centrice Castellum d.o.o.	Zagreb	100.0	Fully consolidated	Sale
BRODARICA POSLOVNI CENTAR d.o.o.	Zagreb	100.0	Fully consolidated	Sale
HYPERIUM DOOEL Skopje	Skopje	100.0	Fully consolidated	Sale
Centrice Galerija d.o.o.	Zagreb	100.0	Fully consolidated	Sale
Centrice Zagreb d.o.o.	Zagreb	100.0	Fully consolidated	Sale
LOMA CENTER d.o.o.	Ljubljana	100.0	Fully consolidated	Sale
SKORPIKOVA POSLOVNI CENTAR d.o.o.	Zagreb	100.0	Fully consolidated	Sale
Victor Retail I d.o.o.	Sarajevo	100.0	Fully consolidated	Sale
Centrice Real Estate Ljubljana d.o.o.	Ljubljana	100.0	Fully consolidated	Sale
HTC ENA d.o.o.	Ljubljana	100.0	Fully consolidated	Sale
MM THETA d.o.o.	Ljubljana	100.0	Fully consolidated	Sale
MM ZETA d.o.o.	Ljubljana	100.0	Fully consolidated	Sale
Centrice d.o.o.	Ljubljana	100.0	Fully consolidated	Sale
HETA ASSET RESOLUTION LEASING DOOEL Skopje	Skopje	100.0	Fully consolidated	Sale
Alpe Adria Privatbank AG in Liquidation	Vaduz	100.0	Fully consolidated	Liquidation
O-CENTER d.o.o.	Ljubljana	100.0	Fully consolidated	Merger
HETA CENTER -2 d.o.o.	Ljubljana	100.0	Fully consolidated	Merger

The wind-down of Heta's investment portfolio continued in the 2016 financial year. The disposal of Centrice Real Estate GmbH (Centrice) and its 15 subsidiaries was successfully completed. Taking into account expected utilisations from seller warranties and guarantees, the deconsolidation of the disposal group that was already classified as held for sale at the end of 2015 resulted in a negative result of EUR -24.4 million, which is reported in other income. In this context, realised currency effects of EUR 0.7 million were reclassified into the income statement. The result generated by the disposal group until the time of its exit amounts to EUR 6.5 million; this amount is reported in the relevant income or expense items.

The sale of 100% of the shares in Heta Asset Resolution Leasing DOOEL Skopje (Macedonia) was successfully completed with the closing on 27 July 2016. The company's assets and liabilities were already shown as held for sale at the end of 2015. The deconsolidation gave rise to a negative result of EUR -0.5 million, which is reported in other income. The result generated by Heta Asset Resolution Leasing DOOEL until the time of its exit amounts to EUR -0.1 million; this amount is reported in the relevant income or expense items.

Companies that Heta now considers largely insignificant or immaterial due to reduced operating activities or a planned liquidation are removed from the scope of consolidation.

Alpe Adria Privatbank AG in Liquidation, a 100% owned subsidiary of Heta Asset Resolution AG, was deleted from the commercial register on 13 December 2016 following the end of the liquidation process.

HETA CENTER-2 d.o.o. and O-Center d.o.o. were merged with their parent company HETA Asset Resolution d.o.o. effective 19 July 2016 and 3 August 2016, respectively.

The following 6 subsidiaries were excluded from the scope of consolidation during the 2015 financial year:

Company	Registered office	Ownership interest		Method of consolidation	Reason
			in %		
HBInt Credit Management Limited, Jersey Island	St.Helier - Jersey		51.0	Fully consolidated	Immateriality
Carinthia I Limited	St.Helier - Jersey		51.0	Fully consolidated	Immateriality
Carinthia II Limited	St.Helier - Jersey		51.0	Fully consolidated	Immateriality
Norica Investments Limited	St.Helier - Jersey		51.0	Fully consolidated	Immateriality
GRAND HOTEL LAV d.o.o.	Podstrana		100.0	Fully consolidated	Sale
TERME SPA ROGASKA D.D.	ROGAŠKA SLATINA		100.0	Fully consolidated	Immateriality

## 10.2. Subsidiaries with material non-controlling interests

At the end of 2015, two companies with material non-controlling interests were included in Heta's scope of consolidation.

The ownership portion of the non-controlling interests can be described as follows:

Company	Registered office	2016	2015
HBInt Credit Management Limited	St. Helier - Jersey	0.0	49.0%
Norica Investments Limited	St. Helier - Jersey	0.0	49.0%

These companies were removed from Heta's scope of consolidation at the end of 2015. HBInt Credit Management Limited held the participations in the two investment companies Carinthia I Limited and Carinthia II Limited, also domiciled in St. Helier (Jersey).

For 2015, the following profits/losses prior to the elimination of intergroup income and expenses were generated for these two subsidiaries:

EUR m

	HBInt Credit Management Limited	Norica Investments Limited
<b>Net interest income</b>	<b>3.0</b>	<b>8.9</b>
Gains/losses on financial instruments that are not measured at fair value	1.6	0.4
Result from trading	0.0	0.0
Result from financial investment – designated at fair value through profit or loss	1.1	0.0
Other operating result	0.0	0.0
<b>Operating income</b>	<b>5.7</b>	<b>9.3</b>
Income from write-ups for financial assets	18.5	0.0
<b>Operating income after impairment</b>	<b>24.2</b>	<b>9.3</b>
Other administrative expenses	0.0	-0.7
<b>Operating expenses</b>	<b>0.0</b>	<b>-0.7</b>
<b>Operating result</b>	<b>24.2</b>	<b>8.6</b>
<b>Result before tax from continued operation</b>	<b>24.2</b>	<b>8.6</b>
<b>Result after tax from continued operation</b>	<b>24.2</b>	<b>8.6</b>

The assets and liabilities of the two companies as at 31 December 2015 can be represented as follows:

EUR m

	HBInt Credit Management Limited	Norica Investments Limited
Loans and advances to credit institutions	198.5	99.9
Risk provisions on loans and advances to credit institutions	0.0	0.0
Loans and advances to customers	109.1	171.7
Risk provisions on loans and advances to customers	-18.5	0.0
Derivative financial instruments	0.0	0.0
Financial assets – designated at fair value through profit or loss	184.1	239.8
Financial assets – available for sale	47.5	0.0
Other liabilities	-0.2	0.0
<b>Equity</b>	<b>520.4</b>	<b>511.3</b>

The statements of cash flows for HBInt Credit Management Limited and Norica Investments Limited for the 2015 financial year were as follows:

EUR m

	HBInt Credit Management Limited	Norica Investments Limited
<b>Cash and cash equivalents at end of previous period (1.1.)</b>	<b>0.0</b>	<b>0.0</b>
Cash flows from operating activities	548.1	517.7
Cash flows from investing activities	0.0	0.0
Cash flows from financing activities	-548.1	-517.7
<b>Cash and cash equivalents at end of period (31.12.)</b>	<b>0.0</b>	<b>0.0</b>

### 10.3. Investments in joint ventures

Heta holds a 50% interest in Heta-BA Leasing Süd GmbH, which is classified as a joint venture according to IFRS 11. This company functions purely as a holding company with subsidiaries that are located in Croatia and Slovenia and that process real estate leasing agreements. The group's investment in Heta-BA Leasing Süd GmbH is included in the consolidated financial statements using equity consolidation.

The reconciliation of the financial information pursuant to the Austrian Commercial Code (UGB) with the carrying amount of the investment in Heta-BA Leasing Süd GmbH as at 31 December is as follows:

EUR m

	2016	2015
Current asset	0.8	4.5
Non-current assets	2.0	2.0
Provisions	0.0	0.0
<b>Equity</b>	<b>2.8</b>	<b>6.5</b>
Percentage interest	50.0%	50.0%
<b>Carrying amount of the investment</b>	<b>1.4</b>	<b>3.3</b>

Current assets include payment instruments of EUR 0.8 million (2015: EUR 4.1 million).

The income statement of Heta-BA Leasing Süd GmbH as at 31 December of the financial year is as follows:

EUR m

	2016	2015
Other income	0.1	0.0
Financial expenses	0.0	3.8
<b>Profit from ordinary activities</b>	<b>0.1</b>	<b>3.7</b>
Taxes on income	0.0	0.0
<b>Net income</b>	<b>0.1</b>	<b>3.7</b>
Attributable to equity holders of parent	0.1	1.9

Heta has a 20% stake in Hypo Park Dobanovci d.o.o. Beograd. It also has a 50% voting share in Hypo Park Dobanovci d.o.o. Beograd. The reconciliation of the financial information with the carrying amount of the investment in Hypo Park Dobanovci d.o.o. Beograd as at 31 December is as follows:

	EUR m	
	2016	2015
Current asset	0.1	0.1
Non-current assets	1.5	1.5
Current liability	-14.6	-14.6
Provisions	-10.3	-10.0
<b>Equity</b>	<b>-23.3</b>	<b>-23.0</b>
Percentage interest	20.0%	20.0%
<b>Carrying amount of the investment</b>	<b>0.0</b>	<b>0.0</b>

The income statement of Hypo Park Dobanovci d.o.o. Beograd for the last two financial years is as follows:

	EUR m	
	2016	2015
Other operating expenses	0.0	0.0
Financial expenses	-0.7	-1.5
<b>Profit from ordinary activities</b>	<b>-0.7</b>	<b>-1.5</b>
Taxes on income	0.0	0.0
<b>Net result</b>	<b>-0.7</b>	<b>-1.5</b>
Attributable to equity holders of parent	-0.1	-0.3

The reconciliation of the financial information with the carrying amount of the 50.0% investment in Landtrust d.o.o. Beograd for the past two financial years is as follows:

	EUR m	
	2016	2015
Current asset	0.0	0.0
Non-current assets	0.3	1.2
Current liability	-0.2	-0.1
Provisions	0.0	0.0
<b>Equity</b>	<b>0.1</b>	<b>1.0</b>
Percentage interest	50.0%	50.0%
<b>Carrying amount of the investment</b>	<b>0.1</b>	<b>0.5</b>

The income statement of Landtrust d.o.o. Beograd as at 31 December is as follows:

	EUR m	
	2016	2015
Other operating expenses	-0.9	0.0
Financial expenses	0.0	0.0
<b>Profit from ordinary activities</b>	<b>-0.9</b>	<b>0.0</b>
Taxes on income	0.0	0.0
<b>Net income/loss</b>	<b>-0.9</b>	<b>0.0</b>
Attributable to equity holders of parent	-0.5	0.0

#### 10.4. Shares in associated companies

Bergbahnen Nassfeld Pramollo AG operates ski lifts in Carinthia, and is included in the consolidated financial statements via equity consolidation at 29.5%. The reporting day for the financial statements is different from that of the group, since the balance sheet is prepared as at the 30 April reporting day.



The reconciliation of the financial information according to the Austrian Commercial Code (UGB) with the carrying amount of the investment in Bergbahnen Nassfeld Pramollo AG is as follows:

EUR m

	30.4.2016	30.4.2015
Current asset	3.9	2.5
Non-current assets	40.0	37.3
Current liability	-6.7	-6.2
Non-current liability	-13.6	-11.2
Provisions	-0.3	-0.3
<b>Equity</b>	<b>23.3</b>	<b>22.1</b>
Percentage interest	29.5%	29.5%
<b>Carrying amount of the investment</b>	<b>0.0</b>	<b>0.0</b>

The income statement for Bergbahnen Nassfeld Pramollo AG is as follows:

EUR m

	1.5.2015 - 30.4.2016	1.5.2014 - 30.4.2015
Revenues	14.2	12.5
Own work capitalized	0.2	0.1
Other income	1.3	1.2
Cost of materials	-5.4	-4.8
Personnel expenses	-0.2	-0.2
Depreciation and amortisation	-3.6	-3.6
Other operating expenses	-4.1	-4.2
Financial expenses	-0.6	-0.6
<b>Profit from ordinary activities</b>	<b>1.7</b>	<b>0.5</b>
Extraordinary result		0.3
Taxes on income	-0.4	-0.1
<b>Net income/loss</b>	<b>1.3</b>	<b>0.7</b>
Attributable to equity holders of parent	0.4	0.2

The company's financial year deviates from the group (1 May to 30 April); it does not prepare interim financial statements. The carrying amount for Bergbahnen Nassfeld Pramollo AG was fully amortised in previous years, and continues to be reported in the balance sheet at a value of EUR 0.0 million (unchanged). The reason for the impairment that was applied remains unchanged as at 31 December 2016, and a measurement of the shares on the basis of interim financial statements would lead to the same result in Heta's consolidated financial statements.

## (11) Mergers and acquisitions

There were no mergers and acquisitions of shares or companies during the 2016 financial year.

## (12) Discontinued operations

The result from discontinued operations includes the result from the Italian subsidiary Heta Asset Resolution Italien S.r.l. as well as Malpensa Gestioni S.r.l. (together: HARIT), which is shown as separate business in the "Italy" segment. On 5 August 2016, an agreement was signed for the sale of 100% of shares in HARIT and all of the financing provided by Heta to HARIT. The closing for the disposal of HARIT was completed on 21 February 2017. Following the disposal of the Italian companies, Heta no longer carries out any operating activities in Italy.

Because it meets the criteria for application pursuant to IFRS 5.32, HARIT is shown in Heta's consolidated financial statements as a discontinued operation.

In the statement of comprehensive income, the continuous result for HARIT's financial year is shown separately as the annual result from discontinued operations. With regard to the comparative figures from the previous year's period, the presentation of the income statement was adjusted in accordance with IFRS 5.

The income statement for the Italian subsidiary is as follows:

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Interest and similar income	5.3	7.4
Interest and similar expenses	0.0	0.0
<b>Net interest income</b>	<b>5.3</b>	<b>7.4</b>
Fee and commission income	0.0	0.0
Fee and commission expenses	-0.1	-0.1
<b>Net fee and commission income</b>	<b>-0.1</b>	<b>-0.1</b>
Gains/losses on financial instruments that are not measured at fair value	0.0	0.0
Result from trading	0.0	-0.2
Result from hedge accounting	0.0	0.0
Result from financial investment – designated at fair value through profit or loss	0.0	0.0
Operating result from investment properties	1.8	2.1
Other operating result	-2.1	-15.2
<b>Operating income</b>	<b>4.9</b>	<b>-6.0</b>
Impairment of financial assets	2.8	-23.8
thereof financial assets–at costs (risk provision)	2.8	-23.8
thereof financial assets– available for sale	0.0	0.0
Impairment of non financial assets	-4.9	-22.7
<b>Operating income after impairment</b>	<b>2.8</b>	<b>-52.5</b>
Personnel expenses	-6.3	-6.1
Other administrative expenses	-3.6	-4.2
Depreciation and amortisation on tangible and intangible assets	-0.9	-0.6
<b>Operating expenses</b>	<b>-10.8</b>	<b>-11.0</b>
<b>Operating result</b>	<b>-8.0</b>	<b>-63.5</b>
Result from companies accounted for at equity	0.0	0.0
<b>Result before tax</b>	<b>-8.0</b>	<b>-63.5</b>
Taxes on income	-0.2	2.8
<b>Result after tax</b>	<b>-8.2</b>	<b>-60.7</b>

The result after tax from the discontinued operations item shown in the consolidated statement of comprehensive income includes the current result pursuant to IFRS of EUR -8.2 million as well as the loss from the disposal of HARIT expected on the basis of the likely purchase price, taking into account expected utilisations from seller warranties and guarantees (EUR -39.1 million). This loss was taken into account in the consolidated financial statements with the formation of a provision for existing contracts.

The previous years' values of the items in the statement of financial position are not adjusted, pursuant to the provisions of IFRS 5. The assets and liabilities of HARIT, which are reported in the statement of financial position for 31 December 2016 as assets and disposal groups classified as held for sale, or as liabilities included in assets held for sale are as follows:

EUR m

	31.12.2016
<b>ASSETS</b>	
Cash and balances at central banks	0.3
Loans and advances to credit institutions	14.4
Loans and advances to customers	256.4
Risk provisions on loans and advances to customers	-206.2
Investment properties	126.3
Intangible assets	0.0
Tangible assets	6.7
Tax assets	29.3
Other assets	6.0
<b>Total assets</b>	<b>233.2</b>
<b>LIABILITIES</b>	
Provisions	17.8
Other liabilities	13.1
<b>Total liabilities</b>	<b>30.9</b>

The statement of cash flows for HARIT is broken down as follows:

EUR m

	2016	2015
<b>Cash and cash equivalents at end of previous period (1.1.)</b>	<b>0.0</b>	<b>0.0</b>
Cash flows from operating activities	-66.3	-177.3
Cash flows from investing activities	16.6	14.4
Cash flows from financing activities	50.0	162.9
<b>Cash and cash equivalents at end of period (31.12.)</b>	<b>0.3</b>	<b>0.0</b>

### (13) Winding-down of investment companies and asset disposals

During the 2016 financial year, the wind-down process moved along very well on account of disposals of participations and loan portfolios. Most of the large transactions, for which internal preparations had already been made since 2015, were successfully completed during the course of the year.

#### 13.1. Major individual transactions

##### Disposal of Heta Asset Resolution Leasing DOOEL Skopje

Following the signing, which took place on 30 December 2015, the closing was successfully completed in June 2016 after the Macedonian finance ministry issued a license for the buyers. After completion of this transaction Heta has no more business activities in Macedonia.

##### Disposal of Centrice Real Estate GmbH

The public bidding process for Centrice Real Estate GmbH, which was managed by Portfolio Sales & Participation Transactions of Heta with a well-known international investment bank and an internationally experienced law firm, garnered considerable interest in the market. The disposal of the shares ("share deal"), which was successfully completed on 28 June 2016, was implemented at the sub-holding level and was comprised of seventeen direct and indirect investment companies, which managed a total of thirty-one performing properties from Slovenia, Croatia, Serbia, Bosnia and Herzegovina and Macedonia. All of the refinancing lines that had been provided to Centrice Real Estate GmbH and its subsidiaries were covered at the nominal value during the course of the disposal process.

### Disposal of "PATHFINDER" - Loan portfolios

The "Pathfinder" project consists of loan portfolios with a total gross exposure of approximately EUR 272 million, consisting of secured loans from exclusively Croatian borrowers. Some of these loans were reported partially at Heta and partially at the local Croatian Heta companies, and were no longer serviced by the borrowers ("NPL" - non-performing loans). The tender commenced with the engagement of an international consultant and a well-known multinational law firm on 12 February 2016. Several binding offers were received following a competitive public bidding process. The second half of 2016 was characterised by intensive contract negotiations with the best bidders, which finally resulted in the closing of the transaction on 15 December 2016.

### Disposal of "DRAVA" - Loan portfolios

Unsecured loan portfolios from Austria, Bosnia and Herzegovina, Croatia, Montenegro, Serbia and Slovenia with a gross exposure totalling approximately EUR 276 million were combined under the "Drava" project. The portfolios consisted of a total of approximately 3,600 loan agreements across all countries, almost all of which had been adjusted at the time of the disposal. The public tender started on 6 May 2016. The bidding process resulted in one best bidder who conducted the customary due diligence process in the summer of 2016. The contract negotiations were completed in the fall. The transactions were concluded on 21 December 2016 for all involved local Heta companies, with the exception of Bosnia and Herzegovina.

### Disposal of Heta Asset Resolution Italia S.r.l. (Project "FRIULI")

The public tender for the Friuli project at the end of 2015 was met with a positive response in the market. The first six months of 2016 were characterised by a competitive disposal process, which resulted in a best bidder and subsequent contract partner following numerous expressions of interest, a subsequent due diligence process, inspections and management interviews. The final share purchase agreement (SPA) was signed on 4 August 2016. The required official approvals for the buyer were issued by the Italian supervisory authority (Banca d'Italia) on 31 January 2017. The closing for the transaction took place on 21 February 2017; this means that Heta Asset Resolution Italia S.r.l. and its subsidiary Malpensa Gestioni S.r.l. will no longer be included in Heta's scope of consolidation in 2017.

### 13.2. Other transactions

The bidder process for a hotel resort in Croatia, which had been held for sale for some time, was suspended in September 2016. The partner, who had exclusivity at that time, did not submit a binding offer. A new strategy is currently being developed for this hotel resort.

The bidding process for the "ONYX" project was announced on 29 November 2016. This project concerns the disposal of the shares and portfolio of the Serbian Heta company HETA REAL ESTATE D.O.O. BELGRAD, as well as a portion of the portfolio of HETA ASSET RESOLUTION D.O.O. BEOGRAD, with a total loan gross exposure and property market values amounting to approximately EUR 289 million. A number of expressions of interest had been received by the end of 2016.

Various small investments and share packages were also successfully disposed of in 2016. The takeover by the Heineken Group facilitated the disposal of the 7.1% share package in the Slovenian company Pivovarna Lasko d.d., which also included the entire existing loan commitment of this group. The 19.98% share package in ZIF CROBIH d.d. was successfully sold in Bosnia and Herzegovina. The disposal of various hotel assets from an investment in Croatia was signed in May 2016 and finally closed and transferred in July 2016. The now empty investment company will be liquidated as planned.

### 13.3. Liquidation of participations

The wind-down of Heta is accompanied by the liquidation of its subsidiaries. The liquidation of Alpe Adria Privatbank i.L. was completed in the 2016 financial year. The liquidation of HYPO Consultants Holding GmbH i.L. started on 18 September 2016. The liquidation of additional investments is supposed to commence during the first six months of 2017. The former leasing companies are supposed to undergo an orderly liquidation process following the final wind-down of assets (loans/leasing receivables and real estate). To ensure the best possible preparations for these liquidations, pre-liquidation projects are being initiated on a staggered basis depending on the progress of the portfolio wind-down, which ensures the targeted preparation of the companies for a subsequent legal liquidation process. Such projects were already implemented for Bulgaria and Hungary during the 2016 financial year, with Serbia and Germany to follow in the first half of 2017.

### 13.4. Wind-down of remaining loan portfolio

Heta's credit and leasing portfolio consists mainly of non-performing financing, which are reported at the holding and the different local Heta companies. The portfolio is multi-layered and requires know-how of the various product categories, economic sectors and regions. This know-how was bundled in four exit management units, which are pushing ahead the wind-down process in the various regions with a focus on single asset transactions. Activities are targeted towards the optimum

value that can be achieved in the medium term in compliance with transparent processes, rather than a focus on the short-term wind-down success or the maximum result in a financial year. If an asset is expected to yield a higher value over time, it will initially be kept in the portfolio.

A number of different strategies are employed for winding-down the portfolio: performing loans continue to be enforced, and the NPL portfolio is disposed of by way of enforcement, individual or portfolio transactions. A key instrument in this regard is Heta's own AAA platform, which offers transactions for sale through a central location.

In the 2016 financial year, the exit management units fully met their objectives with regard to the liquidation of assets. In this way, they were able to secure values even in volatile markets, and swiftly pushed ahead with the wind-down of the loan portfolio. The actually achieved wind-down result is above the original planning.

#### **(14) Consolidation methods**

Consolidation was applied in accordance with the consolidation principles pursuant to IFRS 3 "Business Combinations" according to the purchase method. Accordingly, all assets and liabilities of the respective subsidiary must be measured at the fair value at the time of purchase. The acquisition costs for a company acquisition are measured as the sum of transferred considerations, measured at the fair value at the time of acquisition, and the non-controlling interests in the acquired company. At the time of initial recognition, goodwill is assessed at the acquisition costs that are measured as the amount by which the total considerations that were transferred and the amount for the non-controlling interest exceed the acquired identifiable assets and assumed liabilities of the group. If a second review generates a negative difference, the resulting amount is reported directly through profit or loss. The carrying amount of the goodwill - insofar as it exists - is subjected to an impairment test at least once a year.

The date on which dominant control can be exerted is also deemed the date of the first consolidation. Subsidiaries acquired during the course of the year are taken into account in the group's statement of comprehensive income as of the acquisition date. Results generated by subsidiaries that are sold during the course of the year are included in the statement of comprehensive income until the date they are sold.

Investments in joint ventures are included in the consolidated financial statements by way of equity consolidation, and the carrying amount measured according to the equity method is shown as a separate item in the balance sheet. A total of four companies are included in the consolidated financial statements according to the equity method.

In the event additional shares are acquired for companies that are already fully consolidated but are not wholly owned, then any resulting differences are shown in equity (neutral) as transactions with the non-controlling interests.

Receivables and liabilities between the subsidiaries included in the consolidated financial statements are fully eliminated as part of the debt consolidation process. Similarly, expenses and income generated within the group are also offset using expense and income consolidation.

The portions of the equity attributable to parties outside of the group, or the result from included subsidiaries attributable to parties outside of the group, are shown separately under equity in the item "non-controlling interests", or in the income statement in the item "non-controlling interests" in the result. The total result for a subsidiary is also attributed to the non-controlling interests if this results in a negative balance.

#### **(15) Foreign currency translation**

Foreign currency conversion at Heta is performed in accordance with the provisions of IAS 21. Therefore all monetary assets and liabilities must be converted at the exchange rate that applies at the end of the period. Unless the monetary item forms a part of a net investment in a foreign business operation, the result from the conversion is generally recognised in the income statement under the trading result item.

Non-completed futures transactions are converted at the forward rate on the balance sheet date.

Income and expenses are converted at the average rate for the period, as long as exchange rates do not fluctuate by a significant amount. The resulting conversion differences are shown in other comprehensive income (OCI) under the currency reserves. The amount recognised in other comprehensive income for a foreign business operation is reclassified into the income statement when this foreign business operation is sold.

Currency differences that are proportionately attributed to minority interests are recognised as a part of the non-controlling interests.

Two Serbian leasing subsidiaries use the local currency (RSD), rather than the euro, as the functional currency. Therefore monetary items are translated taking into account the change in the exchange rate between the euro and the respective for-

eign currency. Non-monetary items are accounted for as EUR assets. The local currency forms the functional currency for all other companies.

IAS 29 “Financial reporting in Hyperinflationary Economies” is not used as it does not apply to Heta.

The following exchange rates as published by the European Central Bank (ECB) and the Austrian National Bank (OeNB) were used for the conversion of foreign annual financial statements:

Foreign currency translation	closing date		closing date	
Rates in units per EUR	31.12.2016	Average 2016	31.12.2015	Average 2015
Bosnian mark (BAM)	1.95580	1.95580	1.95580	1.95580
Croatian kuna (HRK)	7.55970	7.54410	7.63800	7.62110
Swiss franc (CHF)	1.07390	1.09030	1.08350	1.07520
Serbian dinar (RSD)	123.47230	123.07080	121.62610	120.77860
Hungarian forint (HUF)	309.83000	312.22230	315.98000	310.04460
Bulgarian lev (BGN)	1.95580	1.95580	1.95580	1.95580
Macedonian denar (MKD)	61.48120	61.59920	61.59470	61.59580

## (16) Income/Expenses

Income is recognised in accordance with IAS 18, if it is likely that the economic benefit will accrue to the group and the amount of the income can be reliably determined, regardless of the time of payment. Income is measured at the fair value of the consideration received or the consideration to be utilised, taking into account contractually defined payment terms, whereby taxes or other fees are not taken into account. Dividend income is recognised once the legal claim to payment is established. In the case of financial instruments measured at amortised cost, and financial assets that are classified as available for sale, interest income and interest expenses are recognised on the basis of the effective interest rate; this is the calculation interest rate that is used to discount the estimated future incoming and outgoing payments over the expected term of the financial instrument or (if applicable) a shorter period exactly to the net carrying amount of the financial asset or financial liability.

## (17) Financial instruments: Recognition and measurement (IAS 39)

According to IAS 39, all financial assets and obligations must be recognised in the balance sheet. Financial instruments are designated at the fair value (usually acquisition costs) at the time of acquisition. In the case of financial assets or liabilities that are not measured at the fair value through profit or loss, the transaction costs that are directly attributable to the acquisition of the asset or the issue of the liability are also taken into account. At Heta, the addition and disposal of derivatives and financial instruments that are fulfilled in the customary time period (regular way contracts) are recognised as of the trade date.

Financial assets are derecognised from the balance sheet as of the date the contractual rights to the cash flows are lost, or when the transfer criteria under IAS 39 are met. Financial obligations are always derecognised if they have been repaid or have expired.

Fair value is the price that would be received for the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants on the valuation date.

The fair value for financial instruments that must be recognised at the fair value is generally determined on the basis of the exchange prices in the main market. The main market is the market that is most active with regard to the financial instrument. However, if there is no exchange price, then that price of similar assets or liability is used, or the fair value is calculated on the basis of recognised measurement models. If market parameters are not available due to the illiquidity of the market, benchmark parameters are estimated on the basis of similar markets or instruments, and are then used to measure the instrument using a model that is customary in the market. In this vein, emphasis is placed on finding similar environments, such as similar credit rating, similar term, similar payment structure or closely affiliated markets, in order to find the best possible market benchmark.

For the measurement models that are used, the fair value is generally calculated on the basis of observable prices or market parameters. If these cannot be determined, an expert estimate must be determined for the parameters on the basis of historic experience, with the corresponding risk premiums.



For the subsequent measurement, all financial assets must be assigned to one of the four measurement categories according to IAS 39:

- Financial assets at fair value through profit or loss
  - a. Held for trading
  - b. Financial assets designated at fair value through profit or loss
- Held to maturity investments
- Loans and receivables
- Available for sale financial assets.

Financial liabilities are divided into the following measurement categories according to IAS 39:

- Financial liabilities at fair value through profit or loss
  - a. Held for trading
  - b. Financial liabilities designated at fair value through profit or loss
- Other liabilities.

### **Financial assets at fair value through profit or loss**

Financial instruments that were purchased for a brief holding period (intention to sell), or that are part of a portfolio that aims to generate profits within a short time period, must be classified as held for trading, i.e. securities and receivables held for trading purposes must be shown under held for trading.

Positive market values of derivatives that are used as economic hedges and that were used for the purpose of managing the banking book are not shown here but rather under the item derivative financial instruments.

Held for trading assets are measured at the market value that corresponds to the exchange price in the case of listed products. In the case of non-listed financial instruments, the market values are calculated using the cash method or another suitable measurement method.

Realised profits and losses, results from the foreign currency measurement as well as non-realised measurement results are shown in the trading result through profit or loss. Interest income and interest expenses from held for trading are shown in the net interest income, and current dividends are shown under the trading result.

Regardless of the trading intention, IAS 39 also offers the option of irrevocably designating financial instruments as “financial assets – designated at fair value through profit or loss” (Fair Value Option - FVO). This categorisation cannot be reversed later on, even if the conditions for the designation no longer apply (IAS 39.50(b)). At the same time, this classification can only be applied if

- the financial instrument contains at least one major embedded derivative that must be stated separately, or
- the fair value measurement approach prevents or significantly reduces accounting mismatches, or
- the management and performance measurement for a portfolio of financial assets and/or financial obligations is carried out on the basis of the fair value pursuant to a documented risk management or investment strategy.

Designation in accordance with the first two criteria gives a better presentation of the financial situation and financial performance - see note (53) Result from financial assets – designated at fair value through profit or loss. But this designation option is not available for equity capital titles that do not have a listed market price, and whose fair value cannot be reliably determined. By designating financial instruments in this category, it is possible to depict economic hedging relationships without meeting the strict requirements for hedge accounting.

Financial assets designated at fair value through profit or loss are measured at the fair value that corresponds to the exchange price, in the case of listed products. In the case of non-listed financial instruments, the fair value is calculated using the cash method or another suitable measurement method.

Realised profits and losses, and non-realised measurement results are shown through profit or loss in the item result from financial assets – designated at fair value through profit or loss. Interest income and interest expenses from these financial instruments are shown in net interest income, while dividends received are shown in the result from financial assets – designated at fair value through profit or loss.

### **Held to maturity investments**

Only non-derivative financial assets with fixed or definable payments and a fixed term may be allocated to this category, if there is the intention and ability to hold them until final maturity. If a financial instrument meets the definition of loans and receivables, it must be categorised as such first. The measurement is applied at amortised cost, whereby premiums and discounts are distributed over the term through profit or loss, using the effective interest rate method. Permanent

impairments are taken into account in the balance sheet with a reduction in the carrying amount, and also through profit or loss in the item impairment of financial assets. Heta does not have such a portfolio.

### **Loans and receivables**

Loans and receivables include all non-derivative financial assets with fixed or definable payments that are not held for trading and are not listed in an active market. The measurement is applied using the effective interest rate method at amortised cost (gross), whereby impairments are disclosed as credit risk provisions in the item loans and advances to credit institutions (see note (67) Risk provisions on loans and advances and provisions for credit commitments and guarantees).

Essentially, this item consists of paid-out loans, leasing receivables, overnight loans and time deposits, as well as non-negotiable bonds. The item loans and advances to credit institutions also includes cash and balances at central banks that are not due on demand. They are recognised inclusive of deferred interest, before the deduction of impairments.

Premiums or discounts are distributed over the term, and are also reported in the interest result. Interest income is recognised in the item interest and similar income.

### **Available for sale financial assets**

This category is used for all non-derivative financial assets that were not designated to any of the previously mentioned categories. The subsequent measurement is applied at the fair value, whereby the valuation result - after taking into account deferred taxes - is shown in other comprehensive income (OCI) directly in equity. In the case of a disposal, the difference from the revaluation reserve is reversed through the income statement at the carrying amount. Impairment losses and possible write-ups are directly offset against the asset in the balance sheet. In the case of debt instruments, premiums and discounts are distributed over the term through profit or loss, using the effective interest rate method. Similarly, impairments are also taken into account through profit or loss.

Heta has classified most bonds and other fixed-interest securities, as well as shares and other non-fixed-interest securities, as financial investments – available for sale. These investments are initially measured at their fair value, which corresponds to their quoted price (including transaction costs). Alternatively, the fair value is established on the basis of comparable instruments or by applying valuation techniques using market data. Recognition at nominal value is not permitted. Any accrued interest paid as part of the purchase is not classed as part of costs. Subsequent measurements are based on the fair value (without any deduction for transaction costs).

Further long-term investments as well as non-consolidated subsidiaries are classified as financial investments – available for sale. Equity instruments without a listed price in an active market and whose fair value cannot be reliably determined are always measured at cost less impairments

The measurement result from this category is shown in other comprehensive income (OCI) - after taking into account deferred taxes. In the case of major or permanent impairments, impairments are applied through profit or loss; they are shown in the item impairment of financial assets. Write-ups for debt titles are also shown through profit or loss in the item impairment of financial assets, while in the case of equity capital titles they are shown not in the income statement but in other comprehensive income (OCI). Profits and losses on disposal are shown in the item gains and losses on financial instruments that are not measured at fair value through profit or loss. Results from the currency conversion are shown in the trading result in the case of debt titles, and in other comprehensive income (OCI) in the case of equity capital titles.

Income from fixed-income securities, including distributed premiums and discounts, is taken into account in interest and similar income. Dividend income and current income from non-fixed-income securities (stocks, investment funds, participations etc.) are reported in the item gains and losses on financial instruments that are not measured at fair value through profit or loss.

In the case of investments in equity capital instruments that are measured at fair value, a significant drop in the fair value below the acquisition costs is an indicator for the existence of an impairment. A significant drop is deemed to exist if the fair value falls more than 20.0% below the original acquisition costs, or if the market value permanently falls below the historic acquisition costs for more than nine months. The relevant difference is recognised through profit or loss if these limits are reached.

### **Financial liabilities at fair value through profit or loss**

Liabilities in the trading book, liabilities from short selling and liabilities for which the Fair Value Option (FVO) was utilised belong to this category. The criteria for the application of the Fair Value Option to financial liabilities correspond to those for financial assets.

**Other financial liabilities**

This category encompasses financial liabilities, including liabilities evidenced by certificates, for which the fair value option was not used. As a general rule, they are recognised at amortised cost. Premiums and discounts are spread in the accounts over the respective term using the effective interest method and are reported under interest expense.

**Embedded derivatives**

Structured financial products consist of a host contract and one or more embedded derivative financial instruments (embedded derivatives), whereby the embedded derivatives represent an integral part of the contract and cannot be traded separately.

According to IAS 39, the embedded derivative must be stated separately from the host contract if

- the characteristics and risks of the embedded derivative are not closely related to those of the host contract,
- the structured financial product is not already measured at fair value through profit or loss,
- the design of the embedded derivatives meets the criteria for a derivative.

The measurement result is recognised in the income statement (through profit or loss). Derivatives that must not be stated separately are measured together with the host contract, according to the general provisions for the respective category.

**(18) Financial instruments: Net gains and losses**

Net gains and losses include the net interest income as well as fair value measurements (with or without impact on profit or loss), impairments and write-ups, realised gains and losses from the disposal of assets and risk provisions on loans and advances.

**(19) Classes of financial instruments pursuant to IFRS 7**

In addition to the financial instruments pursuant to IAS 39, the scope of IFRS 7 also includes financial instruments that are not disclosed in accordance with other specific standards, and also financial instruments that are not recognised in the statement of financial position. IFRS 7 requires that all of these financial instruments must be grouped into specific classes that must be defined according to the appropriate criteria, whereby the characteristics of the various financial instruments must be observed. The presentation of the break-down of the balance sheet items is already expressive of the nature of the financial instrument. Therefore the formation of classes was based on those items in the statement of financial position that contain financial instruments.

The table below shows the classes defined and used by Heta:

Type of class	Essential valuation standard			Category according to IAS 39
	At fair value through profit or loss	At cost	Other	
<b>Asset classes</b>				
Cash and balances at central banks			Nominal value	n/a
Loans and advances to credit institutions		x		LAR/LAC
Loans and advances to customers		x		LAR/LAC
of which: receivables from finance leasing				n/a
Trading assets	x			HFT
Derivative financial instruments	x			HFT (Fair Value Hedges)
Financial assets – afvtpl	x			FVO
Financial assets – afs			at fair value through other comprehensive income	AFS
Financial assets – htm		x		HTM
Investments in companies accounted for at equity				n/a
Other financial investments		x		
Assets of the disposal group			Net disposal value	n/a
<b>Liability classes</b>				
Liabilities to credit institutions	x	x		LAR/LAC
Liabilities to customers	x	x		LAR/LAC/FVO
Liabilities evidenced by certificates	x	x		LAR/LAC/FVO
Trading liabilities	x			HFT
Derivative financial instruments	x			HFT (Fair Value Hedges)
Liabilities included in disposal groups classified as held for sale			Net disposal value	n/a

## (20) Hedge accounting

Hedged items such as loans and advances, financial investments or financial liabilities may be measured differently to hedging derivatives, which are always classified at fair value through profit or loss. Hedge accounting in accordance with IAS 39 recognises the offsetting effects on profit or loss of changes in the fair values of hedging instruments and hedged items.

The prerequisite for the use of hedge accounting is the documentation of the hedging relationship at the inception of the hedge and an effective compensation of the risks (prospective effectiveness). Throughout the hedging period there should be continual monitoring of whether the derivatives are compensating for changes in the value of the underlying transaction effectively (retrospective effectiveness). The proportion of the change in value of the hedged item and the hedging instrument must lie within a range of 80.0% to 125.0%. Once the hedge is no longer effective or once the hedged item or the hedging instrument no longer exists, hedge accounting must be discontinued.

Heta only uses fair value hedges in hedge accounting. These serve to hedge changes in the market values of assets and liabilities (hedged items). The risks to be hedged concern the interest risk and the foreign currency risk. In the case of 100.0% effectiveness, the measurement effects of hedged items and the hedging instrument are fully offset and have no impact on the income statement. In the event of ineffectiveness within the accepted range, such ineffectiveness is recognised in the result from hedge accounting.

A similar effect can be achieved for the item to be hedged – without having to fulfil the rigid rules of hedge accounting – if the fair value option (FVO) of IAS 39 is used. The adoption of the fair value option is irrevocable and requires documentation of the offsetting of risks. The prerequisites for a possible designation in the fair value option category are found in note (17) Financial instruments: Recognition and measurement (IAS 39). Positive market values of derivatives which are used for hedging are stated in derivative financial instruments on the asset side, while negative market values are stated in derivative financial instruments on the liabilities side.

Since 31 December 2014, all derivative hedging relationships with issued bonds and liabilities (underlying transactions on the liabilities side) had to be terminated due to the hedging relationship no longer being effective. The hedging relation-

ship was also terminated for securities and loans reported on the assets side, which feature a term that goes beyond the time horizon specified in the first wind-down plan (31 December 2020). The positive and negative market values from derivative financial instruments continue to be reported on the statement of financial position; the adjustments previously made to the underlying transactions (so-called "Hedge Adjustments") are recorded over the contractual remaining terms. This concerns the amortisation of the adjustment to the underlying business that exists at the time the hedge is de-designated (de-designation as the termination of a hedge). The underlying transactions are valued according to the respective valuation categories pursuant to IAS 39.

## **(21) Leasing**

The decisive factor for the classification and recognition of leasing relationships by the lessor is the economic contents of the leasing contract, and not the legal ownership of the leasing object. If virtually all of the risks and opportunities associated with the ownership of the leasing item are transferred to the lessee, then the lease must be classified as a financing lease according to IAS 17, otherwise it is an operating lease.

Most of the leasing contracts concluded by Heta as the lessor must be classified as financing leases. In the statement of financial position, these are shown as receivables from financing leasing at the net investment value (present value), see notes (65) Loans and advances to credit institutions and note (66) Loans and advances to customers. Collected leasing income is divided into an interest portion, which affects the income statement, and a repayment portion, without impact on the income statement.

Under operating lease agreements, the lessor presents the asset at cost less scheduled depreciation over the useful life of the asset and less any impairment loss. In the case of operating lease agreements concluded in the local currency for which repayments by the lessee were agreed in a different currency, an embedded foreign currency derivative was separated out in the event that IAS 39 criteria were met.

The leasing objects, with the exception of real estate, are reported in other assets (thereof operating leasing). Lease income less scheduled depreciation and gains and losses on disposals are recognised in other operating result. Potential impairment losses are reported in the item impairment of non-financial assets.

Real estate leased out under operating lease agreements is classified as investment property.

Assets not yet or no longer leased out are included in other assets. Impairment losses are reported in the item impairment of non-financial assets.

## **(22) Repurchase transactions**

Repurchase transactions are contracts through which the provider transfers the legal ownership of assets to the recipient for a limited time period against payment, and the parties also agree that assets can or must subsequently be re-transferred back to the provider against payment of a pre-defined amount. According to IAS 39, this item continues to be recognised on the provider's side, if he retains most of the ownership opportunities and risks. The provider recognises a liability/and the recipient recognises a receivable in the amount of the cash amount received/paid.

## **(23) Fiduciary transactions**

Fiduciary transactions concluded by Heta in its own name but for someone else's account are not shown in the statement of financial position (pursuant to IFRS). The commission payments are shown in net fee and commission income in the income statement.

## **(24) Financial guarantees**

Financial guarantees are contracts that oblige the company to make payments that provide the guarantee holder with compensation for losses. Such a loss would occur if a certain debtor fails to meet his payment obligations according to the terms in the contract. At the time of initial recognition, the financial guarantees are designated as liabilities at the fair value, and the transaction costs directly connected to the submission of the guarantee are deducted. During the course of the follow-up measurement, the liabilities are measured at the best estimate of the expenses that are required to cover the present obligation as of the reporting date. However, if the fair value is zero at the time of the initial recognition, a review is conducted during the follow-up measurement as to whether a provision according to IAS 37 must be recognised.

**(25) Cash and balances at central banks**

This item includes cash and balances daily due at central banks. These amounts are stated at nominal value. Treasury bills, eligible for refinancing with central banks are not shown in this item but, depending on their valuation category, are shown as financial assets.

**(26) Risk provisions on loans and advances**

Credit default risks are accounted for by creating specific risk provisions and portfolio risk provisions and by setting aside reserves for off-balance-sheet commitments.

Specific risk provisions are created as soon as there are objective indications that a loan may not be recoverable, the size of the allowance reflecting the amount of the expected loss. Risk provisions are calculated at the difference between the carrying amount of the loan and the net present value of the estimated future cash flows, taking the respective original effective interest rate into account and considering the provided collateral.

As specific risk provisions are based on the net present value of future cash flows, the future interest income of an impaired loan is determined through the addition of accrued interest. An increase in present value on the following reporting date is recognised as interest income (unwinding). If a loan restructuring or extension agreement is concluded, the recoverability of the loan commitment is assessed. A specific risk provision must be recognised if the present value of the agreed cash flows differs from the original carrying amount of the receivable.

Portfolio risk provisions are recorded for incurred but not yet reported losses of credit portfolios at the reporting date. Calculations are carried out by grouping loans into homogeneous portfolios with comparable risk characteristics. Provisions are made on the basis of historical loss experience in consideration of the off-statement of financial position transaction. Receivables for which specific risk provisions were made are not included in the determination of the portfolio impairment.

Amounts identified as irrecoverable after the collateral has been liquidated are charged against an existing specific risk provision or directly written off. The specific risk provision is only derecognised directly or utilised if there are no further legal claims regarding the customer at the time of recognition. Recoveries of loans and advances previously written-off are recognised in profit or loss. Allocations and reversals of risk provisions and provisions for credit commitments and guarantees are recognised in the income statement under impairments of financial assets – at cost (risk provisions on loans and advances).

Section 3 (1) of the Federal Act on the Creation of a Wind-own Entity (GSA) stipulates that the portfolio be wound-down as quickly as possible within the scope of the wind-down targets. As a result, Heta developed new measurement guidelines in 2014 and on this basis performed a group-wide review of all of its assets. The values reflect the short- and medium-term intention to sell in a limited number of receptive markets in a wind-down period of five years, with the assets being reduced by 80.0% by 2018.

In addition to loans and advances, financial instruments are measured and subjected to a recoverability test by Heta and the following indicators, which are used throughout the group, give an objective indication – whether individually or as a whole – of when impairment should be applied to a financial instrument:

- For loans and advances in the LAR (loans and receivables) category this is from that point in time at which the customer exhibits considerable financial difficulties or at any rate if the customer is more than 90 days in default with repayment.
- The same indicators apply for investments in debt instruments (AfS) as for loans and advances carried at amortised cost. Here, however, there is an additional objective indication of the existence of impairment, namely, if there is a material reduction in fair value below the amortised cost. Heta defines a material reduction as being when the market value is more than 10.0% below the amortised cost.

**(27) Derivative financial instruments**

The balance sheet reports positive and negative market values from derivative financial instruments that were obtained to hedge an underlying transaction that is recognised according to the Fair Value Option (FVO), as well as banking book derivatives, trading derivatives and derivatives that meet the criteria for hedge accounting according to IAS 39. In the income statement, the measurement result for FVO derivatives is disclosed in the result from financial assets - designated at fair value through profit or loss, in the case of banking book derivatives and trading derivatives under the trading result, and in the case of derivatives that meet the criteria for hedge accounting according to IAS 39 under the result from hedge accounting.



**(28) Investments in companies accounted for at equity**

Investments in associates and joint ventures, which are recognised according to the equity method, are shown in a separate balance sheet item.

The impact on the result from the current measurement and possible disposal results or impairments are shown under the item result from companies accounted for at equity.

**(29) Investment properties**

Investment properties consist of land and buildings that are held to generate rental income or because they are expected to increase in value. Large parts of mixed-use properties that are used by others are also shown as investment properties if the criteria for a separate rental or sale are met.

Investment properties are measured at amortised cost - according to the cost method permissible under IAS 40 - whereby depreciation is applied on a straight-line basis, using the expected useful life for fixed assets. At each reporting date, it is determined if there are any indications of possible impairment of investment properties. Pursuant to IAS 36, the current carrying amount is offset against the recoverable amount for this purpose. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. The determining factors for the calculation of fair value are the market-based estimates that are generally prepared by full-time experts. If market-based estimates are not available, fair value is estimated on the basis of the income approach.

Taking into account the gone concern assumption, the so-called market value under special assumptions was used as the comparative value, which is measured solely on the basis of the value that can be obtained for this property in line with a quick sale in a saturated market.

Current rental contracts, scheduled depreciation on rented buildings and profits and losses on disposal are shown under the operating result from investment properties. Possible impairments are shown under impairment of non-financial assets. If the reasons for the impairment no longer apply, the previously recognised impairment expense is written up. Write-ups are limited to the maximum carrying amount that does not exceed the amount that would have resulted from depreciation and amortisation if the asset had not been impaired in previous years. The useful life of building held as financial investments is the same as that of buildings recognised as assets.

**(30) Intangible and tangible assets**

Intangible assets include goodwill arising on acquisitions, software, other intangible assets and advance payments for the acquisition of intangible assets. These assets are measured at acquisition or manufacturing cost less depreciation. Internally generated software is recognised in accordance with IAS 38, providing that the conditions for recognition pursuant to the standard are fulfilled.

Tangible assets include land and buildings and plant and equipment used by Heta for its own operations. Real estate let to third parties or purchases held for capital return is reported in investment properties. Tangible assets are measured at amortised cost.

Straight-line depreciation, based on the following annual rates, is applied over the useful life of assets:

Depreciation rate	in percent	in years
For immovable assets (buildings)	2-4%	25-50 yrs
For movable assets (plant and equipment)	5-33%	3-20 yrs
For software	14-33%	3-7 yrs

In the case of events and circumstances that indicate impairment, the expense is recognised in profit or loss. The impairment of corporate assets used by the group for generating cash flows is tested pursuant to IAS 36. The current carrying amount is therefore offset against the recoverable amount. If the recoverable amount is less than the carrying amount, an impairment has to be recognised. The accounting policies used to calculate the recoverable amount at Heta were adjusted 2014 taking into account the "gone concern" assumption. It is measured solely on the basis of the value that can be realised for these properties with a quick sale in saturated markets.

Regular depreciation is shown separately in the income statement, whereas impairments and write-ups are shown in the item impairment of non-financial assets. Profits and losses from the disposal of fixed assets are shown in the other operating result.

### (31) Taxes on income

Current and deferred tax assets and liabilities are recognised jointly in the statement of financial position as tax assets or liabilities. Current taxes are calculated in accordance with tax regulations in the respective countries.

Deferred tax assets and liabilities are determined using the liability method, which compares the tax base of the statement of financial position items with the carrying amounts pursuant to IFRS. In the case of taxable temporary differences, taxes are deferred. A deferred tax liability shall be recognised, if the reversal of taxable temporary differences will lead to an effective tax burden. For taxable temporary differences associated with shares in domestic subsidiaries, no deferred tax liabilities are recognised because no reversal of the temporary difference is expected in the foreseeable future. Deferred tax assets are recognised for taxable temporary differences, which lead to a tax credit when recovered. The tax assets and deferred tax liabilities have been offset as required by IAS 12.

Changes to the tax rate are taken into account with respect to the determination of deferred taxes, always providing that they are known at the time of establishing the consolidated financial statements. In accordance with IAS 12 long-term deferred taxes are not discounted. Deferred tax assets are recorded in respect of tax loss carry-forwards if it is deemed probable that future taxable profits will be available. This assessment is based on business plans passed by the Management Board.

Given the history of losses and the uncertainties arising from the restructuring of Heta, there was no capitalisation of loss carry-forwards for the members of the Heta Austrian tax group as well as for the foreign wind-down companies.

The recoverability of a deferred tax asset due to tax loss carry-forwards and taxable temporary differences is reviewed at the end of each reporting period.

The accrual and release of deferred tax assets or liabilities is either recognised in income statement or in other comprehensive income (e.g. revaluation reserve for available for sale financial instruments).

From 1 January 2005 the group taxation option was exercised, with Heta acting as the lead company. The group taxation agreement drawn up to this end contains the rights and duties of the lead company and group members as well as the compulsory ruling on tax reconciliation as laid down by section 9 (8) of the Austrian Corporation Tax Act (KStG). This includes, in particular, the procedure for making the group taxation application, the determination of the individual group members' tax results, rights/duties to receive/provide information, elimination from the group, dissolution and duration of the group. The tax contribution method applied is essentially based on charges and any advantage arising is distributed to group members by means of a fixed charge/credit rate.

### (32) Assets classified as held for sale

According to IFRS 5, an asset is classified as held for sale if the associated carrying amount is mostly generated through a disposal and not continued use. The main criteria according to IFRS 5.7 and 5.8, which lead to such a classification if they are met on a cumulative basis, are as follows:

- immediate availability, i.e. the asset must be available for immediate sale in its current condition, at terms that are customary for the sale of such assets,
- concrete intention to sell, active search for buyers,
- high probability of a sale,
- sale within twelve months.

Where participations that were previously recognised in the consolidated financial statements based on the equity method are now classified as assets classified as held for sale, the equity method is terminated and a transfer is made to a measurement pursuant to IFRS 5.

Therefore, if the criteria are met, the item for disposal must be measured according to the special provisions of IFRS 5 on the balance sheet date, and the value must be reduced to the lower value from the carrying amount and the fair value, less disposal costs.

Assets held for sale and the related liabilities are recognised in the balance sheet under separate main items. No separate recognition is required in the income statement for the associated expenditures and income. Detailed information can be found under note (75) Assets classified as held for sale.

### (33) Other assets

Other assets mainly consist of accruals and deferrals, receivables not related to banking operations, short-term real estate projects, moveable leasing assets leased in line with an operating lease, as well as certain short-term leasing assets.

Receivables not related to banking operations mainly consist of trade receivables, and tax receivables from other taxes, with the exception of income taxes. Accruals and deferrals, along with other receivables not related to banking operations, are recognised at the nominal value.

Together with the already completed real estate building projects, the item other assets also includes real estate projects under construction. These items are measured at acquisition or production costs. Write-downs are applied if on the balance sheet date the carrying amount exceeds the net disposal value, or if a restriction of the utilisation possibilities has resulted in a reduction in value or impairment. The debt interest that is incurred for the construction period is capitalised in accordance with IAS 23. Profits and losses from the disposal of fixed assets and measurement losses are shown in the other result.

Also shown under this item are leasing objects that are either leased out as part of an operating lease on the reporting day or have not been leased yet, as well as repossessed leasing assets that are allocated to a disposal or another lease. They are measured at amortised cost in consideration of the gone concern assumption. The so-called market value under special assumptions (MV usa) is used as the comparative value; it is measured solely on the basis of the value that can be obtained for these assets in line with a quick sale in a saturated market. The measurement result is shown in the income statement in impairments of non-financial assets.

### (34) Liabilities

Liabilities to credit institutions and customers, including liabilities evidenced by certificates, are recognised at amortised cost if they were not designated into the category at fair value through profit or loss. All of Heta AG's "eligible liabilities", which were reduced by Emergency Administrative Decision II issued by the Financial Market Authority (FMA), were designated as liabilities measured at fair value in 2016, since they are managed on the basis of the fair value in accordance with the documented risk management and investment strategy. The changes in the fair value of the liabilities, which occurred from 10 April to 31 December 2016, are shown in the statement of comprehensive income under the item result from financial instruments - designated at fair value through profit or loss.

Issue costs, along with premiums and discounts for liabilities evidenced by certificates are distributed over the term of the debt.

### (35) Long-term employee provisions

Heta has both defined contribution plans and defined benefit plans. In the defined contribution plan, defined amounts are paid to an external pension fund. The payments are reported in the income statement as employee expenses. Except for these, there are no further legal or other obligations on the part of the employer. A provision does not have to be created. Defined benefit commitments relate to pension and severance obligations, and anniversary benefits. The plans are mostly unfunded, i.e. all of the funds required to cover these obligations remain in the company. Plan assets only exist for a small part of the pension provisions.

Long-term employee provisions are calculated according to IAS 19 - Employee Benefits - in accordance with the projected unit credit method. The measurement of the future obligation is based on actuarial appraisals that are prepared by independent actuaries. They are shown in the balance sheet at the amount of the present value of the defined benefit obligations. Any resulting actuarial profits or losses are recognised in other comprehensive income (OCI) in equity according to the new rules of IAS 19. The main parameters on which the actuarial calculation for Austrian employees are based consist of a discount rate of 1.0% (2015: 2.0%) as at 31 December 2016, a consideration of the wage increases of active employees in the amount of 3.0% p. a. (2015: 3.0%), the wage increases of former employees in retirement in the amount of 2.0% p. a. (2015: 2.0%) and a fluctuation discount of 0.0% (2015: 0.0%). The basic biometric data is taken into account in application of the generational mortality tables of the Austrian Association of Actuaries (Aktuarvereinigung Österreichs; AVÖ) 2008 P for salaried employees.

The expenses that must be recognised through profit or loss are divided into the components expenses for years of service, which are shown under employee expenses, and interest expenses stated under interest expenses; actuarial profits or losses are recognised in other comprehensive income (OCI) in equity.

Long-term personnel provisions were calculated in consideration of Heta's wind-down procedure. Accordingly, the wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) was used as a basis with regard to the time period for long-term personnel provisions.

### **(36) Provisions for credit commitments and guarantees**

Provisions for credit commitments and guarantees are created for risks - in particular from the still imminent utilisation of master agreements or as a provision from assumed liabilities from customer transactions. Provisions are created both for individual cases and also at the portfolio level.

Changes through profit or loss in the provisions for credit commitments and guarantees are shown in the income statement under the item impairment of financial assets - at cost (risk provisions on loans and advances).

### **(37) Restructuring provisions**

Restructuring provisions are only recognised if the general criteria for the recognition of provisions pursuant to IAS 37.72 are met. This requires in particular the existence of a factual obligation on the part of the company, which is derived from the existence of a detailed and formal restructuring plan and the notification of the affected parties with regard to the measures contained therein.

A restructuring provision was created for employees that must be fully downsized in the next few years, insofar as there is a legal claim to the payment of severance or compensation payments in line with social plans.

The expenses associated with the restructuring measures are shown in note (55) Other operating result.

### **(38) Other provisions**

Other provisions are created if present obligations exist vis-a-vis third parties from past events, if utilisation is likely and if the amount of the utilisation can be reliably determined. Long-term provisions are discounted if the effect is material. The measurement of provisions for uncertain liabilities and pending losses is based on the reliable estimate (best estimate) according to IAS 37.36 and following.

Allocation to and reversals of other provisions are shown in the relevant expense items.

### **(39) Other liabilities**

This item contains deferred income. Deferrals and accruals are recognised at the nominal value, while liabilities are recognised at amortised cost.

### **(40) Subordinated capital**

Subordinated liabilities and supplementary capital are recognised as subordinated capital. Subordinated liabilities refer to liabilities that are, or are not, evidenced by certificates and that are only satisfied after all other creditors as per the contract in the event of a liquidation or insolvency. The entire subordinated capital was subject to the "bail-in" of creditors pursuant to Emergency Administrative Decision II, and was reduced to zero.

For additional information regarding the subordinated capital, please refer to note (117) Servicing of subordinated capital.

### **(41) Hybrid capital**

Hybrid capital (in terms of the Austrian provisions under banking supervision legislation) is the capital that is generally made available to the company for the entire term of the company's life. It is different from the other subordinated capital in that it is serviced after the subordinated capital. Because of the obligatory coupon, hybrid capital is classified as debt in the consolidated financial statements according to IFRS. The entire hybrid capital was subject to the "bail-in" of creditors pursuant to Emergency Administrative Decision II, and was reduced to zero.

For additional information regarding the hybrid capital, please refer to note (117) Servicing of subordinated capital.

### **(42) Equity (including non-controlling interests)**

Equity generally establishes a residual claim to a company's assets after the deduction of all of its liabilities or obligations for which the provider of capital does not have any termination options.

The share capital includes the capital paid by the shareholders according to the statutes. The amounts subscribed in line with the issue of participation capital are shown separately in an item.

The cumulated result includes the cumulated results generated by the group, except the portions to which parties outside of the group are entitled.

The item available for sale reserve includes the valuation results - after taking into account deferred taxes - of the financial assets that belong to the category available for sale financial assets (available for sale).

Non-controlling interests in the equity of subsidiaries are shown as a separate item in equity pursuant to IAS 1.

In Heta's specific case, the equity reported for the balance sheet date is generally available to cover future losses, costs associated with the portfolio wind-down and closing-down costs. It does not establish any claim on the part of the provider of capital, since distributions may only be made after all senior and subordinated "eligible liabilities" have been serviced.

The progress of the continued orderly wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) will also depend on whether circumstances that put the wind-down process pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) objectives and principles at risk will occur in the future.

## Notes to the income statement

### (43) Segment reporting

The IFRS 8 “Business Segments” standard forms the basis for segment reporting activities. In this vein, segment reporting is based on the information that is continuously provided to the Group Management Board, which acts as the main decision-making body pursuant to IFRS 8.7 (so-called “Management Approach”). Therefore the segment structure may deviate from the organisation categories that are used in the income statement. Heta's business structure forms the basis for segment reporting activities.

The Heta segments have been defined on the basis of business- and reference value-specific indicators. The function performed by the respective subsidiary units is the authoritative factor for assessing the business-specific indicators. In this context, a basic distinction is made between “operating subsidiaries”, subsidiaries held for sale and units with a “holding function”. Reference value-specific designations are made mainly on the basis of financial size. Reference values from the income statement, such as total earnings or sales revenues, were not used for definition purposes, since wind-down units generate only minimal regular earnings (or interest income).

The “Holding” segment includes those subsidiaries that perform a holding function or that are controlled directly from the holding. The subsidiaries with a holding function include the parent company Heta and intermediate holding companies such as HAR GmbH and Cedrus Handels- und Beteiligungs GmbH (Cedrus). Measured by total assets (excluding cash and Intercompany items), the “Holding” segment is the largest Heta segment at EUR 3.4 billion, whereby the majority of this total is attributed to the group parent Heta (EUR 3.4 billion).

The operating subsidiaries include those leasing and “Brush” units that are active in the SEE region (Slovenia, Croatia, Serbia, Bosnia & Herzegovina and Montenegro), Italy and other countries (Austria, Germany, Hungary and Bulgaria). Individual countries are shown as separate segments, since separate management has been established for each “operating country” and therefore a clear division of responsibilities is in place. Measured by total assets, “Slovenia” is the largest segment with EUR 491.4 million, followed by Italy (EUR 279.1 million), the total from “other countries” (EUR 215.6 million) and Croatia (EUR 209.8 million). Those operating subsidiaries with less than EUR 200.0 million in loans and advances to customers, or whose reported loans and advances to customers make up less than 2.5% of the total loans and advances to customers in the group, were allocated to the “Others” segment.

The “Consolidation” segment includes effects from the consolidation between the different business segments, as well as consolidation postings that are taken into account at group level.

Operating income consists of the net interest income, net fee and commission income, gains and losses on financial instruments that are not measured at fair value through profit or loss, the result from financial instruments - designated at fair value through profit and loss, the operating result from investment properties and other the other operating income. The latter components are not shown separately in the presentation of segment reporting. Operating expenses include the components personnel expenses, other administrative expenses and depreciation and amortisation for tangible and intangible assets, which are not shown separately in the segment reporting.

#### 43.1. Holding

In 2016, the companies in the “Holding” segment generated a positive after-tax result of EUR 6,520.0 million (previous year: EUR -538.7 million). The largest effect results from the implementation of the haircut ordered by the Financial Market Authority (FMA); it is shown in the other result at EUR 7,125.5 million. With Emergency Administrative Decision II from 10 April 2016, the Financial Market Authority (FMA) applied the wind-down instrument of the “bail-in” of creditors. Accordingly, all “eligible liabilities” must be reduced to 46.02% of the nominal value or the amount outstanding by 1 March 2015, including interest accrued until 28 February 2015; subordinated “eligible liabilities” are reduced to zero. For IFRS purposes, all “eligible liabilities” were derecognised at the carrying amount as of 9 April 2016, and as at 10 April 2016 were re-recognised at the fair value, which was above the rate of 46.02% noted in the administrative decision. The other result also includes the disposal result for Centrice Real Estate GmbH (Centrice) and its 15 subsidiaries in the amount of EUR -24.4 million and positive income from the reversal of provisions, particularly in relation to legal and procedural costs. The item impairment of financial assets features a significant positive amount (EUR 218.8 million) as a result of the valuation of the assets in 2016, and due to the positive effects from the portfolio wind-down. Operating expenses declined from EUR -141.2 million to EUR -105.2 million over the previous year.

Total assets in the “Holding” segment were reduced by EUR -210.6 million during the entire year of 2016. Cash and balances at central banks increased during the comparative period by EUR 1,886.9 million. Consequently, assets not consisting of cash and cash equivalents (total assets excluding cash and balances at central banks) were reduced by EUR 2,097.5 million in 2016, to EUR 3,440.0 million. The greatest decrease took place in the position of financial assets (EUR -963.6 million) as a



result of the wind-down of Heta's derivative portfolio and securities portfolio. The reduction in loans and advances to credit institutions amounts to EUR -550.5 million, and is due on the one hand to partial repayments of credit lines for the former subsidiary banks HBI and Addiko Bank AG, and also the reduction in payment accounts and cash collateral. Loans and advances to customers declined by EUR -817.8 million (gross) as a result of the wind-down of the Heta loan portfolio, also due to the portfolio sale completed in line with the "Pathfinder" project. Other assets were reduced by EUR -355.7 million, mainly due to the disposal of Centrice.

#### 43.2. Slovenia

The after-tax result for the "Slovenia" segment at the end of 2016 was EUR 129.7 million (previous year: EUR 79.5 million). It is mainly caused by the reversal of risk provisions (EUR 111.6 million), which are due to positive effects from the wind-down of assets, the revaluation of the risk provisions on loans and advances and the write-up of real estate (EUR 8.7 million). The other result of EUR 13.3 million shows the income from the successful disposal of real estate and moveable assets, and rental income. Net interest income amounts to EUR 7.8 million - an improvement of EUR 9.0 million over the previous year - and is due to on-going repayments of refinancing lines and the recapitalisation measures carried out in 2015, which led to overall lower refinancing volumes and hence lower interest expenses. At EUR -13.8 million, operating expenses were EUR 1.8 million lower than in the previous year.

The initial measurement effect from 2016 from the low-performing loan portfolios transferred to Heta from the former SEE network ("Brush" portfolio) amounts to EUR -21.5 million, and was recognised directly in equity in the segment presentation. This effect must be considered neutral in terms of the group income statement in the 2016 financial year, since the corresponding provisions were already created in Heta AG's 2015 annual financial statements in connection with the refinancing lines of Addiko Bank AG.

Total assets in the "Slovenia" segment declined by EUR -92.4 million in 2016, and now total EUR 491.4 million. In this context, it must be noted that during the course of the year 2016, total assets temporarily increased as a result of the "Brush" transfer. The net carrying amount of the transferred receivables amounts to EUR 20 million as at December 2016. The reduction in total assets is mainly due to the wind-down of loans and advances to customers (EUR -301.9 million), in part because of the "Drava" project. This item also includes receivables from the group holding, which are held as liquidity and increased significantly in the current year under review. The decrease in risk provisions (EUR -226.0 million) is the result of reversals and utilisations in connection with the portfolio wind-down. Assets on stock declined by EUR -21.4 million during the year. The wind-down activities resulting from disposal activities were partially compensated by the larger volume of repossessions and write-ups. The increase in loans and advances to credit institutions in the amount of EUR 10.9 million is due to the increase in cash and balances at central banks as a result of cash return flows from the asset wind-down.

#### 43.3. Croatia

The Croatian units generated a positive after-tax result as at December 2016 of EUR 45.8 million (previous year: EUR -15.4 million). The main drivers behind this result are the reversals of risk provisions on loans and advances (EUR 65.4 million) and the other result (EUR 8.3 million), which reports mainly profits from the sale of assets on stock. The measurement of real estate and moveable assets resulted in an impairment requirement of EUR -16.2 million. Compared to the previous year, the interest result is positive at EUR 2.4 million (previous year: EUR -3.1 million) due to the on-going repayments and the recapitalisation measures carried out in 2015. Analogous to the procedure used in the "Slovenia" segment, the initial measurement effects from the "Brush" portfolio in the amount of EUR -53.7 million are shown in equity at the Croatian units.

The assets in the "Croatia" segment as at December 2016 amount to EUR 209.8 million, which represents a EUR -29.7 million decrease compared to the end of 2015. Not taking into account the "Brush" portfolio that was transferred in 2016, which features a net carrying amount of EUR 37.4 million (including EUR 18.8 million in net loans and advances to customers, EUR 15.6 million in assets on stock and EUR 3.0 million in other assets) as at December 2016, total assets declined by EUR -65.7 million. In terms of amounts, the gross loans and advances to customers item was reduced the most (EUR -437.7 million); in addition to the wind-down of individual customers, considerable volumes were also processed on account of the portfolio sales "Pathfinder" and "Drava".

#### 43.4. Serbia

As at 31 December 2016, the "Serbia" segment reports a slightly negative after-tax result of EUR -0.1 million (previous year: EUR -7.4 million). Positive effects from the reversal of risk provisions in the amount of +6.3 million (previous year: EUR +7.9 million) and the other result in the amount of EUR 1.4 million (previous year: EUR -7.9 million) are accompanied by impairments of assets on stock of EUR -2.5 million (previous year: EUR -0.2 million) and operating expenses of EUR -5.6 million (previous year: EUR -6.1 million). The reversals of risk provisions are due to the positive effects from the asset wind-down

and revaluations. In the "Serbia" segment, measurement effects from the "Brush" portfolio (amounting to EUR -31.1 million) are recognised directly in equity.

Total assets for the Serbian units amount to EUR 62.9 million as at December 2016, a drop of EUR -20.9 million compared to the previous year. The reduction in gross loans and advances to customers corresponds to EUR -68.6 million and is due to the wind-down of individual customers and the "Drava" portfolio sale. It must be noted, however, that the current status of net loans and advances to customers in the amount of EUR 6.6 million from the "Brush" transfer had the effect of temporarily increasing loans and advances to customers. Assets on stock were reduced by EUR -8.6 million, and other assets by EUR -5.6 million.

#### 43.5. Bosnia

The after-tax result for the "Bosnia" segment for 2016 is EUR 30.5 million (previous year: EUR -14.1 million). Positive effects from the wind-down of receivables, as well as revaluations at the end of 2016 led to the reversal of risk provisions through profit or loss in the amount of EUR 30.5 million. The other result is shown at EUR +1.5 million, and is the result of positive effects from the disposal result for real estate and moveable assets, as well as negative effects from the allocation of provisions in connection with court proceedings. Compared to the previous year, net interest income improved by EUR 7.1 million to EUR +2.7 million. This result is mainly due to the on-going repayments of refinancing lines and the recapitalisation measures carried out in 2015, which, when compared to the previous year, led to a significantly lower average volume of refinancing lines in 2016. The initial measurement of the "Brush" portfolio results in an impairment requirement of EUR -5.4 million, which in turn does not create a burden on the income statement but rather is recognised directly in equity in the segment presentation.

Segment assets as at 31 December 2016 amount to EUR 58.4 million, which represents a decline of EUR -11.4 million over the year 2016. The largest wind-down resulted from the item loans and advances to customers, which declined by EUR -80.1 million on a gross basis (net wind-down EUR -5.5 million). The reduction in the assets on stock item (EUR -1.9 million) is the result of disposals, which were however partially compensated with write-ups. Due to repayments of refinancing lines to the group parent, loans and advances to credit institutions declined by EUR 5.5 million to EUR 1.4 million compared to 31 December 2015.

#### 43.6. Montenegro

The after-tax result for the "Montenegro" segment amounts to EUR 1.5 million (previous year: EUR -9.5 million). Risk provisions of EUR 11.1 million were reversed during the course of the annual measurement of the portfolio and also on account of positive effects from the asset wind-down process. The real estate valuation resulted in additional impairment requirements of EUR -4.7 million. Net interest income is negative in 2016 at EUR -0.7 million, but improved by EUR 2.1 million over the previous year (EUR -2.8 million). This is due to lower interest expenses in connection with the 2015 recapitalisation measures. The initial measurement effect from the "Brush" portfolio amounts to EUR -9.4 million, but is recognised directly in equity, analogous to the other segments.

Montenegro's segment assets declined by EUR 14.9 million to EUR 51.1 million. This reduction is mainly due to the wind-down in gross loans and advances to customers (EUR -75.5 million), whereby the reduction is the result of both the wind-down of individual loans and the "Drava" project. Additionally, the risk provision on loans and advances was also reduced by EUR 64.1 million in the course of the wind-down in volume. Assets on stock declined by EUR 6.4 million due to disposals and the previously noted impairments. The item loans and advances to credit institutions rose due to the increase in cash and balances at central banks.

#### 43.7. Italy

The "Italy" segment, which consists of Heta Asset Resolution Italia S.r.l. (HARIT) and Malpensa Gestioni Srl, generated a loss of EUR -10.6 million (previous year: EUR -63.2 million). Net interest income of EUR +3.1 million (previous year: EUR +5.3 million) and positive effects from the reversal of risk provisions in the amount of EUR 2.8 million (previous year: EUR -23.8 million) are accompanied by operating expenses of EUR -10.9 million (previous year: EUR -11.3 million) and additional write-down requirements for assets on stock of EUR -4.9 million (previous year: EUR -22.7 million).

Segment assets as at December 2016 amount to EUR 279.1 million; a total of EUR -47.5 million was wound-down. The company's individual balance sheet items were reclassified into other assets pursuant to IFRS 5, as the two companies were the subject of a disposal process in 2016. The closing of the transaction took place in February 2017.

#### 43.8. Others

In 2016, the "Others" segment generated a positive after-tax result of EUR 20.8 million (previous year: EUR 24.2 million). The reversals of risk provisions on loans and advances in the amount of EUR 34.5 million are the result of positive effects from the

wind-down efforts, mainly from the Hungarian portfolio. The other result is positive at EUR 0.6 million, and is due to profits from the disposal of real estate and moveable assets, and provisions for other taxes. The negative amount shown in the item "Impairment of financial assets" is due to the reduction in the values of real estate and moveable assets. Compared to the previous year, costs declined significantly by EUR 3.0 million, and total EUR -9.4 million at the end of 2016.

The assets of the units combined in the "Others" segment total EUR 215.6 million as at 31 December 2016 (previous year: EUR 327.0 million). The reduction in total assets is mainly due to the reduction in gross loans and advances to customers (EUR -171.6 million) and other assets (EUR -32.0 million). The reduction in other assets is partially due to the reduction in assets classified as IFRS 5 in the 2015 consolidated financial statements, including the air plane portfolio. Assets on stock declined by EUR -11.8 million in 2016 as a result of the disposal and write-down of real estate.

### 43.9. Consolidation

In the income statement, the reconciliation to the "Consolidation" group result consists mainly of the expected loss from the disposal of the Italian subsidiary HARIT, which was calculated on the basis of the expected purchase price, taking into account the expected utilisations from seller warranties and guarantees, in the amount of EUR -39.1 million.

### 43.10. Segment presentation

EUR m

Period 1.1. - 31.12.2016	Holding	Slo- venia	Cro- atia	Ser- bia	Bos- nia	Monte- negro	Italy	Others	IFRS 5 reclassi- fication*)	Consoli- dation	Heta Group
<b>Operating income</b>	<b>6.404,2</b>	<b>20,2</b>	<b>10,6</b>	<b>2,1</b>	<b>4,1</b>	<b>-2,0</b>	<b>2,7</b>	<b>4,4</b>	<b>-2,7</b>	<b>6,5</b>	<b>6.450,2</b>
Net interest income	59,2	7,8	2,4	0,6	2,7	-0,7	3,1	3,8	-3,1	-1,4	74,6
Net fee and commission income	-1,1	-1,0	0,0	0,0	-0,1	0,0	-0,1	0,0	0,1	0,1	-2,1
Other result	6.346,1	13,3	8,3	1,4	1,5	-1,3	-0,3	0,6	0,3	7,8	6.377,8
<b>Operating expense</b>	<b>-105,2</b>	<b>-13,8</b>	<b>-14,0</b>	<b>-5,6</b>	<b>-6,2</b>	<b>-2,9</b>	<b>-10,9</b>	<b>-9,4</b>	<b>10,9</b>	<b>6,3</b>	<b>-150,7</b>
Operating result - prior to risk provision on loans and advances	6.299,0	6,4	-3,4	-3,5	-2,2	-4,9	-8,2	-4,9	8,2	12,9	6.299,4
Impairment of financial assets	218,8	111,6	65,4	6,3	30,5	11,1	2,8	34,5	-2,8	-0,6	477,7
Impairment of non financial assets	0,0	8,7	-16,2	-2,5	3,6	-4,7	-4,9	-4,9	4,9	0,1	-15,9
<b>Result after tax from continued operation</b>	<b>6.520,0</b>	<b>129,7</b>	<b>45,8</b>	<b>-0,1</b>	<b>30,5</b>	<b>1,5</b>	<b>-10,6</b>	<b>20,8</b>	<b>10,6</b>	<b>12,5</b>	<b>6.760,7</b>
<b>Result after tax from discontinued operations</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>-10,6</b>	<b>-36,2</b>	<b>-46,8</b>
<b>Result after tax</b>	<b>6.520,0</b>	<b>129,7</b>	<b>45,8</b>	<b>-0,1</b>	<b>30,5</b>	<b>1,5</b>	<b>-10,6</b>	<b>20,8</b>	<b>0,0</b>	<b>-23,7</b>	<b>6.713,9</b>
<b>Segment assets 31.12.2016</b>	<b>9.604,9</b>	<b>491,4</b>	<b>209,8</b>	<b>62,9</b>	<b>58,4</b>	<b>51,1</b>	<b>279,1</b>	<b>215,6</b>	<b>0,0</b>	<b>-185,8</b>	<b>10.787,5</b>
Cash and balances at central banks	6.164,9	0,0	0,0	0,0	0,0	0,0	0,3	0,0	-0,3	0,0	6.164,9
Loans and advances to credit institutions	2.175,2	42,0	4,6	14,9	1,4	5,5	14,4	16,2	-14,4	-127,0	2.132,8
Risk provisions on loans and advances to credit institutions	-472,2	0,0	0,0	-0,1	0,0	0,0	0,0	0,0	0,0	127,0	-345,3
Loans and advances to customers	2.373,7	911,6	781,5	287,0	508,3	208,1	256,6	305,6	-256,6	-81,3	5.294,7
Risk provisions on loans and advances to customers	-1.203,3	-668,1	-649,7	-252,0	-468,5	-191,2	-206,2	-157,9	206,2	9,4	-3.581,3
Assets on Stock	32,3	165,2	64,9	11,5	16,0	28,4	128,0	15,1	-128,0	1,9	335,2
Financial Assets	370,5	6,1	0,3	0,6	0,2	0,0	0,0	0,1	0,0	-6,1	371,6
Other Assets	163,9	34,6	8,3	1,0	1,0	0,3	86,1	36,5	193,0	-109,8	414,9
thereof non-current assets held for sale	0,0	13,5	0,0	0,1	0,0	0,0	0,0	0,6	279,1	-46,6	246,7

\* The column "IFRS 5 reclassification" is used to transfer the current result for the discontinued operation (Italy segment) from the current result to the after tax result for the period from discontinued operations. In the segment reports submitted to the Group Management Board, the current result for the discontinued operation was not reported in the result from discontinued operations but in the current result. According to IFRS 5, the income statement must be adjusted, but not the balance sheet.

EUR m

Period 1.1. - 31.12.2015	Holding **)	Slo- venia	Croatia	Serbia	Bos- nia	Monte- negro	Italy	Others	IFRS 5 reclassi- fication *)	Conso- lidat- ion **)	Heta Group **)
<b>Operating income</b>	<b>-1.017,5</b>	<b>2,2</b>	<b>-6,6</b>	<b>-8,9</b>	<b>-11,6</b>	<b>-3,3</b>	<b>-8,2</b>	<b>1,8</b>	<b>8,2</b>	<b>14,2</b>	<b>-1.029,8</b>
Net interest income	41,4	-1,2	-3,1	-1,0	-4,4	-2,8	5,3	8,7	-5,3	7,9	45,5
Net fee and commission income	-38,3	-0,6	0,0	0,0	-0,1	0,0	-0,1	0,0	0,1	-0,1	-39,2
Other result	-1.020,7	4,0	-3,5	-7,9	-7,1	-0,5	-13,4	-6,9	13,4	6,3	-1.036,1
<b>Operating expense</b>	<b>-141,2</b>	<b>-15,6</b>	<b>-14,6</b>	<b>-6,1</b>	<b>-7,3</b>	<b>-3,7</b>	<b>-11,3</b>	<b>-12,4</b>	<b>11,3</b>	<b>5,5</b>	<b>-195,3</b>
Operating result - prior to risk provision on loans and advances	-1.158,7	-13,4	-21,2	-15,0	-19,0	-6,9	-19,5	-10,6	19,5	19,7	-1.225,1
Impairment of financial assets	613,2	103,6	17,3	7,9	9,9	-2,6	-23,8	39,8	23,8	24,0	813,0
Impairment of non financial assets	5,9	-7,3	-11,6	-0,2	-4,0	0,1	-22,7	-5,9	22,7	-1,5	-24,6
<b>Result after tax from continued operation</b>	<b>-538,7</b>	<b>79,5</b>	<b>-15,4</b>	<b>-7,4</b>	<b>-14,1</b>	<b>-9,5</b>	<b>-63,2</b>	<b>24,2</b>	<b>63,2</b>	<b>46,0</b>	<b>-435,5</b>
<b>Result after tax from discontinued operations</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>-63,2</b>	<b>2,5</b>	<b>-60,7</b>
<b>Result after tax</b>	<b>-538,7</b>	<b>79,5</b>	<b>-15,4</b>	<b>-7,4</b>	<b>-14,1</b>	<b>-9,5</b>	<b>-63,2</b>	<b>24,2</b>	<b>0,0</b>	<b>48,5</b>	<b>-496,2</b>
<b>Segment assets 31.12.2015</b>	<b>9.815,5</b>	<b>583,8</b>	<b>239,5</b>	<b>83,8</b>	<b>69,8</b>	<b>66,0</b>	<b>326,6</b>	<b>327,0</b>	<b>0,0</b>	<b>-358,5</b>	<b>11.153,5</b>
Cash and balances at central banks	4.278,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	4.278,0
Loans and advances to credit institutions	2.725,7	31,1	5,0	16,0	6,9	1,4	18,7	13,2	0,0	-127,0	2.691,1
Risk provisions on loans and advances to credit institutions	-605,2	0,0	0,0	-12,5	0,0	0,0	0,0	0,0	0,0	127,0	-490,7
Loans and advances to customers	3.191,5	1.213,5	1.219,2	355,6	588,4	283,6	314,6	477,2	0,0	-93,2	7.550,3
Risk provisions on loans and advances to customers	-1.628,3	-894,1	-1.072,2	-302,8	-545,7	-255,3	-248,0	-258,9	0,0	39,9	-5.165,4
Assets on Stock	0,0	186,6	80,9	20,1	17,9	34,8	144,3	26,9	0,0	-5,6	506,1
Financial Assets	1.334,1	0,1	0,0	0,7	0,2	0,0	0,0	0,0	0,0	-137,9	1.197,3
Other Assets	519,6	46,6	6,5	6,6	2,1	1,6	97,0	68,5	0,0	-161,7	586,9
thereof non-current assets held for sale	407,0	7,8	0,0	1,4	0,0	0,0	0,0	15,5	0,0	0,0	431,7

\* The column "IFRS 5 reclassification" is used to transfer the current result for the discontinued operation (Italy segment) from the current result to the after tax result for the period from discontinued operations. In the segment reporting to the Group Management Board, the current result for the discontinued operation was not reported in the result from discontinued operations but in the current result. IFRS 5 requires that the income statement is adjusted, but not the balance sheet.

\*\*) Previous year's values were adjusted to improve comparability with the current period (2016)

**(44) Interest and similar income**

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
<b>Interest income</b>	<b>257.1</b>	<b>549.1</b>
from loans and advances to credit institutions	51.7	15.4
from loans and advances to customers	117.7	161.7
from bonds, treasury bills and other fixed-interest securities	3.0	10.6
from derivative financial instruments, net	2.8	169.7
from the release of hedge adjustments	80.6	186.1
Other interest income	1.3	5.5
<b>Current income</b>	<b>13.3</b>	<b>17.6</b>
from finance leasing	13.3	17.6
<b>Total</b>	<b>270.5</b>	<b>566.7</b>

\* Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations

The item loans and advances to customers includes income from unwinding in the amount of EUR 77.3 million (2015 adjusted: EUR 114.5 million).

The reduction in interest derivatives in the 2016 financial year is also reflected in the interest income: "Eligible liabilities" were reduced as at 9 April 2016 as a result of Emergency Administrative Decision II. The haircut of the liabilities also led to the derecognition of the hedge adjustment carrying amount component, as a result of which interest income from the amortisation of the hedge adjustment will no longer be recognised as of 10 April 2016. Instead, the holdings of affected hedge adjustments were derecognised as at 9 April 2016 through profit or loss in favour of the result for the "bail-in" of creditors pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG).

Interest and similar income breaks down as follows in accordance with the IAS 39 categories:

EUR m

	IAS 39 Measurement category	1.1. - 31.12.2016	1.1. - 31.12.2015
<b>Interest income</b>		<b>270.5</b>	<b>566.7</b>
from loans and advances to credit institutions and customers	LAR	263.8	386.0
from derivative financial instruments, net	HFT (Fair Value Hedges)	2.8	169.7
from financial investments – designated at fair value through profit or loss	FVO	0.2	1.1
from financial investments – available for sale	AFS	3.0	9.7
Other	-	0.6	0.1
<b>Total</b>		<b>270.5</b>	<b>566.7</b>

**(45) Interest and similar expenses**

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
<b>Interest expenses</b>	<b>-181.4</b>	<b>-467.9</b>
for liabilities to credit institutions	-38.6	-118.7
for liabilities to customers	-19.9	-58.3
for liabilities evidenced by certificates	-61.4	-218.7
for subordinated capital	-14.0	-51.7
from the release of hedge adjustments	-26.9	-12.8
for other liabilities	-20.5	-7.7
<b>Similar expenses</b>	<b>-14.5</b>	<b>-53.3</b>
<b>Total</b>	<b>-195.9</b>	<b>-521.2</b>

Interest expenses are decreasing compared to the previous year's period due to the reduction in "eligible liabilities" (including accrued interest up to 28 February 2015) ordered by the Financial Market Authority (FMA). A total of EUR 7.0 billion in "eligible liabilities" (including interest liabilities recognised for the period 1 March 2015 to 9 April 2016) was derecognised as at 9 April 2016. This had the effect of also significantly reducing the volume of interest-bearing liabilities. With regard to the "eligible liabilities" affected by the haircut, which were reduced to 46.02% (with the subordinated capital reduced to zero), the interest rate is retroactively reduced to zero as a result of Emergency Administrative Decision II; therefore no interest expenses have been recognised for the affected holdings since 10 April 2016. In contrast, all of the interest was entered as interest expenses for the 2015 financial year under the moratorium of Emergency Administrative Decision I; however, this interest was subject to a payment stop.

Interest and similar expenses are broken down as follows in accordance with IAS 39 categories:

	IAS 39 Measurement category	1.1. - 31.12.2016	1.1. - 31.12.2015
<b>Interest expenses</b>		<b>-181.3</b>	<b>-467.9</b>
for financial liabilities – designated at fair value through profit or loss	FVO	-6.9	-26.0
for financial liabilities – at cost	Fin. Liabilities At Cost	-174.5	-441.9
<b>Similar expenses</b>		<b>-14.5</b>	<b>-53.3</b>
<b>Total</b>		<b>-195.9</b>	<b>-521.2</b>



**(46) Fee and commission income**

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Credit business	1.0	1.6
Bank transfers including payment transactions	0.0	0.0
Other financial services	0.3	0.6
<b>Total</b>	<b>1.3</b>	<b>2.3</b>

**(47) Fee and commission expenses**

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
Credit business	-1.6	-39.2
Securities and custodian business	-0.5	-0.6
Bank transfers including payment transactions	-0.3	-0.3
Other financial services	-1.1	-1.4
<b>Total</b>	<b>-3.5</b>	<b>-41.5</b>

\* Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations

**(48) Gains and losses on financial instruments that are not measured at fair value**

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Result from financial investment – available for sale	-26.9	2.4
Result from fin. investments – at cost	2.0	1.1
<b>Total</b>	<b>-24.9</b>	<b>3.5</b>

**(49) Result from the resolutions/application of Hypo Alpe Adria Restructuring Act (HaaSanG)**

in EUR Mio.

	31.12.2016	31.12.2015
Recognition/derecognition of subordinated capital	0.0	-824.6
Recognition/derecognition of liabilities to BayernLB	0.0	-884.4
Resolution of derivative transactions	0.0	0.0
	<b>0.0</b>	<b>-1,709.0</b>

**(50) Result from the "bail-in" of creditors pursuant to BaSAG**

The result from the "bail-in" of creditors pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) relates to the implementation of the haircut ordered by the Financial Market Authority (FMA), and amounts to EUR 7,125.5 million (1 January to 31 December 2015: EUR 0.0 million). With Emergency Administrative Decision II from 10 April, the Financial Market Authority (FMA) is applying the wind-down instrument of the "bail-in" of creditors. Accordingly, all "eligible liabilities" must be reduced to 46.02% of the nominal value or the amount outstanding by 1 March 2015, including interest accrued until 28 February 2015; subordinated "eligible liabilities" are reduced to zero. In addition, the maturity dates for the "eligible liabilities" were changed to the date of the resolution on dissolution for Heta, or 31 December 2023, and the interest rate was retroactively set to zero as at 1 March 2015.

These changes in the terms initially lead to the complete derecognition of the currently stated “eligible liabilities” and the re-recognition of the new reduced liabilities. The derecognition with the carrying amount as at 9 April 2016 and the re-recognition of the new liabilities on 10 April 2016 results in net income of EUR 9,078.0 million. The new liabilities had to be recognised at the fair value as at 10 April 2016. This fair value approach is applied to the liabilities results in a contrary effect on the result of EUR -1,997.4 million. This effect from the fair value measurement is based on the assumption that Heta's expected net assets must be distributed to creditors at the time of the resolution on dissolution, but at the latest on 31 December 2023. The measurement result from the fair value assessment of liabilities as at 31 December 2016 (P&L effect from 10 April to 31 December 2016) is shown in the result from financial instruments - designated at fair value through profit or loss.

### (51) Result from trading

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
Foreign exchange transactions	10.8	-147.5
<b>Total</b>	<b>10.8</b>	<b>-147.5</b>

\* Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations

The trading result includes a result from currency-related transactions in the amount of EUR -7.4 million (2015 adjusted: EUR -125.6 million), which in the 2015 comparative period was affected by the appreciation in the Swiss Franc.

### (52) Result from hedge accounting

This is the result from hedge accounting activities according to IAS 39, due to the measurement of the hedging derivatives and the measurement of the underlying transactions.

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Valuation result from secured underlying transactions	0.0	-4.5
Valuation result from hedging derivatives	0.0	4.3
<b>Total</b>	<b>0.0</b>	<b>-0.2</b>

All of Heta's still existing active hedges and all passive hedges were reversed; the corresponding assets were reallocated to their original category as at the respective reversal date.

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

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
<b>Result from financial assets and related derivatives</b>	<b>53.8</b>	<b>-73.7</b>
from loans and advances to customers and credit institutions	54.2	-70.6
from equity instruments	-1.1	-3.5
from debt instruments	0.0	1.1
from treasury bills	0.7	-0.7
<b>Result from long-term financial liabilities and related derivatives</b>	<b>-1,071.3</b>	<b>75.1</b>
from liabilities evidenced by certificates	-737.5	26.4
from subordinated capital and other liabilities	0.1	48.8
from other liabilities	-334.0	0.0
<b>Total</b>	<b>-1,017.1</b>	<b>1.5</b>

In Heta's case, the application of the fair value option also includes financial assets that contain embedded derivatives that must be stated separately. By designating the entire instrument in the category at fair value through profit or loss, the compulsory separation of hedging instruments is avoided. Furthermore, this category for financial assets is also used to avoid accounting mismatches. The fair value option is used for financial assets if related liabilities are already recognised at the fair value. In addition, this category is also used for the purpose of implementing a risk-reducing hedging strategy.

Financial liabilities that are subject to the haircut due to their status as "eligible liabilities" are managed on the basis of a documented risk management strategy, and their value development is continuously assessed on the basis of the fair value. Hence these liabilities are measured at the fair value in accordance with IAS 39.9b ii).

**(54) Operating result from investment properties**

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
Rental income	33.9	53.1
Depreciation	-14.1	-22.8
Disposal result	14.6	13.9
Other expenses	-6.6	-7.2
thereof direct operating expenses (rented IP)	-1.2	-2.3
thereof direct operating expenses (not rented IP)	-5.4	-4.9
<b>Total</b>	<b>27.8</b>	<b>36.9</b>

\* Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations

**(55) Other operating result**

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
Other income	380.1	1,088.8
Other operating expenses	-124.4	-310.2
<b>Total</b>	<b>255.6</b>	<b>778.7</b>
Result from operate lease assets	0.6	3.3
Other rental income	0.5	0.5
Net capital gains/losses from the sale of intangible and tangible assets	1.9	0.3
Result from emergency acquisitions and repossessed asset	8.7	2.8
Result from allocation/release of other provisions	59.9	109.5
Other tax expenses (incl. bank tax except corporate income tax)	-3.1	-6.9
Expenses from complete or partial sale of fully consolidated companies	0.4	5.0
Restructuring expenses	-0.2	-7.0
Result from assets classified as held for sale and disposal groups	-21.4	-2.9
Income from release of provision for anticipated claims by creditors	0.0	886.8
Result from the reduction of "eligible liabilities" concerning provisions and other liabilities	-58.2	0.0
Result from Adria sales agreement	258.2	-199.1
Remaining other result	8.3	-13.6
<b>Total</b>	<b>255.6</b>	<b>778.7</b>

\* Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations

The result from operating lease assets is mainly composed of ongoing lease payments less regular depreciation.

Other rental income is the result of renting buildings used for own activities, which are of minor importance.

The item gains/losses on disposal from the disposal of intangible and tangible assets includes mainly profits from the disposal of land and buildings used for own activities.

The result from emergency acquisitions and repossessed leasing assets mainly consists of disposal proceeds, rental income and current operating expenses.

The result from the reversal of provisions is mainly due to no longer required provisions in connection with the BaSAG and HaaSanG proceedings.

The result from the disposal of assets and disposal groups includes the result from the deconsolidation of Centrice (see note (10) Scope of consolidation) in the amount of EUR -24.4 million. Positive disposal results were achieved from the disposal of the Hungarian project company HETA 2014 Tanacsado Kft. and the sale of an aircraft of subsidiary HETA Luftfahrzeuge Leasing GmbH.

The result from the Adria sales agreement in the amount of EUR 258.2 million is due to the settlement between Heta and Addiko Bank AG from 23 December 2016. Because of the settlement, most of the discount and the provisions for the guarantee agreements with the Republic of Austria could be reversed as at 31 December 2016.

The effects from the measurement (that had to be performed as at 31 December 2016) of the reduced "eligible liabilities" (provisions and other liabilities), which were not classified as liabilities measured at fair value through profit or loss, amount to EUR -58.2 million.

Detailed information regarding restructuring expenses can be found in note (104) Restructuring expenses.

**(56) Impairment of financial assets**

The impairment of financial assets is broken down as follows:

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
<b>Impairment financial assets – at cost (risk provision)</b>	<b>465.0</b>	<b>816.8</b>
Allocations	-227.4	-306.3
Releases	658.1	1,097.9
Receipts from loans and advances previously impaired	45.6	46.8
Directly recognised impairment losses	-11.3	-21.6
<b>Impairment financial assets – available for sale</b>	<b>12.8</b>	<b>-3.8</b>
<b>Impairment financial assets – held to maturity</b>	<b>0.0</b>	<b>0.0</b>
<b>Total</b>	<b>477.7</b>	<b>813.0</b>

\* Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations

The impairment of financial assets measured at cost includes credit risk provisions for on and off-balance-sheet transactions. Detailed information on risk provisions on loans and advances is provided under note (67) Risk provisions on loans and advances and provisions for credit commitments and guarantees.

Of the reversals totalling EUR 649.2 million, EUR 166.0 million refers to HBI. The remaining reversals are due to successful disposals that were above the expected return flows.

**(57) Impairment of non-financial assets**

The impairment of non-financial assets is broken down as follows:

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
Land and buildings	-0.1	1.4
Plant and equipment	0.0	-0.2
Intangible assets	0.0	-1.0
Goodwill	0.0	0.0
Investment properties	-0.5	-5.3
Operate-Leases	-0.2	-0.6
Emergency required assets and repossessed assets from leases	-15.0	-19.0
<b>Total</b>	<b>-15.9</b>	<b>-24.6</b>

\* Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations

The impairment for land and buildings amounts to EUR -0.3 million (2015 adjusted: EUR 0 million), and relates to the headquarters in Montenegro; this figure is accompanied by write-ups of EUR 0.2 million (2015: EUR 1.4 million), mainly from a Croatian leasing unit and a Slovenian project company.

The impairments for plant and equipment, intangible assets, investment properties and emergency acquisitions and repossessed assets were identified on the basis of the "MV usa" (Market Value under special assumptions). See also note (29) Investment properties, (30) Intangible and tangible assets and (33) Other assets.

The impairments applied to investment properties in the amount of EUR -14.7 million (2015 adjusted: EUR -18.0 million) are mainly due to leasing units in Croatia, Montenegro and Serbia. They are accompanied by write-ups of EUR 14.2 million (2015: EUR 12.8 million), which result mainly from real estate companies and leasing units in Slovenia and Croatia.

The impairment of EUR -18.9 million (2015 adjusted: EUR -19.5 million) for emergency acquisitions and repossessed leasing assets is mainly due to the subsidiaries in Croatia, Bulgaria, Slovenia and Austria, whereas the write-up of EUR 3.9 million (2015: EUR 0.5 million) is derived from a leasing unit in Bosnia and Herzegovina.

**(58) Personnel expenses**

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
Wages and salaries	-48.0	-58.4
Social security	-10.2	-11.8
Long-term employee provisions	-2.4	-3.6
Other employee costs	-2.2	-3.2
<b>Total</b>	<b>-62.8</b>	<b>-77.1</b>

\* Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations

The long-term employee provisions contain contributions to defined-contribution plans totalling EUR -0.6 million (2015: EUR -0.5 million). In addition, payments totalling EUR -0.4 million (2015: EUR -0.7 million) were made into the employee severance and retirement fund for the employees in Austria.

**(59) Other administrative expenses**

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
Infrastructure costs	-6.3	-7.2
IT- and telecommunications	-8.4	-10.3
Legal and advisory costs	-55.1	-76.3
Expense for audit and audit-related services	-2.5	-3.2
Expenses related to reorganisation and restructuring	-1.6	-1.7
Investigation of the past	-0.4	-0.2
Staff training cost	-0.8	-0.6
Other general administrative expenses	-9.6	-14.2
<b>Total</b>	<b>-84.7</b>	<b>-113.6</b>

\* Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations

**(60) Depreciation and amortization on tangible and intangible assets**

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
Land and buildings	-0.9	-1.7
Plant and equipment	-1.0	-1.7
Intangible assets	-1.4	-1.2
<b>Total</b>	<b>-3.2</b>	<b>-4.6</b>

\* Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations



**(61) Result from companies accounted for at equity**

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
Income from companies accounted for at equity	1.6	1.9
Expense from companies accounted for at equity	-2.1	-0.1
<b>Total</b>	<b>-0.6</b>	<b>1.7</b>

**(62) Taxes on income****62.1. Income tax expenses**

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
Current tax	-1.3	-45.3
Deferred tax	1.3	44.8
<b>Total</b>	<b>-0.1</b>	<b>-0.5</b>

\* Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations

The reconciliation from the theoretically calculated tax expenses to the effective tax burden is as follows:

EUR m

	31.12.2016	31.12.2015*
Result before tax from continued operation	6,760.7	-435.0
Result before tax from discontinued operation	-46.6	-63.5
<b>Result before tax</b>	<b>6,714.2</b>	<b>-498.5</b>
Theoretical income tax expense based on Austrian corporate tax rate of 25%	-1,678.5	124.6
<b>Tax effects</b>		
from divergent foreign tax rates	16.5	-31.2
from previous year	5.3	34.7
from foreign income and other tax-exempt income	1,485.3	59.5
from non-tax deductible expenses	-2.4	-207.4
from non-recognition of deferred taxes on loss carry-forwards and temporary differences	172.3	44.9
from the change of deferred taxes on risk provisions, on temporary differences and loss carryforwards	1.2	-23.7
from other tax effects	0.0	0.8
<b>Actual income tax expenses (effective tax rate: 0.01% (2015: 0.5%))</b>	<b>-0.3</b>	<b>2.3</b>
Income tax expenses attributable to continued operations	-0.1	-0.5
Income tax expenses attributable to discontinued operations	-0.2	2.8

\* Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations

The effects from the non-recognition of deferred tax assets for 2016 relate to temporary differences and tax loss carry forwards, especially those of Heta Asset Resolution AG, the Croatian wind-down unit HETA Asset Resolution Hrvatska d.o.o., Zagreb, and the Slovenian wind-down unit HETA Asset Resolution d.o.o., Ljubljana. The non-recognition was due to the fact that it is unlikely that the amounts will be utilised during the wind-down period.

The effect from tax-exempt income relates almost entirely to Heta Asset Resolution AG, and results from the implementation of the haircut ordered by the Financial Market Authority (FMA). With Emergency Administrative Decision II from 10 April 2016, the Financial Market Authority (FMA) applied the wind-down instrument of the "bail-in" of creditors. The resulting income for Heta Asset Resolution AG is a tax-exempt income.

## 62.2. Deferred income tax assets/liabilities

In 2016, deferred income tax assets and liabilities were offset to the extent that this was permitted under the specifications of IAS 12.

Heta Asset Resolution AG has been assessed for corporate income taxes and VAT up to and including 2014. The corporate income tax and VAT return for 2015 will be submitted to the tax office by the end of April 2017 at the latest (in compliance with the deadlines). No tax audit is pending at this time.

Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between the carrying amounts for tax purposes and the rates pursuant to IFRS for the following items:

EUR m

	2016			2015		
	Deferred Tax (netted)	Income Statement	Other comprehensive income (OCI)	Deferred Tax (netted)	Income Statement	Other comprehensive income (OCI)
Provisions for loans and advances	-0.4	-0.5	0.0	0.1	-2.0	0.0
Accelerated depreciation for tax purposes/accelerated capital allowances	-0.4	-1.0	0.0	-0.1	-0.9	0.0
Effects on AFS-investments	0.0	0.0	0.0	0.0	0.0	0.0
Hedged Accounting – revaluation of a hedged financial asset/liability and of the related swap	0.0	0.0	0.0	0.0	0.0	0.0
FVO – revaluation of a financial asset/liability and the related swap	0.0	0.0	0.0	0.0	0.0	0.0
Revaluation of leasing contracts	-2.0	0.3	0.0	-2.3	3.0	0.0
Termination benefits	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue fee income	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.4	2.4	0.0	-2.0	-0.1	0.0
Utilizable tax losses carried forward	1.7	0.1	0.0	1.6	0.0	0.0
<b>From continued operations</b>	<b>-0.8</b>	<b>1.3</b>	<b>0.0</b>	<b>-2.8</b>	<b>-0.2</b>	<b>0.0</b>
<b>From discontinued operations</b>	<b>0.0</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.2</b>	<b>-23.7</b>	<b>0.0</b>
<b>Total deferred Tax</b>	<b>-0.8</b>	<b>1.0</b>	<b>0.0</b>	<b>-2.6</b>	<b>-23.9</b>	<b>0.0</b>

The total change in deferred taxes over the year in the consolidated financial statements is EUR 1.8 million, of which an amount of EUR 1.3 million (deferred tax income from continued operations) and EUR -0.2 million (from discontinued operations) is reflected in the current income statement. An amount of EUR 0.8 million can be attributed to the change in the scope of consolidation due to the disposal of one of Centrice's subsidiaries. The 2016 effect of deferred taxes through profit or loss of EUR 1.3 million is due in part to the change in impairments (through profit or loss) in the amount of EUR -0.5 million, different depreciation and amortization rates for tangible assets in the amount of EUR -1.0 million, the revaluation of leasing contracts in the amount of EUR 0.3 million, and the different recognition of other assets in the amount of EUR 2.4 million, which mostly originate from the German subsidiary.

The reconciliation of deferred taxes is as follows on a net basis:

EUR m

	2016	2015
<b>Balance at start of period (1.1.)</b>	<b>-2.6</b>	<b>21.3</b>
Tax income/expense recognised in profit or loss	1.0	-23.8
Fx-difference	0.0	0.0
Deferred taxes acquired in change of scope	0.8	0.0
<b>Balance at end of period (31.12.)</b>	<b>-0.8</b>	<b>-2.6</b>

The presentation of deferred taxes in the statement of financial position is as follows:

EUR m

	2016	2015
Deferred tax assets	0.0	0.1
Deferred tax liabilities (-)	0.8	1.9
Deferred tax liabilities from assets held for sale (-)	0.0	0.8
<b>Deferred tax</b>	<b>-0.8</b>	<b>-2.6</b>

Of the reported deferred taxes, EUR 1.7 million (2015: EUR 1.9 million) are due to tax claims being recognised as assets due to utilizable loss carryforwards. Due to the lack of utilisation in the respective group companies, deferred tax assets of EUR 1,926.6 million (2015: EUR 2,069.2 million) for unused tax losses in the amount of EUR 8,181.8 million (2015: EUR 8,839.4 million), and deferred tax assets of EUR 681.6 million (2015: 949.4 million) for deductible temporary differences of EUR 3,029.0 million (2015: EUR 4,100.2 million) were not shown on the assets side of the balance sheet. Deferred tax assets of EUR 37.5 million (2015: EUR 47.7 million) were not recognised for temporary differences of EUR 168.4 million (2015: EUR 228.4 million) for participations in subsidiaries. Of the unused tax losses in the amount of EUR 8,181.8 million (2015: EUR 8,839.4 million), EUR 7,439.7 million (2015: EUR 7,843.5 million) can be carried forward indefinitely, whereas EUR 684.8 million (2015: EUR 1,054.3 million) can be carried forward for a maximum period of five years. This information refers to the usability of tax loss carry forwards according to the existing time restrictions as per the respective provisions under tax legislation. Additional restrictions may result from other specifications, such as the wind-down plan. These were not taken into account.

Deferred tax assets for losses carried forward are recognised when it is likely that future tax profits will be generated, which would allow for utilisation. The respective business plans form the basis for these estimates.

With regard to the members of Heta's domestic tax group and the other wind-down companies abroad, losses carried forward were not recognised on the assets side due to the history of losses.

Deferred tax liabilities in the amount of EUR 39.7 million (2015: EUR 24.6 million) were not recognised for temporary differences in connection with the participations in subsidiaries of EUR 158.7 million (2015: EUR 98.4 million), since it is not expected that these will turn around in the foreseeable future.

### (63) Non-controlling interests

The non-controlling interests in the respective results from the relevant group companies are shown in the income statement as follows:

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015
<b>HBInt. Credit Management Limited</b>	<b>0.0</b>	<b>12.0</b>
Share in interest income	0.0	1.5
Share in measurement result	0.0	10.5
<b>Norica Investments Limited</b>	<b>0.0</b>	<b>-0.4</b>
Share in interest income	0.0	-0.4
<b>Total</b>	<b>0.0</b>	<b>11.6</b>

The two companies HBInt Credit Management Limited and Norica Investment Limited were already removed from the scope of consolidation during the 2015 financial year.

## Notes to the statement of financial position

### (64) Cash and balances at central banks

EUR m

	31.12.2016	31.12.2015
Cash on hand	0.0	0.0
Balances at central banks (due on demand)	6,164.9	4,278.0
<b>Total</b>	<b>6,164.9</b>	<b>4,278.0</b>

Balances at central banks only show those amounts which are due on demand. Amounts not due on demand are shown under loans and advances to credit institutions.

### (65) Loans and advances to credit institutions

#### 65.1. Loans and advances to credit institutions - by type of business

EUR m

	31.12.2016	31.12.2015
Giro- and clearing business	78.9	91.5
Money market placements	1,181.7	1,415.0
Loans	866.4	1,153.7
Finance lease receivables	5.8	28.8
Other loans and advances	0.0	2.0
<b>Total</b>	<b>2,132.8</b>	<b>2,691.1</b>

#### 65.2. Loans and advances to credit institutions - by region

EUR m

	31.12.2016	31.12.2015
Austria	988.7	1,024.0
Central and Eastern Europe (CEE)	83.1	68.0
Other countries	1,060.9	1,599.0
thereof Italy	857.2	1,166.6
thereof Great Britain	164.9	372.9
<b>Total</b>	<b>2,132.8</b>	<b>2,691.1</b>

### (66) Loans and advances to customers

#### 66.1. Loans and advances to customers - by type of business

EUR m

	31.12.2016	31.12.2015
Current account credit	68.5	98.4
Bank loans	2,931.1	3,710.4
Mortgage loans	287.8	573.6
Municipal loans	439.0	873.9
Finance lease receivables	657.7	1,129.2
Other loans and advances	910.6	1,164.8
<b>Total</b>	<b>5,294.7</b>	<b>7,550.3</b>

**66.2. Loans and advances to customers - by type of customer**

EUR m

	31.12.2016	31.12.2015
Public sector	936.3	983.6
Corporate clients	4,055.8	6,232.9
Retail clients	302.6	333.9
<b>Total</b>	<b>5,294.7</b>	<b>7,550.3</b>

**66.3. Loans and advances to customers - by region**

EUR m

	31.12.2016	31.12.2015
Austria	545.3	774.4
Central and Eastern Europe (CEE)	4,041.0	5,652.1
Other countries	708.4	1,123.8
thereof Germany	117.9	94.0
thereof Belgium	148.9	151.4
thereof Switzerland	128.9	134.0
<b>Total</b>	<b>5,294.7</b>	<b>7,550.3</b>

**(67) Risk provisions on loans and advances and provisions for credit commitments and guarantees****67.1. Risk provisions on loans and advances and provisions for credit commitments and guarantees - development**

EUR m

	As at 1.1.2016	Foreign- exchange- differences	Allo- cations	Releases	Use	Other	Changes IFRS 5	Un- winding	As at 31.12.2016
<b>Specific risk provisions</b>	<b>-5,574.6</b>	<b>-2.6</b>	<b>-202.8</b>	<b>619.0</b>	<b>1,097.9</b>	<b>-84.9</b>	<b>205.6</b>	<b>79.0</b>	<b>-3,863.5</b>
Loans and advances to credit institutions	-471.3	0.2	0.0	166.0	2.2	-59.5	0.0	49.3	-313.2
Loans and advances to customers	-5,101.3	-2.7	-202.7	452.8	1,095.4	-25.3	205.5	29.7	-3,548.5
Other financial assets	-2.0	0.0	-0.2	0.1	0.3	-0.1	0.0	0.0	-1.8
<b>Portfolio-based risk provisions</b>	<b>-87.5</b>	<b>1.1</b>	<b>-20.1</b>	<b>37.6</b>	<b>0.0</b>	<b>-0.3</b>	<b>4.4</b>	<b>0.0</b>	<b>-64.9</b>
Loans and advances to credit institutions	-19.4	0.0	-12.8	0.1	0.0	0.0	0.0	0.0	-32.1
Loans and advances to customers	-64.0	1.1	-7.3	33.4	0.0	-0.3	4.4	0.0	-32.8
Other financial assets	-4.1	0.0	0.0	4.1	0.0	0.0	0.0	0.0	0.0
<b>Subtotal risk provisions on loans and advances</b>	<b>-5,662.1</b>	<b>-1.5</b>	<b>-223.0</b>	<b>656.6</b>	<b>1,097.9</b>	<b>-85.2</b>	<b>209.9</b>	<b>79.0</b>	<b>-3,928.4</b>
<b>Provisions for credit commitments and guarantees</b>	<b>-33.1</b>	<b>0.0</b>	<b>-8.6</b>	<b>8.9</b>	<b>3.8</b>	<b>9.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-20.0</b>
Individual provisions	-31.9	0.0	-8.6	7.7	3.8	9.0	0.0	0.0	-20.0
Portfolio provisions	-1.2	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>-5,695.2</b>	<b>-1.5</b>	<b>-231.6</b>	<b>665.5</b>	<b>1,101.7</b>	<b>-76.2</b>	<b>209.9</b>	<b>79.0</b>	<b>-3,948.4</b>

The specific provisions for credit institutions include a provision for the continued refinancing lines of the former subsidiary HBI in the amount of approximately EUR 0.3 billion (previous year: EUR 0.5 billion).

Reference is also made to the explanations in note (56) Impairment of financial assets and note (89) ff. Risk report. The provisions for credit commitments and guarantees are shown under note (82) Provisions.

Risk provisions on loans and advances and provisions for credit commitments and guarantees were as follows as at 31 December 2015:

EUR m

	As at 1.1.2015	Foreign- exchange- differences	Allo- cations	Releases	Use	Other	Changes IFRS 5	Un- winding	As at 31.12.2015
<b>Specific risk provisions</b>	<b>-6,768.6</b>	<b>-43.5</b>	<b>-286.8</b>	<b>1,048.1</b>	<b>356.5</b>	<b>-0.3</b>	<b>2.5</b>	<b>117.3</b>	<b>-5,574.9</b>
Loans and advances to credit institutions	-830.5	-1.2	-1.5	283.1	-7.9	0.0	0.0	86.7	-471.3
Loans and advances to customers	-5,908.8	-42.3	-284.3	750.4	353.7	0.0	-0.6	30.6	-5,101.3
Other financial assets	-29.3	0.0	-1.0	14.6	10.6	-0.3	3.1	0.0	-2.3
<b>Portfolio-based risk provisions</b>	<b>-83.5</b>	<b>-0.2</b>	<b>-45.2</b>	<b>41.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-87.5</b>
Loans and advances to credit institutions	-6.7	0.0	-15.9	3.2	0.0	0.0	0.0	0.0	-19.4
Loans and advances to customers	-75.5	-0.2	-26.5	38.0	0.0	0.0	0.0	0.0	-64.0
Other financial assets	-1.3	0.0	-2.8	0.0	0.0	0.0	0.0	0.0	-4.1
<b>Subtotal risk provisions on loans and advances</b>	<b>-6,852.1</b>	<b>-43.7</b>	<b>-332.0</b>	<b>1,089.3</b>	<b>356.5</b>	<b>-0.3</b>	<b>2.5</b>	<b>117.3</b>	<b>-5,662.4</b>
<b>Provisions for credit commitments and guarantees</b>	<b>-44.5</b>	<b>0.0</b>	<b>-4.3</b>	<b>15.5</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-33.1</b>
Individual provisions	-44.4	0.0	-3.1	15.5	0.1	0.0	0.0	0.0	-31.9
Portfolio provisions	-0.1	0.0	-1.2	0.1	0.0	0.0	0.0	0.0	-1.2
<b>Total</b>	<b>-6,896.5</b>	<b>-43.7</b>	<b>-336.3</b>	<b>1,104.9</b>	<b>356.6</b>	<b>-0.3</b>	<b>2.5</b>	<b>117.3</b>	<b>-5,695.5</b>

## 67.2. Risk provisions - by region

EUR m

	31.12.2016	31.12.2015
Austria	-149.6	-213.0
Central and Eastern Europe (CEE)	-3,249.5	-4,475.4
Other countries	-529.3	-973.9
<b>Total</b>	<b>-3,928.4</b>	<b>-5,662.4</b>

## (68) Derivative financial instruments

EUR m

	31.12.2016	31.12.2015
Positive market value of derivative financial instruments – trading	16.2	14.6
Positive market value of derivative financial instruments – banking book	45.4	581.7
<b>Total</b>	<b>61.6</b>	<b>596.2</b>

Heta hedged the fixed interest component of several fixed-interest issues with derivative financial instruments as part of its interest risk management. The market value of the issues developed negatively and the corresponding derivative transaction developed positively due to the significant drop in interest rates as compared to the issue date of the liabilities.

By using hedge accounting and the fair value option, the underlying transactions are not recognised at amortised cost but at the adjusted hedge fair value, while the market value of the derivative transaction is recognised separately as an asset pursuant to IAS 39. Positive market values from derivative transactions are primarily hedged by counterparties supplying cash collateral.



The net change in the market value of the derivative instruments and the hedged underlying transactions are recognised in the result from hedge accounting and in the result from financial assets – designated at fair value through profit or loss on the basis of the corresponding designation.

#### (69) Financial assets – designated at fair value through profit or loss

EUR m

	31.12.2016	31.12.2015
Loans and advances to customers and credit institutions	225.0	198.9
Bonds and other fixed-interest securities	0.0	0.0
Shares and other non-fixed-interest securities	0.2	6.3
<b>Total</b>	<b>225.2</b>	<b>205.2</b>

#### (70) Financial assets - available for sale

EUR m

	31.12.2016	31.12.2015
Bonds and other fixed-interest securities	82.5	377.6
Shares and other non-fixed-interest securities	0.0	15.9
Shares in affiliated, non-consolidated companies (> 50%)	2.3	2.4
<b>Total</b>	<b>84.8</b>	<b>395.9</b>

#### (71) Investments in companies accounted for at equity

EUR m

	31.12.2016	31.12.2015
Shares in other associated companies	1.5	3.8
<b>Total</b>	<b>1.5</b>	<b>3.8</b>

Associated companies accounted for at equity are shown under note (123) Scope of consolidation.

#### (72) Investment properties

EUR m

	31.12.2016	31.12.2015
Investment property leased out	106.5	150.1
Vacant Investment property	111.8	250.9
Prepayments/asset under construction	4.3	4.5
<b>Total</b>	<b>222.7</b>	<b>405.4</b>

On the reporting day 31 December 2016, the criteria for IFRS 5 have been met with respect to the Italian subsidiary HARI T, which means that the relevant provision under the standard must be applied. In this context, a portfolio of investment properties in the amount of EUR 126.3 million was reclassified into assets classified as held for sale. See note (12) Discontinued operations.

**(73) Tangible assets**

EUR m

	31.12.2016	31.12.2015
Land and buildings	15.5	22.5
Plant and equipment	2.9	4.7
<b>Total</b>	<b>18.4</b>	<b>27.1</b>

**(74) Development of fixed assets****74.1. Development of acquisition costs and carrying amounts**

31.12.2016	Acquisition costs 1.1.2016	Foreign-exchange-differences	Additions	Disposals
<b>INTANGIBLE ASSETS</b>	<b>35.6</b>	<b>0.0</b>	<b>1.5</b>	<b>0.0</b>
Goodwill	0.0	0.0	0.0	0.0
Software	29.1	0.0	1.4	0.0
purchased	25.1	0.0	1.4	0.0
self generated	4.0	0.0	0.0	0.0
Other intangible assets	6.4	0.0	0.1	0.0
Prepayments for intangible assets	0.1	0.0	0.0	0.0
<b>TANGIBLE ASSETS</b>	<b>108.4</b>	<b>-0.1</b>	<b>0.8</b>	<b>-10.6</b>
Land and buildings	92.6	-0.1	0.2	-9.1
Land	4.5	0.0	0.1	-1.3
Buildings	87.3	-0.1	0.1	-7.9
Assets under construction	0.8	0.0	0.0	0.0
Plant and equipment	15.8	0.0	0.5	-1.4
<b>INVESTMENT PROPERTIES</b>	<b>935.6</b>	<b>0.2</b>	<b>54.7</b>	<b>-160.8</b>
Investment properties leased out/rented (incl. operate lease)	361.9	-0.1	10.1	-61.4
Vacant investment properties	557.2	0.3	44.6	-98.3
Assets under construction (future investment properties)	16.5	0.0	0.0	-1.1
<b>Total</b>	<b>1,079.5</b>	<b>0.1</b>	<b>57.0</b>	<b>-171.4</b>

Additions to investment properties include an amount of EUR 49.2 million (2015: EUR 45.1 million), which is the result of the transfer from inventories.

31.12.2015	Acquisition costs 1.1.2015	Foreign-exchange-differences	Additions	Disposals
<b>INTANGIBLE ASSETS</b>	<b>50.9</b>	<b>0.0</b>	<b>3.0</b>	<b>-4.2</b>
Goodwill	0.0	0.0	0.0	0.0
Software	28.1	0.0	2.6	-0.5
purchased	23.1	0.0	2.6	-0.3
self generated	5.1	0.0	0.0	-0.2
Other intangible assets	22.6	0.0	0.3	-3.7
Prepayments for intangible assets	0.1	0.0	0.0	0.0
<b>TANGIBLE ASSETS</b>	<b>139.9</b>	<b>0.0</b>	<b>2.6</b>	<b>-2.6</b>
Land and buildings	121.7	0.0	0.7	-0.1
Land	6.5	0.0	0.0	0.0
Buildings	114.3	0.0	0.7	0.0
Assets under construction	0.9	0.0	0.0	-0.1
Plant and equipment	18.2	0.0	2.0	-2.5
<b>INVESTMENT PROPERTIES</b>	<b>1,613.9</b>	<b>0.6</b>	<b>53.2</b>	<b>-100.5</b>
Investment properties leased out/rented (incl. operate lease)	907.0	0.6	13.7	-22.4
Vacant investment properties	686.3	0.0	38.8	-75.5
Assets under construction (future investment properties)	20.6	0.0	0.6	-2.6
<b>Total</b>	<b>1,804.7</b>	<b>0.6</b>	<b>58.8</b>	<b>-107.3</b>

EUR m

Changes due to IFRS 5 (assets held for sale)	Other changes	Acquisition costs 31.12.2016	Cumulative depreciation 31.12.2016	Carrying amount 31.12.2016	Carrying amount 31.12.2015
-8.4	0.0	28.7	-28.7	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0
-2.3	0.0	28.2	-28.2	0.0	0.0
-2.3	0.0	24.1	-24.1	0.0	0.0
0.0	0.0	4.1	-4.1	0.0	0.0
-6.1	0.0	0.4	-0.4	0.0	0.0
0.0	0.0	0.1	-0.1	0.0	0.0
-2.3	-11.6	84.6	-66.1	18.4	27.1
-0.2	-11.6	71.8	-56.3	15.5	22.5
0.0	0.0	3.3	-2.1	1.2	2.1
-0.2	-11.6	67.7	-53.4	14.3	20.3
0.0	0.0	0.8	-0.8	0.0	0.0
-2.0	-0.1	12.8	-9.9	2.9	4.7
<b>-286.7</b>	<b>10.2</b>	<b>553.3</b>	<b>-330.6</b>	<b>222.7</b>	<b>405.4</b>
-37.8	-1.0	271.8	-165.3	106.5	150.1
-248.9	11.2	266.1	-154.3	111.8	250.9
0.0	0.0	15.4	-11.1	4.3	4.5
<b>-297.4</b>	<b>-1.4</b>	<b>666.5</b>	<b>-425.4</b>	<b>241.1</b>	<b>432.5</b>

EUR m

Changes due to IFRS 5 (assets held for sale)	Other changes	Acquisition costs 31.12.2015	Cumulative depreciation 31.12.2015	Carrying amount 31.12.2015	Carrying amount 31.12.2014
-14.1	0.0	35.6	-35.6	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0
-1.2	0.0	29.1	-29.1	0.0	0.0
-0.3	0.0	25.1	-25.1	0.0	0.0
-0.8	0.0	4.0	-4.0	0.0	0.0
-12.9	0.0	6.4	-6.4	0.0	0.0
0.0	0.0	0.1	-0.1	0.0	0.0
-35.0	3.4	108.4	-81.2	27.1	42.9
-33.1	3.4	92.6	-70.1	22.5	37.6
-4.0	2.0	4.5	-2.3	2.1	3.0
-29.0	1.4	87.3	-67.0	20.3	34.4
0.0	0.0	0.8	-0.8	0.0	0.1
-1.9	0.0	15.8	-11.1	4.7	5.3
<b>-628.1</b>	<b>-3.4</b>	<b>935.6</b>	<b>-530.2</b>	<b>405.4</b>	<b>789.6</b>
-571.5	34.6	361.9	-211.9	150.1	454.0
-54.6	-37.9	557.2	-306.3	250.9	330.8
-2.1	-0.1	16.5	-12.0	4.5	4.8
<b>-677.1</b>	<b>0.0</b>	<b>1,079.5</b>	<b>-647.0</b>	<b>432.5</b>	<b>832.4</b>

## 74.2. Development of depreciation

31.12.2016	Cumulative depreciation 1.1.2015	Foreign exchange- differences	Disposals
<b>INTANGIBLE ASSETS</b>	<b>-35.6</b>	<b>0.0</b>	<b>0.0</b>
Goodwill	0.0	0.0	0.0
Software	-29.1	0.0	0.0
purchased	-25.1	0.0	0.0
self generated	-4.0	0.0	0.0
Other intangible assets	-6.4	0.0	0.0
Prepayments for intangible assets	-0.1	0.0	0.0
<b>TANGIBLE ASSETS</b>	<b>-81.2</b>	<b>0.0</b>	<b>5.3</b>
Land and buildings	-70.1	0.0	4.1
Land	-2.3	0.0	0.3
Buildings	-67.0	0.0	3.8
Assets under construction	-0.8	0.0	0.0
Plant and equipment	-11.1	0.0	1.2
<b>INVESTMENT PROPERTIES</b>	<b>-530.2</b>	<b>0.0</b>	<b>78.5</b>
Investment properties leased out/rented (incl. operate lease)	-211.9	0.1	33.7
Vacant investment properties	-306.3	-0.1	43.9
Assets under construction (future investment properties)	-12.0	0.0	1.0
<b>Total</b>	<b>-647.0</b>	<b>0.0</b>	<b>83.9</b>

31.12.2015	Cumulative depreciation 1.1.2015	Foreign exchange- differences	Disposals
<b>INTANGIBLE ASSETS</b>	<b>-50.9</b>	<b>0.0</b>	<b>4.2</b>
Goodwill	0.0	0.0	0.0
Software	-28.1	0.0	0.5
purchased	-23.1	0.0	0.3
self generated	-5.1	0.0	0.2
Other intangible assets	-22.6	0.0	3.7
Prepayments for intangible assets	-0.1	0.0	0.0
<b>TANGIBLE ASSETS</b>	<b>-97.0</b>	<b>-0.1</b>	<b>2.4</b>
Land and buildings	-84.1	-0.1	0.0
Land	-3.4	0.0	0.0
Buildings	-79.9	0.0	0.0
Assets under construction	-0.8	0.0	0.0
Plant and equipment	-13.0	0.0	2.3
<b>INVESTMENT PROPERTIES</b>	<b>-824.4</b>	<b>-0.3</b>	<b>39.7</b>
Investment properties leased out/rented (incl. operate lease)	-453.0	-0.3	7.7
Vacant investment properties	-355.5	-0.1	29.6
Assets under construction (future investment properties)	-15.9	0.0	2.4
<b>Total</b>	<b>-972.3</b>	<b>-0.4</b>	<b>46.2</b>

EUR m

Depreciation charge for the year	Impairment	Changes due to IFRS 5 (assets held for sale)	Other changes	Write-ups	Cumulative depreciation 31.12.2016
-1.4	0.0	8.3	0.0	0.0	-28.7
0.0	0.0	0.0	0.0	0.0	0.0
-1.4	0.0	2.3	0.0	0.0	-28.2
-1.4	0.0	2.3	0.0	0.0	-24.1
0.0	0.0	0.0	0.0	0.0	-4.1
0.0	0.0	6.0	0.0	0.0	-0.4
0.0	0.0	0.0	0.0	0.0	-0.1
-1.8	-0.3	2.3	9.3	0.2	-66.1
-0.8	-0.3	1.4	9.3	0.2	-56.3
-0.1	0.0	0.1	0.0	0.0	-2.1
-0.7	-0.3	1.3	9.3	0.2	-53.4
0.0	0.0	0.0	0.0	0.0	-0.8
-1.0	0.0	1.0	0.0	0.0	-9.9
-13.2	-14.7	143.1	-8.4	14.2	-330.6
-9.8	-2.5	15.1	7.5	2.6	-165.3
-3.4	-12.2	128.1	-15.8	11.6	-154.3
0.0	0.0	0.0	0.0	0.0	-11.1
<b>-16.3</b>	<b>-15.0</b>	<b>153.8</b>	<b>0.9</b>	<b>14.3</b>	<b>-425.4</b>

EUR m

Depreciation charge for the year	Impairment	Changes due to IFRS 5 (assets held for sale)	Other changes	Write-ups	Cumulative depreciation 31.12.2015
-1.6	-1.3	14.0	0.0	0.0	-35.6
0.0	0.0	0.0	0.0	0.0	0.0
-1.6	-1.0	1.1	0.0	0.0	-29.1
-1.6	-1.0	0.3	0.0	0.0	-25.1
0.0	0.0	0.8	0.0	0.0	-4.0
0.0	-0.3	12.9	0.0	0.0	-6.4
0.0	0.0	0.0	0.0	0.0	-0.1
-3.6	-5.8	23.9	-2.4	1.5	-81.2
-1.7	-5.6	22.3	-2.5	1.4	-70.1
0.0	0.0	1.7	-0.8	0.2	-2.3
-1.7	-5.6	20.7	-1.7	1.2	-67.0
0.0	0.0	0.0	0.0	0.0	-0.8
-1.9	-0.2	1.6	0.1	0.0	-11.1
-24.0	-34.4	298.0	2.4	12.7	-530.2
-17.7	-10.6	262.6	-11.0	10.3	-211.9
-6.3	-23.8	34.0	13.4	2.4	-306.3
0.0	0.0	1.4	0.0	0.0	-12.0
<b>-29.2</b>	<b>-41.5</b>	<b>335.9</b>	<b>0.1</b>	<b>14.2</b>	<b>-647.0</b>



**(75) Assets and disposal groups classified as held for sale**

As at 31 December 2016, the item “assets and disposal groups classified as held for sale”, which must be reported separately according to IFRS 5, includes assets held for sale and a disposal group that will likely be sold during the next 12 months.

This item also includes the properties of the project company Tridana d.o.o. and the Slovenian leasing unit. Similarly, the entire assets of HARIT are also shown in this item (see note (12) Discontinued operations).

The assets of the Croatian real estate project “Skiper”, which were recognised in this item in the comparative period, had to be removed from the item assets and disposal groups classified as held for sale, since the disposal process was suspended and a new strategy is currently being developed.

The properties of the project company Tridana d.o.o. and the Slovenian leasing unit are shown in the “Slovenia” segment, and the assets of the Italian subsidiary HARIT correspond to those shown in the “Italy” segment.

EUR m

	31.12.2016	31.12.2015
Loans and advances to credit institutions	14.4	28.8
Loans and advances to customers	260.9	12.5
Impairment on financial assets – at cost (risk provision)	-210.6	-13.9
Financial assets – available for sale	0.0	2.4
Other financial investments (investment properties)	139.8	329.9
Intangible assets	0.0	0.1
Tangible assets	6.7	21.5
Tax assets	29.3	0.2
Other assets	6.0	50.0
<b>Total</b>	<b>246.7</b>	<b>431.7</b>

For additional details, please refer to note (13) Winding-down of investment companies and asset disposals.

**(76) Other assets**

EUR m

	31.12.2016	31.12.2015
<b>Deferred income</b>	<b>4.3</b>	<b>3.1</b>
<b>Other assets</b>	<b>248.2</b>	<b>187.8</b>
Assets used for operate lease	0.4	2.1
Real Estate (under construction, held for sale, emergency acquisition, repossessed assets)	95.5	82.3
Movables (leases to go and repossessed assets)	16.6	16.3
Prepayments	0.2	1.3
Value added taxes and other tax assets	16.6	14.0
Remaining not bank specific receivables	47.3	9.3
Other assets	71.7	62.4
<b>Total</b>	<b>252.6</b>	<b>190.9</b>

**(77) Liabilities to credit institutions****77.1. Liabilities to credit institutions – by type of business**

EUR m

	31.12.2016	31.12.2015
<b>To other credit institutions</b>	<b>1,533.5</b>	<b>3,400.0</b>
Due on demand	23.1	181.1
Time deposits	1,507.3	2,818.2
Loans from banks	2.8	6.6
Money market securities	0.2	364.1
Other liabilities	0.0	30.0
<b>Total</b>	<b>1,533.5</b>	<b>3,400.0</b>

**77.2. Liabilities to credit institutions - by region**

EUR m

	31.12.2016	31.12.2015
Austria	6.2	113.7
Central and Eastern Europe (CEE)	0.1	9.7
Other countries	1,527.1	3,276.7
thereof Germany	1,527.1	2,867.6
thereof Great Britain	0.0	145.5
<b>Total</b>	<b>1,533.5</b>	<b>3,400.0</b>

Liabilities to credit institutions include liabilities designated at fair value through profit or loss of EUR 1,527.2 million (2015: EUR 172.8 million) - see note (107) Loans and advances and financial liabilities designated at fair value.

**(78) Liabilities to customers****78.1. Liabilities to customers - by type of customer**

EUR m

	31.12.2016	31.12.2015
<b>Demand and time deposits</b>	<b>1,369.3</b>	<b>1,509.8</b>
from public sector	1,309.5	85.6
from corporate clients	59.1	1,422.9
from retail clients	0.7	1.3
<b>Total</b>	<b>1,369.3</b>	<b>1,509.8</b>

**78.2. Liabilities to customers - by region**

EUR m

	31.12.2016	31.12.2015
Austria	1,335.4	40.4
Central and Eastern Europe (CEE)	11.5	17.3
Other countries	22.5	1,452.1
thereof Germany	4.9	1,421.8
<b>Total</b>	<b>1,369.3</b>	<b>1,509.8</b>

Liabilities to customers include liabilities designated at fair value through profit or loss of EUR 1,343.1 million (2015: EUR 1.0 million) - see note (107) Loans and advances and financial liabilities designated at fair value.

**(79) Liabilities to Pfandbriefbank**

EUR m

	31.12.2016	31.12.2015
<b>Total</b>	<b>0.0</b>	<b>1,241.9</b>

After March 2015, the other member institutions and guarantors covered the liabilities to Pfandbriefbank (Österreich) AG (Pfandbriefbank) that Heta would have been responsible for in terms of the internal relationship. These concern those issues that were issued by the Pfandbriefbank on behalf of Heta. Heta was informed by the Pfandbriefbank that the bank had assigned its own claims against Heta (from the forwarding of the issue proceeds) to (several) member institutions and guarantors in return for assuming these liabilities. The legal nature of the claims against Heta has not changed as a result.

As a result of the acceptance of the repurchase offer submitted by the State of Carinthia in the fall of 2016 (see note (2.5) Repurchase offers from the State of Carinthia), the claims by the Pfandbriefbank against Heta were assigned to the Kärntner Ausgleichszahlungs-Fonds (K-AF), which means that Heta no longer has any liabilities to Pfandbriefbank as at 31 December 2016. The liabilities reported in this balance sheet item for 31 December 2015 will therefore again be reported in the item liabilities to customers and liabilities evidenced by certificates.

For additional information, please refer to note (102) Liability for commitments issued through Pfandbriefbank (Österreich) AG.

**(80) Liabilities evidenced by certificates**

EUR m

	31.12.2016	31.12.2015
Issued bonds	5,985.4	7,600.0
Liabilities issued by the "Pfandbriefbank"	0.0	0.1
<b>Total</b>	<b>5,985.4</b>	<b>7,600.1</b>

Liabilities evidenced by certificates include liabilities designated at fair value through profit or loss of EUR 5,985.4 million (2015: EUR 198.2 million) - see note (107) Loans and advances and financial liabilities designated at fair value.

**(81) Derivative financial instruments**

EUR m

	31.12.2016	31.12.2015
Negative market value of derivative financial instruments – trading	16.9	15.3
Negative market value of derivative financial instruments – banking book	167.6	464.9
<b>Total</b>	<b>184.5</b>	<b>480.2</b>

**(82) Provisions****82.1. Provisions in detail**

EUR m

	31.12.2016	31.12.2015
Pensions	6.4	5.8
Severance payments	4.2	4.9
Provisions for anniversary payments	0.1	0.1
Provisions for credit commitments and guarantees	20.0	33.1
Restructuring provisions as per IAS 37.70	29.2	41.0
Other provisions	454.7	377.9
<b>Total</b>	<b>514.7</b>	<b>462.7</b>

The change in provisions for risks from the loan business is shown under note (67) Risk provisions on loans and advances and provisions for credit commitments and guarantees.

The item other provisions includes provisions for consulting and legal costs, tax proceedings, expenses relating to the forensic investigation of the past, provisions for statutory cost recourse claims, fees and external wind-down costs.

Of the total amount of provisions, EUR 309.7 million are attributable to “eligible liabilities” as at 31 December 2016, for which a deferral was ordered until latest 31 December 2023. The remaining provisions are primarily of a short- to medium-term character.

## 82.2. Provisions - Development of pension and severance provisions and plan assets

The development of the present value of the pension and severance obligations is shown below. The information has been summarised for reasons of materiality:

EUR m

	2016	2015
<b>Present value of personnel commitments as at 1.1.</b>	<b>11.0</b>	<b>14.9</b>
+ Current service costs	0.3	-1.3
+ Interest expense	0.8	0.2
+/- Actuarial gains/losses	0.4	-0.2
+/- Actuarial gains/losses arising from changes in financial assumptions	0.4	0.7
+/- actuarial gains/losses arising from changes from experience assumptions	0.0	-0.9
+ Contributions to the plan (employer)	0.0	0.0
- Payments from the plan	-0.9	-0.6
thereof the amount paid in respect of any settlements	-0.1	0.0
+/- Other changes	-0.7	-2.0
<b>Present value of personnel commitments as at 31.12.</b>	<b>10.8</b>	<b>11.0</b>

The development of plan assets as at 31 December 2016 is as follows:

EUR m

	2016	2015
<b>Fair Value of plan assets as at 1.1.</b>	<b>0.2</b>	<b>0.2</b>
<b>Fair Value of plan assets as at 31.12.</b>	<b>0.2</b>	<b>0.2</b>

The main parameters of a sensitivity analyses are shown in the table below:

EUR m

Assumptions	Discount rate		Salary increases		Benefit increases		31.12.2016 Mortality rate	
	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 1 year	Decrease by 1 year
Retirement benefits	6.0	6.7	0.0	0.0	6.7	6.0	6.7	6.1
Severance payment	4.2	4.3	4.1	4.1	0.0	0.0	0.0	0.0

In performing the sensitivity analysis, the following actuarial assumptions were considered significant and were stressed with the following margins:

- Pension provision: discount rate +/-0.5%, pension increase +/-0.5%, life expectancy +/- 1 year
- Severance provision: discount rate +/-0.5%, salary increase +/-0.5%

The sensitivity analysis of life expectancy was performed by shifting the average life expectancy for all components of each plan.

The defined-benefit obligation is expected to result in the following payments in future years:

EUR m

	2016	2015
Within the next 12 months	1.5	1.2
From 2 to 5	7.1	10.3
From 5 to 10	0.0	0.0
<b>Total expected benefit payment</b>	<b>8.6</b>	<b>11.5</b>

The average maturity of Heta's defined-benefit obligation as at 31 December 2016 is five years (2015: five years).

### 82.3. Provisions - Development of other provisions

Other provisions changed as follows during the year under review:

EUR m

	Carrying amount 1.1.2016	Foreign-exchange-differences	Allo-cations	Use	Releases	Changes IFRS 5	Other changes	Carrying amount 31.12.2016
Provisions for anniversary payments	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Restructuring provisions (IAS 37.70)	41.0	0.0	1.4	-5.0	-2.5	-5.6	0.0	29.2
Other provisions	377.9	-0.1	365.9	-68.4	-209.3	-11.3	0.0	454.7
thereof BayernLB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>419.0</b>	<b>-0.1</b>	<b>367.3</b>	<b>-73.4</b>	<b>-211.8</b>	<b>-16.9</b>	<b>0.0</b>	<b>484.0</b>

The item other provisions includes provisions for consulting and legal costs, tax proceedings, expenses relating to the forensic investigation of the past, provisions for statutory cost recourse claims, fees and external wind-down costs.

EUR m

	Carrying amount 1.1.2015	Foreign-exchange-differences	Allo-cations	Use	Releases	Changes IFRS 5	Other changes	Carrying amount 31.12.2015
Provisions for anniversary payments	0.9	0.0	0.0	-0.2	-0.6	0.0	0.0	0.1
Restructuring provisions (IAS 37.70)	29.1	0.3	8.6	-3.9	-0.1	0.0	7.0	41.0
Other provisions	1,356.7	0.0	315.6	-83.8	-1,206.9	-2.6	-1.0	377.9
thereof BayernLB	886.8	0.0	0.0	-28.0	-858.8	0.0	0.0	0.0
<b>Total</b>	<b>1,386.7</b>	<b>0.2</b>	<b>324.2</b>	<b>-87.9</b>	<b>-1,207.6</b>	<b>-2.6</b>	<b>6.0</b>	<b>419.0</b>



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

EUR m

	31.12.2016	31.12.2015
Liabilities to credit institutions	0.0	0.0
Liabilities to customers	0.0	1.0
Provisions	17.8	2.6
Tax liabilities	0.0	2.7
Other liabilities	13.1	7.0
<b>Total</b>	<b>30.9</b>	<b>13.3</b>

**(84) Other liabilities**

EUR m

	31.12.2016	31.12.2015
Deferred expenses	75.6	55.0
Accruals und other obligations	94.7	101.9
<b>Total</b>	<b>170.3</b>	<b>156.9</b>

**(85) Subordinated capital**

EUR m

	31.12.2016	31.12.2015
Subordinated capital	0.0	2,005.1
Supplementary capital	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>2,005.1</b>

Subordinated capital and the supplementary capital include liabilities designated at fair value through profit or loss of EUR 0.0 million (2014: EUR 4.5 million).

The servicing of subordinated capital is described in note (117) Servicing of subordinated capital.

**(86) Hybrid capital**

EUR m

	31.12.2016	31.12.2015
Hybrid capital	0.0	0.2
<b>Total</b>	<b>0.0</b>	<b>0.2</b>

Hybrid capital includes liabilities designated at fair value through profit or loss in the amount of EUR 0.0 million (2015: EUR 0.2 million) – see also note (107) Loans and advances and financial liabilities designated at fair value.

**(87) Equity**

EUR m

	31.12.2016	31.12.2015
<b>Attributable to equity holders of the parent</b>	<b>996.5</b>	<b>-5,720.8</b>
Issued capital	0.0	2,419.1
Participation capital	0.0	1,075.1
Available for sale reserves	-1.3	-6.3
Foreign currency translation	4.3	5.5
Retained earnings (including net consolidated income)	993.6	-9,214.1
<b>Non-controlling interests</b>	<b>0.0</b>	<b>0.0</b>
<b>Total</b>	<b>996.5</b>	<b>-5,720.8</b>

Issued capital corresponds to Heta's share capital, which stands unchanged at 989,231,060 (2015: 989,231,060) voting bearer shares.

The development of the share capital is as follows:

in EUR

	Share capital	Number of shares
As at 31.12.2015	2,419,097,046.21	989,231,060
As at 31.12.2016	0.00	989,231,060

**(88) Statement of cash flows**

The statement of cash flows as defined in IAS 7 shows Heta's change in cash and cash equivalents through cash flows from operating activities, investment activities and financing activities.

The cash flow from operating activities at Heta includes cash inflows and outflows as a result of loans and advances to credit institutions and customers, from liabilities to credit institutions and customers and liabilities evidenced by certificates. Changes in trading assets and liabilities are also included, as are the cash flow from received dividends and income taxes.

The cash flow from investing activities contains receipts and payments for securities and participations, intangible and tangible assets and receipts from the disposal of/payments for the acquisition of subsidiaries.

The cash flow from financing activities shows payments made and received for equity and subordinated capital. It includes in particular capital increases, dividend payments and changes in subordinated capital.

Cash and cash equivalents include the statement of financial position item cash and balances at central banks, which covers cash on hand and balances at central banks which are due on demand.

Heta does not use the statement of cash flows as an instrument of management as its relevance for controlling purposes is considered minimal.

## Risk report

Heta has operated as a partially-regulated wind-down unit, whose activities, authorisations and supervision are for the most part regulated by the Federal Law on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG), which went into force on 1 January 2015, since the end of October 2014. It aims to ensure the orderly and active resolution of its assets to the best possible advantage (portfolio wind-down). Only transactions that serve to fulfil the wind-down objectives are conducted. According to the Federal Act on the Creation of a Wind-down Entity (GSA), “proprietary transactions involving financial instruments are permitted at the wind-down unit for the purpose of controlling interest risk, currency risk, credit risk and liquidity risk within the scope of wind-down activities”. In addition, the wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA) (see note (4) Wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA)) must also include “details on risk management that takes the wind-down objectives into account” (see note (2.2) Federal Act on the Creation of a Wind-down Entity (GSA)).

The regulatory requirements applicable to a bank under the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR) are no longer applicable, and the regulations of the Austrian Banking Act (BWG) may only be applied to Heta to a limited extent. Risk management is geared towards supporting the execution of the wind-down plan in accordance with the Federal Act on the Creation of a Wind-down Entity (GSA) in the best possible manner, and managing the resulting risks. The obligation to report to the resolution authority Financial Markets Authority (FMA), which has assumed the management and exercise of the administrative rights associated with the shares and ownership rights in Heta, is continually met.

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

Risk management activities focus mainly on risk controlling and also on measuring and monitoring the success of the wind-down activities. In this context, Heta mainly bases its activities on the framework “COSO - ERM” (“Committee of Sponsoring Organizations of the Treadway Commission – Enterprise Risk Management”), which defines standards for risk management and internal control systems in modern companies. The Austrian Federal Public Corporate Governance Code (B-PCGK) represents another framework for risk management activities.

### (89) Overview of risk management

Effective risk management constitutes a key factor for achieving Heta’s objectives. The main risk management activities consist of risk controlling as well as measuring and monitoring the success of the wind-down process. As a result of the special situation created by Emergency Administrative Decision II from 10 April 2016, the instruments for managing the liquidity and market risk with regard to changing prices in terms of an active risk management process are limited by the legal environment (Federal Act on the Creation of a Wind-down Entity (GSA) and the Federal Act on the Recovery and Resolution of Banks (BaSAG)).

#### 89.1. Risk management framework

The primary objective of risk management is to ensure that activities fraught with risks are in alignment with the wind-down strategy and Heta’s risk appetite.

Heta’s risk management framework forms the systematic scope for defining the affinity for risk as well as directives and upper limits. It provides a total overview of all topic areas that are fraught with risk, and monitors compliance with the risk strategy.

The Heta risk management framework applies across the group and consists of the following main components:

- Risk steering and controlling,
- Risk appetite,
- Risk management instruments.

##### 89.1.1. RISK STEERING AND CONTROLLING

Effective risk management begins with effective risk steering and controlling. Heta possesses an established infrastructure for risk controlling, which consists of a market-independent Management Board segment as well as centralised risk management segments (Group Financial & Risk Controlling, Exit Supervision, and Group Case Operations). The decision-making process is

mainly centralised and is supported by a series of committees. The risk management system monitors the main controlling activities, the internal control system and the management process in the operating divisions.

In addition to the key task of risk management outlined above, namely the task of monitoring a resolution process that is orderly, active and best possible, the process also includes other activities such as the measurement, monitoring and management of the wind-down of assets, individual risk management for counterparty default risks, processing of loans and risk controlling/monitoring of counterparty default, market, liquidity, operational and other risks at the portfolio level.

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

The Group Financial & Risk Controlling (GF&RC) pillar includes the following main functions:

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

The Exit Supervision pillar includes the following main functions:

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

The Group Case Operations pillar includes the following main functions:

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

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

#### 89.1.2. RISK APPETITE

For the purpose of limiting Heta's risk accordingly, a new model for supporting the definition of risk appetite was integrated into the risk management framework. Risk tolerance is also determined on the basis of regular evaluations with division/department heads, and is subsequently approved by the Management Board.

The main objective with regard to risk appetite is to define that level of risk that may be considered acceptable with regard to the efforts that are undertaken to achieve the wind-down objectives.

Heta's risk management framework pursues an integrated risk management approach based on three pillars:

- Expected loss,
- Unexpected loss (RAP), and
- Stress scenarios.

### 89.1.3. RISK MANAGEMENT INSTRUMENTS

All effective risk management systems make use of certain techniques and instruments that are focused on the defined risk appetite and also the fulfilment of the wind-down strategy and planning.

#### 89.1.3.1. Wind-down strategy

The wind-down strategy represents the quantitative and qualitative claim. It acts as a guideline at the aggregate level in order to attain the strategic and financial objectives.

#### 89.1.3.2. Risk strategy

Heta controls and monitors its risks across all business segments with the aim of ensuring an orderly, active and best possible resolution. In this vein, Heta influences the business and risk policy of associated companies through unit management at the holding and also through its representation in the executive bodies. On subsidiary level group-wide and uniform risk strategies, control processes and methods are implemented;

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

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

The primary risk types are controlled by limits and are supposed to be reduced through the active wind-down of assets. Prompt, independent and risk-adequate reporting is in place for all relevant risk types. The ad-hoc reporting requirements are adhered to at all times.

In 2016, risk reporting was continuously adapted to Heta's situation as a wind-down unit.

#### 89.1.3.3. Internal directives

Internal directives define the measurement and handling of specific risk types. Similar to Working Instructions, they are also issued by the Management Board or the relevant committee.

Heta defines its specifications for risk management in the form of risk guidelines to ensure that risks are dealt with in a standardised manner. These guidelines are promptly adjusted to reflect organisational changes as well as changes to parts of the regulations, such as those related to processes, methods and procedures. The existing regulations are assessed at least once a year with regard to the need for updating.

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

#### 89.1.3.4. Limiting risk

Limits establish both the responsibilities for those core activities that are fraught with risk, as well as a catalogue of criteria under which transactions may be approved and implemented.

## **(90) Key enhancements in 2016**

Several major innovations in risk management took place in the 2016 financial year, which represent major success factors for Heta's risk controlling activities.

### **90.1. IT-based controlling of loan portfolio**

An IT tool that can be used to measure target achievements and deviation with regard to the loan portfolio's wind-down objectives was developed and introduced in cooperation with a well-known external software supplier. In addition to offering the advantage of centralisation, the tool also offers considerable relief in terms of documenting the wind-down success for Heta.

## 90.2. Redefining the framework for risk management (RAP)

The Risk Assessment Process (RAP) was developed to provide management with the opportunity to identify, assess and control possible uncertainties and the associated unexpected risks. In this way, precautionary measures may be developed to mitigate the effects of unexpected losses that may occur in the course of reaching the wind-down objectives.

The implementation of the risk assessment process consists of several steps and is based on the already noted COSO - ERM Framework:

- Identification of event,
- Assessment of risk,
- Risk response,
- Control measures,
- Controlling,
- Reporting.

The integrated approach involves all areas of the company, and is implemented from the bottom up to allow for the compilation and assessment of all possible risk events.

For example, the reference values risk buffer, risk appetite and risk tolerance can be derived from the results of the RAP.

Using this selected approach, most risk assessment activities are carried out concurrently in all areas of the organisation. Results are processed separately and finally aggregated in order to derive a total risk tolerance level to ensure the concept of “traffic light approach”.

A risk matrix provides a combined overview of the risk tolerance and possible measures for minimising the risks associated with the potential incidents that have been identified and aggregated.

Heta manages and reports potential unexpected losses on the basis of the approved upper risk limits.

## 90.3. Stress testing for assets

For the purpose of estimating the effects of various general conditions on Heta's assets, a project was implemented in 2016 with external support during the approval phase. The resulting portfolio model (HePoMo = Heta Portfolio Model) examines three scenarios each (best, base and worst) for the case of an orderly wind-down procedure pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) and also for the scenario of an insolvency. The model comprises the entire loan portfolio, all real estate and moveable assets of Heta, the Treasury portfolio and the refinancing lines to HBI and Addiko Bank AG. The scenario of an expected and orderly wind-down procedure is based on Heta's business plan. Higher/lower resolution results are assumed for the best/worst case scenarios. The insolvency scenarios assume the immediate insolvency of Heta, which is associated with, among other things, a shorter liquidation period, higher price discounts and higher costs in the form of a higher discount rate.

## 90.4. Heta Individual Assessment Tranche (HIAT)

The HIAT process is implemented on a regular basis for the purpose of calculating the required risk provisions. The gone concern assumption as well as the major strategic objective of the quickest and best possible wind-down of the portfolio was addressed at the end of 2016. To ensure the highest level of accuracy, 75% of the entire loan portfolio was assessed on an individual transaction basis. A standardised measurement tool was developed and applied in the group to warrant a uniform measurement process. All HIAT results were validated in the loan committees in charge, and were approved in accordance with the various authorisations.

The guidelines for the measurement of loans and real estate, which were developed in 2014 with the involvement of an auditing company as an independent expert, were adjusted to the current situation in 2016. The measurement parameters were defined on the basis of sound expert estimates. These parameters formed the basis for the subsequent measurement of loans and real estate by Heta.

A so-called “Realisable Sales Value” (RSV) was calculated for the measurement of loans. This value represents the best possible estimate of the sales value of assets in saturated markets as at 31 December 2016, which can be achieved in line with a proper and professional resolution process during a limited time frame.

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

- Loan Cash Flow Valuation Approach,
- Collateral Valuation Approach.



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

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

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

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

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

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

#### **90.5. Refining the methodology for controlling real estate risks (moveable assets and real estate)**

The controlling of real estate risks was picked up and refined as part of a group project. Specifically, a process, system and documentation were developed for analysing, monitoring and reporting real estate risks, which consist of the following key areas:

- Fluctuation of market values compared to the net carrying amount,
- Risk assessment (rating),
- Review of the defined wind-down strategy for the individual asset over the significance threshold,
- Stress and back-testing.

### **(91) Risk types**

#### **91.1. Credit risk (counterparty default risk)**

The material credit risk (net exposure) was continuously reduced in the 2016 financial year through the reduction in assets.

##### **91.1.1. DEFINITION**

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

Counterparty default risks also include the risk types concentration and participation risks.

##### **91.1.2. GENERAL REQUIREMENTS**

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

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

The credit committees are a permanent institution at Heta. The most senior credit committee and most senior decision-making body is the Supervisory Board.

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

#### 91.1.3. RISK MEASUREMENT

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

#### 91.1.4. RISK LIMITATION

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

In the banking segment, limits are allocated and monitored by an independent unit in GF&RC. Limit breaches are immediately reported to the Chief Financial and Risk Officer (CFRO) and the Management Board.

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

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

#### 91.1.5. PORTFOLIO OVERVIEW - CREDIT RISK

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

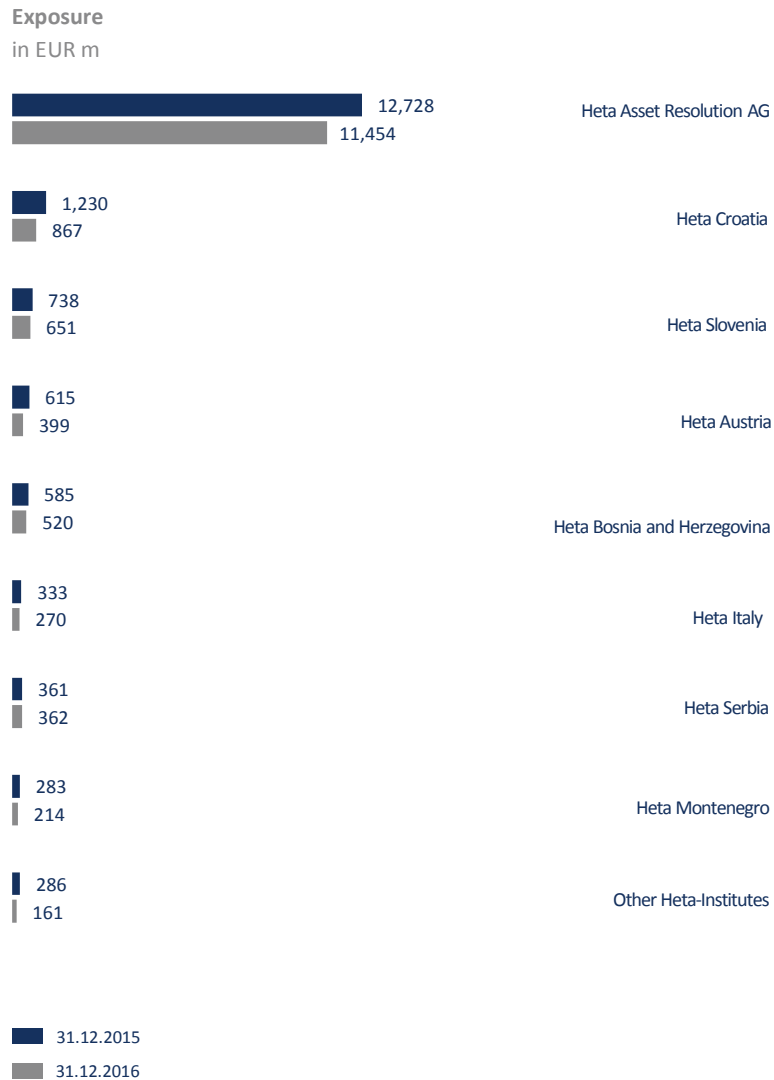
#### **Distribution of gross exposure within the group**

During the year under review, exposure in the group fell by EUR 2.3 billion. This decline is the result of the continued reduction in non-performing loans and the progressive implementation of the wind-down strategy.

The share of off-balance exposure fell substantially in 2016, as the current business model only allows for new loan commitments in exceptional cases. Only transactions that serve to fulfil the wind-down objectives may be carried out since the deregulation. Heta's off-balance sheet exposure has been almost entirely reduced (EUR 0.2 billion in the previous year), and is mainly due to guarantees for companies.

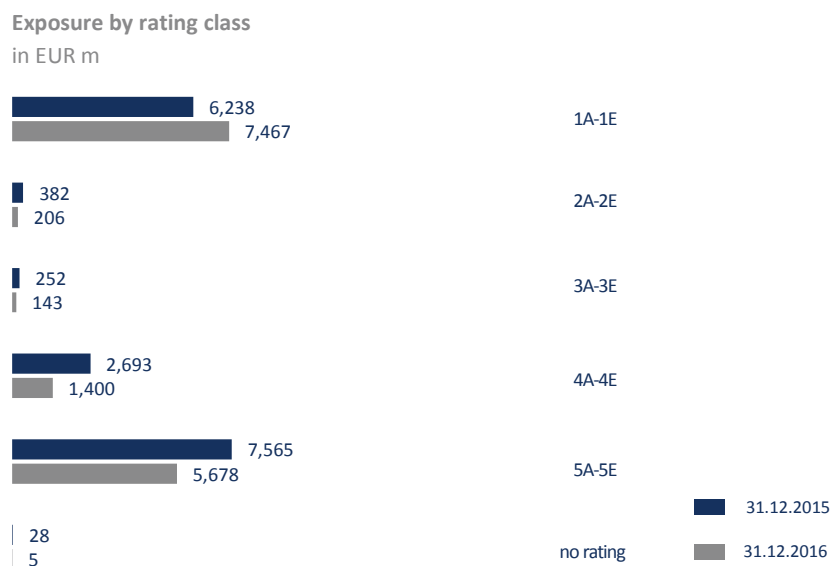
The transfer of assets (approximately EUR 0.3 billion) as a result of the "Purchaser Brush" option had the effect of increasing the exposure as early as the first six months of 2016, which overcompensated the resolution and wind-down successes in some cases.

Within the group, gross exposure is distributed as follows (the gross exposure of the deconsolidated Heta subsidiaries is listed under “Heta Asset Resolution AG (individual institute)”):



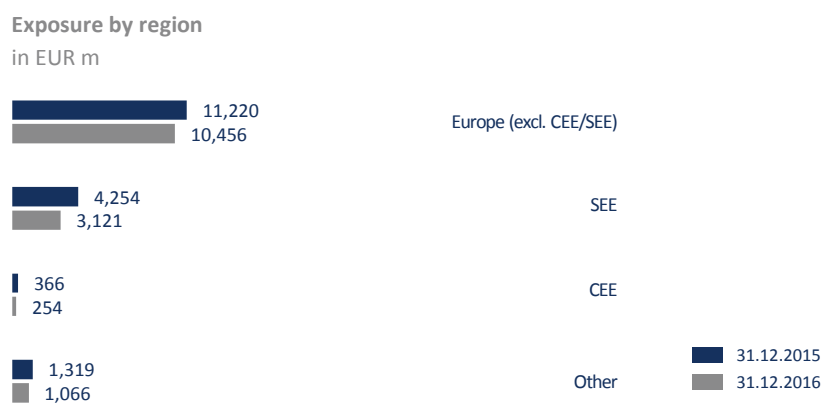
### Gross exposure by rating class within the group

Roughly 52% of the gross exposure (39% in previous year) has a rating ranging from 1A to 2E (best to moderate creditworthiness). This exposure relates mainly to receivables from banks and public institutions, particularly the investment at the Austrian National Bank (OeNB). An improvement in the credit rating for the State of Carinthia had the effect of shifting the exposures from rating class 4A-4E to rating class 1A-1E.



### Gross exposure by region within the group

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

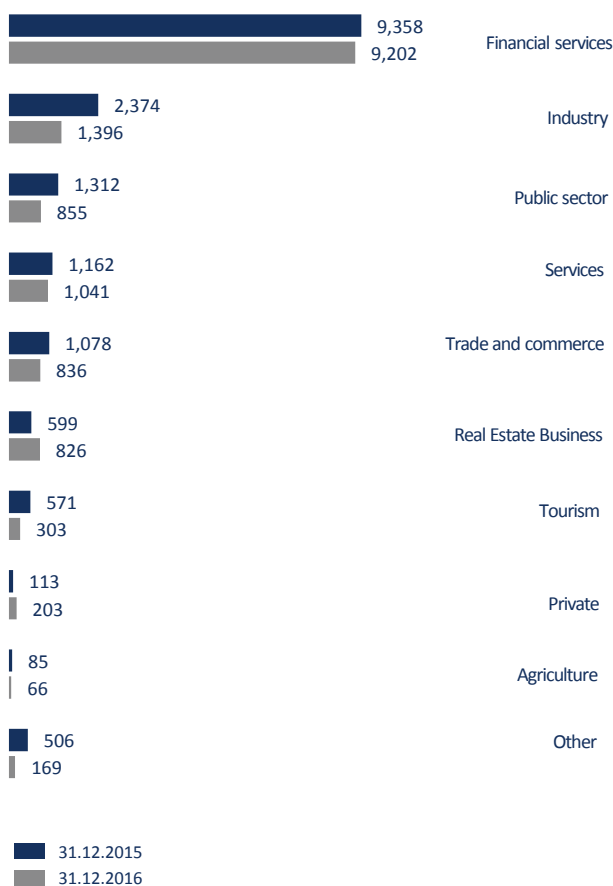


### Gross exposure by business sector within the group

Heta uses a uniform and standardised classification code (NACE Rev 2) to present gross exposure by sector. This code is mapped into ten industry sectors for reporting purposes. The industry groups financial services providers and industry account for the largest portion with approximately 71% (68% in the previous year).

#### Exposure by business sector

in EUR m



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

The Heta portfolio contains an increased concentration risk, which is also reflected in the breakdown of exposure by size category. Specifically, 82% of exposure is contained in size categories greater than EUR 10 million (80% in the previous year).

The largest share of the EUR 12.2 billion figure in the range > EUR 10 million exposure (EUR 13.6 billion in the previous year) is attributable to banks (particularly the investment at the Austrian National Bank (OeNB)) and the public sector.

The presentation is based on the “group of affiliated clients”:

Ticket size	EUR m	
	31.12.2016	31.12.2015
< 500,000	484	582
500,000-1,000,000	307	379
1,000,000-2,500,000	547	692
2,500,000-5,000,000	667	750
5,000,000-10,000,000	741	1,125
10,000,000-25,000,000	1,002	1,334
25,000,000-50,000,000	757	1,146
50,000,000-100,000,000	750	1,237
100,000,000-500,000,000	1,206	2,033
> 500,000,000	8,438	7,881
<b>Total</b>	<b>14,898</b>	<b>17,159</b>

**91.1.6. PRESENTATION OF FINANCIAL ASSETS BY LEVEL OF IMPAIRMENT**

Financial assets against financial institutions or public entities which are not overdue and not impaired:

Rating class	EUR m			
	31.12.2016		31.12.2015	
	Gross Exposure	Collateral	Gross Exposure	Collateral
1A-1E	7,461	8	6,199	11
2A-2E	157	40	285	59
3A-3E	5	4	60	10
4A-4B	1,276	17	2,539	0
5A-5E	2	0	6	0
Without rating	3	0	7	1
<b>Total</b>	<b>8,903</b>	<b>70</b>	<b>9,095</b>	<b>81</b>

Note: The Realisable Sales Value (RSV) is used as the collateral value.

Financial assets against other customers which are not overdue and not impaired:

Rating class	EUR m			
	31.12.2016		31.12.2015	
	Gross Exposure	Collateral	Gross Exposure	Collateral
1A-1E	6	2	31	10
2A-2E	46	34	94	30
3A-3E	137	98	190	105
4A-4B	70	31	139	14
5A-5E	49	25	80	24
Without rating	2	0	21	0
<b>Total</b>	<b>311</b>	<b>190</b>	<b>555</b>	<b>183</b>

Note: The Realisable Sales Value (RSV) is used as the collateral value.



## Financial assets which are overdue but not impaired:

Classes of loans and advances	EUR m		EUR m	
	Exposure	31.12.2016 Collateral	Exposure	31.12.2015 Collateral
<b>Financial investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
- due to 30 days	0	0	0	0
<b>Loans and advances to credit institutions</b>	<b>33</b>	<b>0</b>	<b>8</b>	<b>0</b>
- due to 30 days	33	0	0	0
- due 31 to 60 days	0	0	0	0
- due 61 to 90 days	0	0	0	0
- due 91 to 180 days	0	0	0	0
- due 181 to 365 days	0	0	8	0
- due over 1 year	0	0	0	0
<b>Loans and advances to customers</b>	<b>1</b>	<b>8</b>	<b>18</b>	<b>4</b>
- due to 30 days	0	4	2	1
- due 31 to 60 days	0	0	1	4
- due 61 to 90 days	0	4	0	0
- due 91 to 180 days	0	0	3	0
- due 181 to 365 days	0	0	0	0
- due over 1 year	0	0	12	0
<b>Total</b>	<b>34</b>	<b>8</b>	<b>26</b>	<b>4</b>

## Financial assets which are impaired:

	EUR m			EUR m		
	Exposure	Collateral	31.12.2016 Provisions	Exposure	Collateral	31.12.2015 Provisions
Financial investments	0	0	0	0	0	0
Loans and advances to credit institutions	1,007	553	454	1,401	728	672
Loans and advances to customers	4,644	709	3,937	6,082	952	5,133
<b>Total</b>	<b>5,651</b>	<b>1,262</b>	<b>4,391</b>	<b>7,483</b>	<b>1,680</b>	<b>5,805</b>

Note: The realisable sales value, limited with the net exposure, is used as the collateral value.

## 91.1.7. PARTICIPATION RISK

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

Prior to 2009, Heta (either directly or through a subsidiary) had invested in companies that either served to expand its business spectrum, provided services for the bank or functioned as purely financial holdings to achieve its business objectives. The year 2016 was characterised by the ongoing restructuring measures at Heta leading to portfolio rationalisation and to resolution in individual cases (see note (13) Wind-down of investment companies and asset sales).

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

## 91.1.8. CONCENTRATION RISK

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

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

- Counterparty default concentrations,
- Geographic concentrations.

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

## 91.2. Market price risk

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

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

### 91.2.1. DEFINITION

Market price risks comprise potential losses from changes in market prices. Heta classifies market price risks according to the risk factors into interest rate-, credit spread-, foreign currency- and share price risks, as well as risks from alternative investments.

### 91.2.2. RISK MEASUREMENT

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

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

### 91.2.3. RISK LIMITATION

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

### 91.2.4. RISK CONTROLLING AND MONITORING

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

### 91.2.5. OVERVIEW OF MARKET RISK

The main risks in terms of the market risk are

- Interest rate risk, and
- Foreign currency risk.

### 91.2.6. INTEREST RATE RISK

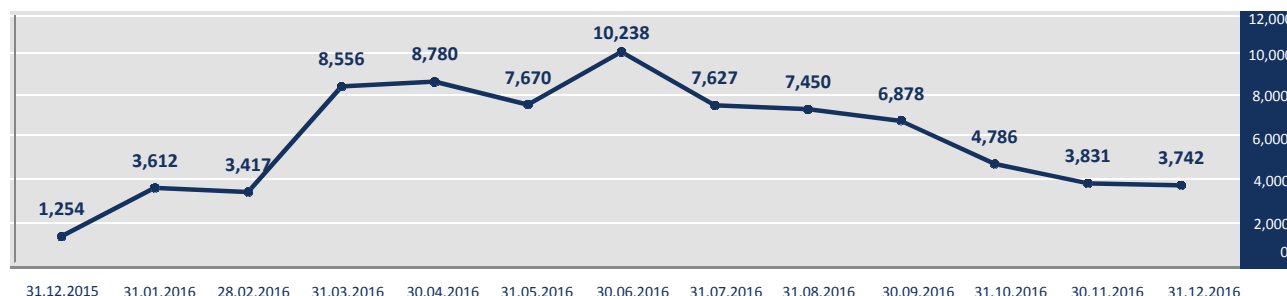
The interest rate risk from Heta's banking book contains all interest-rate-relevant on- and off-balance positions with their next interest rate fixing date and/or their replicated interest sensitivity. Value at risk (VaR) serves as the calculation basis for the interest rate risk and thus the limited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

The interest change risk (banking book and trading book) at Heta on the basis of the VaR is EUR 3.7 million as per 31 December 2016 (31 December 2015: EUR 1.3 million). An increase in the interest change risk during the 2016 financial year due to the removal of interest payments on Heta's debt instruments (Emergency Administrative Decision II from 10 April 2016) was mitigated by the wind-down of assets.

The graph below illustrates the development of the interest change risk (banking book and trading book) on the basis of Heta's VaR for the year 2016.

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

EUR thousand

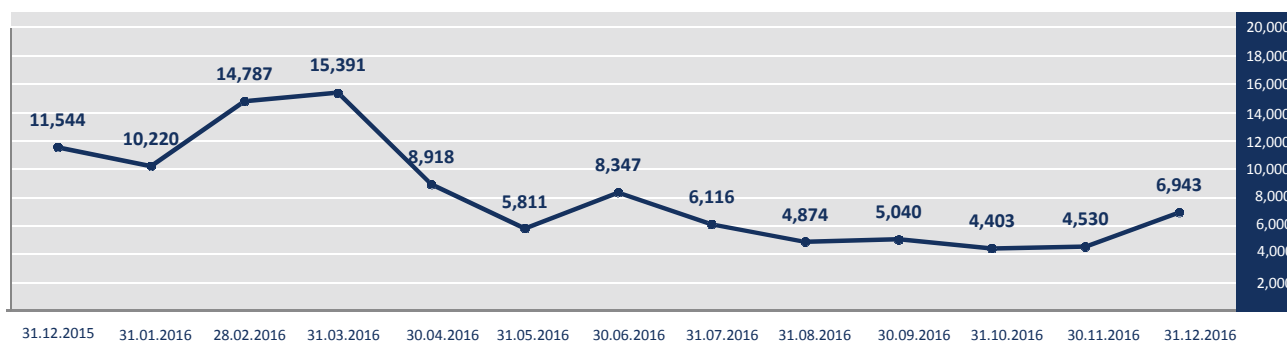
**91.2.7. FOREIGN CURRENCY RISK**

The database for determining the value at risk for the foreign currency risk at Heta is consolidated group-wide. The main risk driver in terms of the foreign currency risk is the Swiss Franc (CHF). At this time, the foreign currency risk cannot be entirely excluded due to restricted access to the market using foreign currency derivatives. The foreign currency risk at Heta on the basis of the VaR is EUR 6.9 million as per 31 December 2016 (31 December 2015: EUR 11.5 million). The haircuts applied to debt instruments denominated in foreign currency on the basis of Emergency Administrative Decision II had the effect of significantly reducing the foreign currency risk compared to the previous year, although it still represents the main risk driver in Heta's market risk.

Development of Heta's foreign currency risk in 2016:

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

EUR thousand

**91.3. Liquidity risk**

The wind-down measures under Emergency Administrative Decision II (deferral, exemption from interest and reduction of “eligible liabilities”) had a positive effect on Heta's structural liquidity risk (see note (2.4) Emergency administrative decisions by the Financial Markets Authority (FMA) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG)). From the current point of view, Heta is refinanced adequately over the duration of the wind-down plan.

Proceeds generated by Heta and the repayments of refinancing lines of the subsidiaries are deposited at the Austrian National Bank (OeNB), with the result that the liquidity reserves rose significantly compared to the previous year.

**91.3.1. DEFINITION**

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

### 91.3.2. RISK MEASUREMENT

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

The liquidity coverage potential quantifies - in terms of amounts and time factors - the ability of the wind-down unit to provide liquid resources at the earliest date. The main components of the wind-down unit's liquidity coverage potential consist of highly liquid securities and credit balance at the Austrian National Bank (OeNB).

### 91.3.3. RISK CONTROLLING

Liquidity reserves are held to cover Heta's potential short-term payment obligations. The cash flow statement serves as the basis for liquidity risk controlling. Gaps that occur are compared to the liquidity coverage potential. Liquidity reserves are controlled within the limits of the options available to a wind-down unit, and in this process are regularly subjected to a review and stress situations.

### 91.3.4. RISK MONITORING

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

### 91.3.5. OVERVIEW - LIQUIDITY SITUATION

Heta's liquidity situation in the year 2016 was characterised by over-liquidity as a result of the haircut and the prolongation of the debt instruments in Emergency Administrative Decision II from 10 April 2016; it resulted from the on-going income generated from interest payments and repayments, but mainly from the liquidation of the loan, real estate and securities portfolio. At the end of the year, the liquidity surplus was EUR 6,204 million. No capital market activities were carried out in 2016.

Heta's counterbalancing capacity in the year 2016 can be described as follows:

	in TEUR	
	31.12.2016	31.12.2015
<b>Liquidity buffer</b>		
High-quality securities	39,127	213,356
Central bank reserves	6,164,408	4,273,851
Cash	0	0
<b>Counterbalancing measures</b>		
Other liquefiable assets (short-, medium-term)	0	77,453
Intergroup liquidity support	0	0
Committed credit lines	0	0
New issuance	0	0
Securitization	0	0
Covered pool potential	0	0
<b>Total counterbalancing capacity</b>	<b>6,203,535</b>	<b>4,564,660</b>

## 91.4. Operational risk

The operational risk ("OpRisk") refers to the risk of losses resulting from inadequate or failed internal processes, systems, people or external factors. Heta is exposed to potential losses from various operational risks, including organisational risks from internal processes, theft and fraud, failure to comply with regulatory requirements, operational disruptions, violations of internal confidentiality regulations, as well as risks in connection to outsourced tasks or damages to physical assets. The operational risk can never be fully eliminated, and requires active management to minimise the impact with regard to financial losses and image damages, as well as costs resulting from a breach of regulatory requirements.

The operational risk must be regularly surveyed, evaluated and managed in order to ensure the effectiveness and efficiency of wind-down activities, the credibility of reporting as well as conformity with the laws and compliance with all regulations.

### 91.4.1. OPRISK CONTROLLING AND MANAGEMENT

Operational risk is actively managed in line with a risk committee that is based on a comprehensive catalogue of directives, working instructions and other written instructions. The OpRisk Committee (OpRC) is concerned with all OpRisk-relevant

situations, and is also responsible for maintaining a total overview of OpRisk management activities. Decisions and consultations regarding the assessment of risks and the development of measures to minimise risks and controlling of the same, along with monitoring effectiveness, are made by the OpRC.

In order to ensure the uniform and transparent management of operational risks across the group, Heta introduced the DORO concept (Decentralized Operational Risk Officer), which was rolled out at every subsidiary. The DOROs report all “operational risk events” (which have been designated as material) directly to the Group Operational Risk Officer (GORO).

The DOROs attended a standardised training program to ensure a uniform level of understanding in the entire group.

The OpRisk Report provides an overview of OpRisk events, the resulting loss developments and an overview of the OpRisk-relevant reference values in the processes. Prompt and comprehensive OpRisk reporting increases risk transparency and allows for the proactive management of OpRisk exposures. Working instructions were prepared and rolled out in the group. A key instruction concerns the use of loss databases for the systematic collection of operational risks at the local level (events with damages exceeding EUR 5,000 are reported to the group). Reports are submitted to the OpRC and the Heta Management Board in the case of significant losses (losses of EUR 100,000 and more).

Upper management is informed of significant operational damages via additional ad-hoc reports (damage threshold EUR 100,000).

Group Legal and Group Compliance handle and manage process risks through a common platform.

#### 91.4.2. ICS

The internal control system (ICS) comprises the planning and coordination of all measures and activities in line with the business processes that are used to secure assets, verify the reliability of accounting data and promote the accuracy and reliability of the processes. The internal control system is also used to verify compliance with the internal directives.

A formal evaluation of the adequacy and effectiveness of the ICS is performed annually by the Group Management Board. The evaluation includes the system as such, and individual controlling activities. The evaluation was conducted at the operational level by GF&RC in accordance with the ICS plan. The results demonstrate that the audited processes are subject to adequate controls, and that all potential inherent risks are compiled and adequately managed.

In 2016, the focus of activities was centred on the further development (improvement, stabilisation, adjustment) of the ICS in regard to the changed processes.

The ICS Policy was revised and rolled out across the group. An ICS annual plan was also developed.

The plan focuses on the resolution processes with regard to the pricing and measurement of assets for those transactions that are the main drivers behind the results for achieving the wind-down objectives. In 2016, all conventional techniques were applied according to the ICS plan in all defined phases of the ICS audit cycle in accordance with the ICS Policy.

#### 91.5. Real estate risk

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

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

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

##### 91.5.1. ONGOING EVALUATION OF REAL ESTATE AND OTHER COLLATERALS

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

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

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

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

**91.6. Transaction processing and strategic risk**

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

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

**91.7. Legal risks**

Comments regarding important legal proceedings for Heta and its subsidiaries can be found in Note (115) Important proceedings. Potential losses from these proceedings can have a significant negative impact on Heta's asset, financial and earnings position. In 2016, all of Heta's passive proceedings were again reviewed with respect to the appropriate quantification of the provisions as part of the so-called Legal Quality Review (LQR).

**91.8. Tax risks relating to tax audits**

The tax audits carried out by the respective tax authorities in Austria and several group countries during the past few years have been completed. The corresponding provisions were booked in the consolidated financial statements for 31 December 2016 (and the preceding consolidated financial statements) with regard to quantifiable audit results that had been communicated to Heta, for which Heta's legal opinion corresponds to that of the tax authority. In the case of findings with divergent opinions, Heta has filed an appeal and, depending on its assessment of how successful the appeal may be, has also booked provisions.

In addition, Heta has also assumed arm's length tax-related guarantees in connection with the resolution of the former SEE network. The settlement that was reached with the buyer of the SEE network in December 2016 and accepted in February 2017 also had the effect of settling these claims, so that further claims from the tax-related guarantees are no longer possible in the future.

**91.9. Other risks**

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

**91.9.1. REPUTATION RISK**

Reputation risk refers to the risk that negative publicity concerning a company's business practices, regardless of the veracity of such reports, results in deviations from the wind-down plan, costly legal disputes or a reduction in planned liquidity.

**91.9.2. MODEL RISK**

Model risk refers to the risk of possible adverse consequences from decisions that are based on models that have been applied inappropriately or incorrectly. In this context, the model is defined as a quantitative method, system or approach that uses statistical, economic, financial or mathematical theories, techniques and assumptions to estimate quantitative parameters from input data.

**91.9.3. COMPLIANCE RISK**

Compliance risk is made up from legal sanctions as well as the financial and material losses faced by an organisation if it acts contrary to internal directives or defined standards. Compliance risk is measured by continuously addressing the findings from incident management, internal audit reports and the ICS.

## Supplementary information

### (92) Remaining maturity

Analysis of remaining maturity as of 31.12.2016	thereof : due on demand	up to 3 months
Cash and balances at central banks	6,164.9	0.0
Loans and advances to credit institutions	1,667.8	13.2
Risk provisions on loans and advances to credit institutions	-472.2	-0.1
Loans and advances to customers	2,510.0	133.2
Risk provisions on loans and advances to customers	-2,199.1	-97.9
Trading assets	0.0	0.0
Derivative financial instruments	0.0	0.1
Financial assets – designated at fair value through profit or loss	0.2	0.0
Financial assets – available for sale	0.0	34.9
Financial assets – held to maturity	0.0	0.0
Investments in companies accounted for at equity	0.0	0.0
Investment properties	0.0	1.7
Intangible assets	0.0	0.0
Tangible assets	0.0	0.4
Tax assets	0.0	9.0
thereof current tax assets	0.0	9.0
thereof deferred tax assets	0.0	0.0
Assets classified as held for sale	0.0	20.7
Remaining other assets	17.8	87.8
Risk provisions on loans and advances on other assets	-0.7	-1.2
<b>Total</b>	<b>7,688.8</b>	<b>201.8</b>
Liabilities to credit institutions	1,533.2	0.0
Liabilities to customers	26.6	4.4
Liabilities to Pfandbriefbank	0.0	0.0
Liabilities evidenced by certificates	2,940.4	1,692.9
Derivative financial instruments	0.0	0.4
Provisions	0.0	40.8
Tax liabilities	0.0	1.2
thereof current tax liabilities	0.0	1.2
thereof deferred tax liabilities	0.0	0.0
Liabilities included in disposal groups classified as held for sale	0.0	0.0
Remaining other liabilities	53.5	11.4
Subordinated capital	0.0	0.0
Hybrid capital	0.0	0.0
<b>Total</b>	<b>4,553.6</b>	<b>1,751.1</b>

With regard to the maturity of liabilities, reference is made to Emergency Administrative Decision II by the Financial Market Authority (FMA) from 10 April 2016, which was issued on the basis of the Federal Act on the Recovery and Resolution of Banks (BaSAG). It provides for a change in maturity dates for all “eligible liabilities” until the resolution on dissolution pursuant to section 84 (9) of the Federal Act on the Recovery and Resolution of Banks (BaSAG), but no later than 31 December 2023.

Accordingly, the maturity dates of all “eligible liabilities” were adjusted to 31 December 2023.

Depending on the actual implementation of the wind-down, the effective return flows can or will differ from the contractual return flows.

The residual terms are organised on the basis of the reported carrying amounts.



EUR m

from 3 months to 1 year	Total up to 1 year	from 1 year to 5 years	over 5 years	Total over 1 year	Total
0.0	6,164.9	0.0	0.0	0.0	6,164.9
0.7	1,681.6	451.2	0.0	451.2	2,132.8
0.0	-472.3	127.0	0.0	127.0	-345.3
377.3	3,020.6	1,220.0	1,054.2	2,274.1	5,294.7
-285.4	-2,582.3	-766.3	-232.6	-998.9	-3,581.3
0.0	0.0	0.0	0.0	0.0	0.0
0.5	0.6	5.0	56.0	61.0	61.6
3.0	3.2	51.0	171.0	222.0	225.2
14.1	49.0	20.5	15.3	35.8	84.8
0.0	0.0	0.0	0.0	0.0	0.0
1.4	1.4	0.1	0.0	0.1	1.5
7.5	9.2	55.3	158.2	213.5	222.7
0.3	0.4	-0.7	0.3	-0.4	0.0
8.5	8.9	10.7	-1.1	9.6	18.4
1.0	10.0	0.0	0.0	0.0	10.0
1.0	10.0	0.0	0.0	0.0	10.0
0.0	0.0	0.0	0.0	0.0	0.0
226.1	246.7	0.0	0.0	0.0	246.7
79.7	185.3	66.4	0.9	67.2	252.6
0.0	-1.9	0.0	0.0	0.0	-1.9
<b>434.7</b>	<b>8,325.3</b>	<b>1,240.1</b>	<b>1,222.1</b>	<b>2,462.2</b>	<b>10,787.5</b>
0.0	1,533.2	0.2	0.0	0.2	1,533.5
26.6	57.6	1,309.9	1.9	1,311.8	1,369.3
0.0	0.0	0.0	0.0	0.0	0.0
844.3	5,477.6	254.0	253.8	507.8	5,985.4
54.4	54.7	64.2	65.6	129.8	184.5
23.6	64.5	450.2	0.0	450.2	514.7
1.3	2.4	0.0	0.0	0.0	2.4
0.4	1.6	0.0	0.0	0.0	1.6
0.9	0.8	0.0	0.0	0.0	0.8
30.9	30.9	0.0	0.0	0.0	30.9
98.3	163.3	6.0	1.0	7.0	170.3
0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0
<b>1,079.5</b>	<b>7,384.1</b>	<b>2,084.6</b>	<b>322.2</b>	<b>2,406.8</b>	<b>9,790.9</b>

Analysis of remaining maturity as of 31.12.2015	thereof : due on demand	up to 3 months
Cash and balances at central banks	4,278.0	0.0
Loans and advances to credit institutions	1,076.5	54.1
Risk provisions on loans and advances to credit institutions	-2.9	-0.3
Loans and advances to customers	3,144.9	116.5
Risk provisions on loans and advances to customers	-2,632.5	-89.9
Trading assets	0.0	0.0
Derivative financial instruments	0.0	2.8
Financial assets – designated at fair value through profit or loss	2.7	0.0
Financial assets – available for sale	42.8	37.9
Financial assets – held to maturity	0.0	0.0
Investments in companies accounted for at equity	0.0	0.0
Investment properties	0.0	1.9
Intangible assets	0.0	0.0
Tangible assets	0.0	0.4
Tax assets	0.0	0.2
thereof current tax assets	0.0	0.2
thereof deferred tax assets	0.0	0.0
Assets classified as held for sale	0.0	217.4
Remaining other assets	29.1	8.7
Risk provisions on loans and advances on other assets	-2.2	0.0
<b>Total</b>	<b>5,936.3</b>	<b>349.9</b>
Liabilities to credit institutions	3,006.8	0.1
Liabilities to customers	136.8	89.4
Liabilities evidenced by certificates	2,872.1	125.0
Liabilities to Pfandbriefbank	0.0	0.0
Derivative financial instruments	0.0	2.6
Provisions	0.0	3.9
Tax liabilities	0.0	1.3
thereof current tax liabilities	0.0	1.1
thereof deferred tax liabilities	0.0	0.2
Liabilities included in disposal groups classified as held for sale	0.0	8.7
Remaining other liabilities	46.2	10.5
Subordinated capital	4.9	0.0
Hybrid capital	0.0	0.0
<b>Total</b>	<b>6,066.8</b>	<b>241.5</b>

EUR m

	from 3 months to 1 year	Total up to 1 year	from 1 year to 5 years	over 5 years	Total over 1 year	Total
	0.0	4,278.0	0.0	0.0	0.0	4,278.0
	669.1	1,799.7	871.3	20.0	891.3	2,691.1
	-0.8	-4.0	-486.7	0.0	-486.7	-490.7
	482.4	3,743.8	1,865.6	1,940.9	3,806.5	7,550.3
	-508.6	-3,231.0	-1,320.3	-614.1	-1,934.5	-5,165.4
	0.0	0.0	0.0	0.0	0.0	0.0
	84.3	87.1	258.6	250.5	509.1	596.2
	3.6	6.3	54.4	144.5	198.9	205.2
	117.6	198.3	101.3	96.3	197.6	395.9
	0.0	0.0	0.0	0.0	0.0	0.0
	3.3	3.3	0.5	0.0	0.5	3.8
	42.7	44.6	202.3	158.5	360.8	405.4
	0.2	0.2	-0.5	0.3	-0.2	0.0
	7.3	7.8	31.9	-12.6	19.4	27.1
	9.7	9.9	30.5	0.0	30.5	40.5
	9.6	9.8	30.5	0.0	30.5	40.4
	0.1	0.1	0.0	0.0	0.0	0.1
	221.7	439.1	-7.4	0.0	-7.4	431.7
	47.4	85.2	106.3	-0.7	105.6	190.9
	0.0	-2.2	-4.1	0.0	-4.1	-6.4
	<b>1,179.9</b>	<b>7,466.1</b>	<b>1,703.8</b>	<b>1,983.5</b>	<b>3,687.5</b>	<b>11,153.5</b>
	212.8	3,219.7	112.6	67.7	180.3	3,400.0
	274.4	500.6	920.3	88.9	1,009.2	1,509.8
	1,088.6	4,085.7	3,368.2	117.8	3,486.0	7,571.6
	669.5	669.5	566.5	5.9	572.4	1,241.9
	11.6	14.2	131.5	334.5	466.0	480.2
	15.6	19.5	442.7	0.5	443.2	462.7
	2.7	4.0	0.0	-0.2	-0.2	3.8
	0.8	1.9	0.0	0.0	0.0	1.9
	1.9	2.1	0.0	-0.2	-0.2	1.9
	4.6	13.3	0.0	0.0	0.0	13.3
	87.4	144.0	11.7	1.1	12.9	156.9
	243.3	248.2	644.0	1,141.4	1,785.4	2,033.6
	0.0	0.0	0.0	0.2	0.2	0.2
	<b>2,610.5</b>	<b>8,918.8</b>	<b>6,197.5</b>	<b>1,757.9</b>	<b>7,955.4</b>	<b>16,874.2</b>

**(93) Finance leases**

Receivables under finance leases are included in the loans and advances to credit institutions and to customers, and are broken down as follows:

EUR m

	31.12.2016	31.12.2015
<b>Minimum lease payments (agreed instalments + guaranteed residual value)</b>	<b>719.4</b>	<b>1,262.7</b>
<b>non guaranteed residual value (+)</b>	<b>0.0</b>	<b>7.7</b>
<b>Gross investment value (=)</b>	<b>719.4</b>	<b>1,270.4</b>
up to 1 year	266.2	440.0
from 1 year to 5 years	310.3	560.3
over 5 years	142.8	270.1
<b>Unearned financial income (interest) (-)</b>	<b>-55.9</b>	<b>-112.4</b>
up to 1 year	-17.9	-29.0
from 1 year to 5 years	-27.5	-60.4
over 5 years	-10.5	-23.0
<b>Net investment value (=)</b>	<b>663.5</b>	<b>1,158.0</b>

The accumulated allowance for uncollectible minimum lease payments receivables from finance leases for 2016 is EUR -404.1 million (2015: EUR -351.0 million).

The total amount of contingent rents from finance lease contracts recognised as income in the reporting period was EUR 0.0 million (2015: EUR 4.4 million).

EUR m

	31.12.2016	31.12.2015
<b>Present value of non guaranteed residual values</b>	<b>0.0</b>	<b>7.7</b>
up to 1 year	0.0	0.2
from 1 year to 5 years	0.0	3.2
over 5 years	0.0	4.3
<b>Present value of minimum lease payments</b>	<b>663.5</b>	<b>1,150.3</b>
up to 1 year	248.3	410.8
from 1 year to 5 years	282.9	496.7
over 5 years	132.3	242.8

The net investments from finance leases also include the present value of the non-guaranteed residual values.

Leased assets corresponding to finance leases are broken down as follows:

EUR m

	31.12.2016	31.12.2015
Real-estate leases	486.2	871.9
Vehicle leases	35.7	59.4
Boat leases	6.6	19.8
Other movables	135.0	206.9
<b>Total</b>	<b>663.5</b>	<b>1,158.0</b>

**(94) Operating leases**

The future minimum lease payments from non-terminable operating leases are as follows for the past two financial years:

EUR m

	31.12.2016	31.12.2015
up to 1 year	21.4	29.0
from 1 to 5 years	17.2	54.3
over 5 years	7.3	26.8
<b>Total</b>	<b>46.0</b>	<b>110.1</b>

The minimum lease payments under non-cancellable operating leases, by leased assets, are broken down as follows:

EUR m

	31.12.2016	31.12.2015
Real-estate leases	40.9	101.2
Vehicle leases	1.5	3.9
Boat leases	0.0	0.0
Other movables	3.5	5.0
<b>Total</b>	<b>46.0</b>	<b>110.1</b>

The total amount of contingent lease payments from operating leases recognised as income in the reporting period was EUR 0.0 million (2015: EUR 0.0 million).

**(95) Borrowing costs**

Borrowing costs incurred in connection with qualified assets pursuant to IAS 23 are capitalised together with the acquisition costs. No borrowing costs were capitalized in the 2016 financial year (2015: EUR 0.0 million).

**(96) Development costs**

In the 2016 financial year, Heta did not capitalise any developments costs (2015: EUR 0.0 million) for in-house developed software pursuant to IAS 38 "Intangible Assets".

**(97) Assets/liabilities in foreign currencies**

The statement of financial position contains the following amounts denominated in foreign currency:

EUR m

	31.12.2016	31.12.2015
Assets	792.9	2,097.4
Liabilities	1,505.7	2,987.3

**(98) Fiduciary transactions**

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

EUR m

	31.12.2016	31.12.2015
Loans and advances to customers	79.7	73.3
Other fiduciary assets	116.2	103.4
Shares in affiliated, non-consolidated companies and other associated companies	0.0	0.0
Shares and other not fixed-interest securities	0.0	0.0
Tangible fixed assets (incl. investment properties)	0.0	0.0
Other fiduciary assets	116.2	103.4
<b>Fiduciary assets</b>	<b>195.9</b>	<b>176.6</b>
Liabilities to credit institutions	23.8	23.8
Liabilities to customers	55.9	49.5
Other fiduciary liabilities	116.2	103.4
<b>Fiduciary liabilities</b>	<b>195.9</b>	<b>176.6</b>

**(99) Assets given as collateral**

Assets of EUR 168.6 million (2015: EUR 403.2 million) were provided to third parties as collateral for own liabilities. These consist mainly of cash collateral provided in connection with derivatives. In addition, securities with a value of EUR 0.0 million (2015: EUR 73.4 million) were pledged at a European Investment Bank for refinancing received. The relevant assets continue to be recognised in Heta's statement of financial position. The refinancing lines for Addiko Bank AG as at 31 December 2016 have been partially pledged as at 31 December 2016 in favour of the purchaser of Addiko Bank AG regarding his claims from the sale agreements on the basis of the Pledge Agreement concluded in the 2015 financial year.

EUR m

	31.12.2016	31.12.2015
Liabilities to credit institutions	168.6	399.5
Liabilities to customers	0.0	3.7
<b>Total</b>	<b>168.6</b>	<b>403.2</b>

**(100) Subordinated assets**

The following assets shown in the statement of financial position are subordinated assets:

EUR m

	31.12.2016	31.12.2015
Loans and advances to customers	0.0	0.0
Financial assets – available for sale	0.0	6.6
<b>Total</b>	<b>0.0</b>	<b>6.6</b>

**(101) Contingent liabilities and other off-balance-sheet liabilities**

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

EUR m

	31.12.2016	31.12.2015
<b>Contingent liabilities</b>	<b>3,812.0</b>	<b>109.0</b>
from application "bail-in" of creditors reduced liabilities	3,802.0	0.0
from bills of exchange transferred for settlement	0.0	0.0
from credit guarantees	2.9	94.1
from letters of credit	0.0	0.0
from other guarantees	4.5	4.5
from other contingent liabilities	2.6	10.4
<b>Other liabilities</b>	<b>0.1</b>	<b>123.4</b>
from irrevocable credit commitments	0.1	110.5
from other liabilities	0.0	12.9
<b>Total</b>	<b>3,812.0</b>	<b>232.4</b>

Other financial obligations from the application of the "bail-in" of creditors instrument according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) are shown under contingent liabilities. They correspond to the difference between the nominal value of the "eligible liabilities" reduced with Emergency Administrative Decision II from 10 April 2016, including accrued interest until 1 March 2015, and the reported fair value of these liabilities as at 31 December 2016. The fair value of the "eligible liabilities" is based on Heta's expected net assets, which must be paid out to the creditors at the time of the resolution on dissolution, but at the latest on 31 December 2023. The resulting total contingent liabilities amount to EUR 3.8 billion (2015: EUR 0 billion). This amount does not include the interest as of 1 March 2015 that is attributable to the "eligible liabilities", since they were reduced to zero pursuant to Emergency Administrative Decision II. Also not included in this amount are the subordinated liabilities in the amount of EUR 1.9 billion (nominal including interest up to 1 March 2015), since the repayment of these liabilities, which were reduced to zero, is not likely. It is noted that the amounts of these contingent liabilities may change in the future due to foreign currency measurements as well as earlier partial distributions.

The credit guarantees consist mostly of guarantees for former group companies.

**(102) Liability for commitments issued through Pfandbriefbank (Österreich) AG**

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

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

According to the notification issued by the Pfandbriefbank, the volume of liabilities included under the liability of the guarantors is approximately EUR 1.9 billion as at 31 December 2016 (EUR 3.3 billion on 31 December 2015 on the basis of the audit report in terms of liability law). Taking into account the funds obtained by the Pfandbriefbank and forwarded to Heta in the amount of EUR 0.6 billion (2015: EUR 1.2 billion), the value that must be reported according to section 237 line 8a of the Austrian Commercial Code (UGB) is EUR 1.8 billion (2015: EUR 2.8 billion).

According to Emergency Administrative Decision II, all of Heta's liabilities to Pfandbriefbank (Österreich) AG are subject to a "bail-in" of creditors of 53.98%. In addition to the aforementioned statutory liabilities, these items include in particular those Pfandbriefbank receivables from Heta from the forwarding of proceeds from issues that the Pfandbriefbank issued on Heta's behalf. As a result of Emergency Administrative Decision II, Heta is also no longer required to pay the quarterly administration fees stipulated by the Pfandbriefbank. Furthermore, the Pfandbriefbank demands that Heta reimburses it for certain



costs that were incurred as a result of Emergency Administrative Decisions I and II. Heta disputes that it has an obligation to reimburse these costs. Due to the Pfandbriefbank's acceptance of the repurchase offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF) in relation to the outstanding claims against Heta and the associated submission of a comprehensive waiver in favour of Heta, the bank is no longer entitled to reimbursements for these costs.

### (103) Break-down of securities admitted to stock exchange trading

The following securities were admitted to stock exchange trading as at 31 December 2016:

EUR m

	31.12.2016	31.12.2015
<b>Trading assets</b>		
Bonds and other fixed-interest securities	0.0	0.0
thereof listed	0.0	0.0
thereof unlisted	0.0	0.0
Shares and other non-fixed-interest securities	0.0	0.0
thereof listed	0.0	0.0
thereof unlisted	0.0	0.0
Treasury bills, eligible for refinancing with central banks	0.0	0.0
thereof listed	0.0	0.0
thereof unlisted	0.0	0.0
<b>Financial assets – designated at fair value through profit or loss</b>		
Bonds and other fixed-interest securities	0.0	0.0
thereof listed	0.0	0.0
thereof unlisted	0.0	0.0
Shares and other non-fixed-interest securities	0.2	6.3
thereof listed	0.0	2.3
thereof unlisted	0.2	4.0
<b>Financial assets – available for sale</b>		
Shares in affiliated, non-consolidated companies (>50%)	2.3	2.4
thereof listed	0.0	0.0
thereof unlisted	2.3	2.4
Other participations (associated companies 20% –50%)	0.0	0.0
thereof listed	0.0	0.0
thereof unlisted	0.0	0.0
Participations without intension for sale (under 20%)	0.0	0.0
thereof listed	0.0	0.0
thereof unlisted	0.0	0.0
Bonds and other fixed-interest securities	47.6	193.8
thereof listed	46.0	173.3
thereof unlisted	1.5	20.4
Shares and other non-fixed-interest securities	0.0	15.9
thereof listed	0.0	15.9
thereof unlisted	0.0	0.1
Treasury bills, eligible for refinancing with central banks	34.9	183.8
thereof listed	34.9	183.8
thereof unlisted	0.0	0.0
<b>Financial assets – held to maturity</b>		
Bonds and other fixed-interest securities	0.0	0.0
thereof listed	0.0	0.0
thereof unlisted	0.0	0.0

**(104) Restructuring expenses**

Restructuring expenses are comprised of the following:

EUR m

	1.1. - 31.12.2016	1.1. - 31.12.2015*
Restructuring provisions	-1.4	-7.4
Other restructuring costs	-1.4	0.2
Release of not fully used restructuring provisions	2.5	0.1
<b>Total</b>	<b>-0.2</b>	<b>-7.0</b>

\*) Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations

During the 2016 financial year, EUR -1.4 million (2015 adjusted: EUR -7.4 million) was allocated to the restructuring provisions. The allocation in the amount of EUR -1.4 million (2015 adjusted: EUR -5.8 million) is the result of expenses for severances due to the planned reduction in the workforce.

**(105) Audit expenses**

The following expenses were incurred during the reporting period for the auditors Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (EY) and KPMG Austria GmbH (KPMG):

EUR m

	31.12.2016	31.12.2015
<b>Audit fees for the annual financial statements</b>	<b>-1.6</b>	<b>-2.3</b>
Expenses for the current year	-1.5	-2.1
thereof EY	-0.9	-1.3
thereof KPMG	-0.6	-0.8
Expenses relating to the previous year	0.0	-0.2
<b>Fees for other services</b>	<b>-0.8</b>	<b>-1.3</b>
Other assurance services	0.0	0.0
Tax consultancy	-0.1	-0.1
thereof EY	0.0	0.0
thereof KPMG	-0.1	-0.1
Other services	-0.6	-1.2
thereof EY	0.0	-0.2
thereof KPMG	-0.6	-0.9
<b>Total services</b>	<b>-2.3</b>	<b>-3.6</b>

The expenditures for the auditor shown in the 2016 financial year include the net fee (exclusive of VAT) and associated cash expenditures. In addition to the services invoiced by the appointed auditors (EY und KPMG), the total amount also includes services rendered directly by other companies of the EY and KPMG network to Heta or its group companies.

The costs for the audit of the consolidated financial statements relate to the audit costs for the (local) annual financial statements, the group reporting packages of the subsidiaries audited by EY and KPMG, and the costs for the audit of the consolidated financial statements themselves.

**(106) Measurement categories in accordance with IAS 39**

Financial assets and liabilities as at 31 December 2016 are broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR/LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2016
Cash and balances at central banks	6,164.9			0.0			6,164.9
Loans and advances to credit institutions	2,132.8						2,132.8
Loans and advances to customers	5,294.7						5,294.7
Impairment on financial assets – at cost (risk provision)	-3,928.4						-3,928.4
Trading assets		0.0					0.0
Derivative financial instruments		61.6				0.0	61.6
Financial assets – afvtpl			225.2				225.2
Financial assets – afs				84.8			84.8
Other assets	63.9						63.9
<b>Total financial assets</b>	<b>9,727.8</b>	<b>61.6</b>	<b>225.2</b>	<b>84.8</b>	<b>0.0</b>	<b>0.0</b>	<b>10,099.4</b>
Liabilities to credit institutions	6.3		1,527.2				1,533.5
Liabilities to customers	26.3		1,343.1				1,369.3
Liabilities to Pfandbriefbank	0.0		0.0				0.0
Liabilities evidenced by certificates	0.0		5,985.4				5,985.4
Derivative financial instruments		184.5				0.0	184.5
Subordinated capital	0.0		0.0				0.0
Hybrid capital			0.0				0.0
Other liabilities	18.1		0.0				18.1
<b>Total financial liabilities</b>	<b>50.6</b>	<b>184.5</b>	<b>8,855.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>9,090.8</b>

## Explanations:

lar:	loans and receivable
lac:	liabilities at cost
hft:	held for trading
fvo:	designated at fair value through profit or loss
afvtpl:	at fair value through profit or loss (fair value option)
afs:	available for sale
htm:	held to maturity

Financial assets and liabilities as at 31 December 2015 are broken down into the following measurement categories in accordance with IAS 39:

EUR m

	LAR/LAC	HFT	FVO	AFS	HTM	HFT (Fair Value Hedges)	31.12.2015
Cash and balances at central banks	4,278.0			0.0			4,278.0
Loans and advances to credit institutions	2,691.1						2,691.1
Loans and advances to customers	7,550.3						7,550.3
Impairment on financial assets – at cost (risk provision)	-5,662.4						-5,662.4
Trading assets		0.0					0.0
Derivative financial instruments		596.2				0.0	596.2
Financial assets – afvtpl			205.2				205.2
Financial assets – afs				395.9			395.9
Other assets	23.4						23.4
<b>Total financial assets</b>	<b>8,880.3</b>	<b>596.2</b>	<b>205.2</b>	<b>395.9</b>	<b>0.0</b>	<b>0.0</b>	<b>10,077.6</b>
Liabilities to credit institutions	3,227.3		172.8				3,400.0
Liabilities to customers	1,508.8		1.0				1,509.8
Liabilities to Pfandbriefbank	1,234.6		7.3				1,241.9
Liabilities evidenced by certificates	7,402.0		198.2				7,600.1
Derivative financial instruments		470.3				9.9	480.2
Subordinated capital	2,000.6		4.5				2,005.1
Hybrid capital			0.2				0.2
Other liabilities	22.0		0.0				22.0
<b>Total financial liabilities</b>	<b>15,395.3</b>	<b>470.3</b>	<b>383.9</b>	<b>0.0</b>	<b>0.0</b>	<b>9.9</b>	<b>16,259.4</b>

## Explanations:

lar:	loans and receivables
lac:	liabilities at cost
hft:	held for trading
fvo:	designated at fair value through profit or loss
afvtpl:	at fair value through profit or loss (fair value option)
afs:	available for sale
htm:	held to maturity

**(107) Loans and advances and financial liabilities designated at fair value**

Heta uses the fair value option to avoid accounting mismatches for securities and loans that are hedged with interest rate derivatives. Based on the management strategy, the interest was switched from fixed to variable interest using interest rate swaps. In addition, the fair value option is also used for financial instruments on the assets side with embedded derivatives.

With regard to the financial obligations, the “eligible liabilities”, which were reduced under Emergency Administrative Decision II and fully derecognised on 9 April 2016, were designated at their fair value on 10 April 2016 and allocated to this category. Beyond that, there are no other liabilities dedicated to this category.

The application of the fair value option results in the following values for the different items in the statement of financial position:

EUR m

	31.12.2016	31.12.2015
Loans and advances to customers and credit institutions	225.0	198.9
Bonds and other fixed-interest securities	0.0	0.0
Shares and other non-fixed-interest securities	0.2	6.3
<b>Total</b>	<b>225.2</b>	<b>205.2</b>
Liabilities to credit institutions	1,527.2	172.8
Liabilities to customers	1,343.1	1.0
Liabilities to Pfandbriefbank	0.0	7.3
Liabilities evidenced by certificates	5,985.4	198.2
Subordinated capital	0.0	4.5
Hybrid capital	0.0	0.2
<b>Total</b>	<b>8,855.7</b>	<b>383.9</b>

The fair value of the financial obligations is mainly determined by the follow-up measurement of the “eligible liabilities” that were designated at the fair value on 10 April 2016. The fair value is based on the expected portfolio of remaining liquid assets remaining as at 31 December 2023 pursuant to the wind-down plan, and is discounted in consideration of haircuts on the balance sheet date.

As at 31 December 2016, the maximum default risk for loans and advances designated at fair value through profit or loss was EUR 225.0 million (2015 adjusted value: EUR 198.8 million). The change in the fair value that is attributable to changes in the credit rating is EUR 56.0 million for the 2016 financial year (2015 adjusted value: EUR -79.7 million); since the designation, the cumulated change amounts to EUR 27.8 million (2015 adjusted value: EUR -28.2 million). The changes in the fair value that are attributable to changes in the credit rating are determined by calculating differences, whereby the fair value based on the credit spreads at the end of the reporting period is compared to that of the beginning of the reporting period.

The valuation result from the application of the fair value option recognised in the income statement amounts to EUR -1,017.1 million (2015: EUR +1.5 million), and is mainly the result of the change in the fair value of the “eligible liabilities” from 10 April 2016 to 31 December 2016 (see note (53) Result from financial investments – designated at fair value through profit or loss).

In the 2016 financial year, the amount of fair value changes for the financial obligations classified at fair value, which are due to the company's own credit risk, amount to EUR -236.2 million (2015: EUR 51.4 million). The cumulated fair value change as at 31 December 2016 due to changes in own credit risk amounts to EUR -32.3 million (2015: EUR 426.0 million). The own credit risk that is included in the fair value measurement was reduced accordingly following the successful purchase of the Heta bonds by the Kärntner Ausgleichszahlungs-Fonds (K-AF).

The amount repayable for the liabilities designated at the fair value is based on the quota to be established by the Financial Market Authorities (FMA) administrative decisions, and generally depends on the volume of liquid assets at the end of the wind-down procedure. The portfolio of liquid assets currently expected for 31 December 2023 is EUR 9,120.3 million with regard to the associated “eligible liabilities” that are designated at fair value, and is therefore EUR 264.7 million carrying amounts as of 31 December 2016.

**(108) Net gains or losses on financial instruments**

The net gains and losses on financial instruments by category are as follows for the 2016 calendar year:

EUR m

1.1. - 31.12.2016	Net interest income	Valuation and Sale	Risk provisions on loans and advances	Other comprehensive income (OCI)
Loans and receivables	263.8	0.0	465.0	0.0
Trading assets	2.8	17.7	0.0	0.0
Financial assets – designated at fair value through profit or loss	0.2	53.8	0.0	0.0
Financial assets – available for sale	3.0	-14.2	0.0	-9.3
Financial liabilities measured at amortised cost	-173.6	2.0	0.0	0.0
Financial liabilities – designated at fair value through profit or loss	-6.9	-1,071.3	0.0	0.0
<b>Total</b>	<b>89.3</b>	<b>-1,012.0</b>	<b>465.0</b>	<b>-9.3</b>

The net gains and losses on financial instruments by category are as follows for the 2015 calendar year:

EUR m

1.1.-31.12.2015	Net interest income	Valuation and Sale	Risk provisions on loans and advances	Other comprehensive income (OCI)
Loans and receivables	386.0	3.1	816.8	0.0
Trading assets	169.7	-58.5	0.0	0.0
Financial assets – designated at fair value through profit or loss	1.1	-73.7	0.0	0.0
Financial assets – available for sale	9.7	-1.9	0.0	11.6
Financial liabilities measured at amortised cost	-441.9	-1.9	0.0	0.0
Financial liabilities – designated at fair value through profit or loss	-26.0	75.1	0.0	0.0
<b>Total</b>	<b>98.7</b>	<b>-57.7</b>	<b>816.8</b>	<b>11.6</b>

Previous year's values for 2015 were adjusted in connection with the disclosure of the Italian subsidiary as a discontinued operation, see note (12) Discontinued Operations

**(109) Fair value disclosures**

Fair value is the price that would be received for the sale of an asset or paid to transfer a debt in an orderly transaction between market participants at the valuation date. Heta's wind-down obligation was taken into account by applying market prices of comparable financial instruments and by stipulating the most advantageous market pursuant to IFRS 13.16. The following fair value hierarchy is based on the origin of the fair value:

**Quoted prices in active markets (Level I)**

The fair value of financial instruments traded in active markets is best established through quoted prices where these represent market values/prices used in regularly occurring transactions. This applies above all to listed equity securities, debt instruments, which are traded on the interbank market, and listed derivatives.

**Value determined using observable parameters (Level II)**

If there are no quoted prices for individual financial instruments, then the market prices of comparable financial instruments or recognised valuation models using observable prices or parameters must be used to determine the fair value. This category includes the majority of the OTC derivatives and non-quoted debt instruments.

**Value determined using non-observable parameters (Level III)**

This category includes financial instruments for which there are no observable market rates or prices. The fair value is therefore determined using valuation models appropriate to the individual financial instrument. This model makes use of management assumptions and estimates which are dependent on the pricing transparency and complexity of the financial instrument.

The end of the period under review is defined as the date of reclassification between various levels of the fair value hierarchy.

### Equity instruments

Equity instruments are reported in Level I if they are quoted in an active market. If not, these are then reported in Level III. If the fair value of an equity instrument cannot be reliably measured, the equity instrument is measured at amortised cost. Equity instruments measured at cost are impaired if the carrying amount is higher than the recoverable amount, either by a significant amount or over a longer period of time.

### Derivatives

The fair values of derivatives that are not options are determined by discounting the relevant cash flows. These are reported in Level II if they are measured on the basis of observable input factors. If non-observable significant input factors are used, then these derivatives are reported under Level III. The measurement of the fair values of structured financial products takes into account the type of embedded derivative; these are reported in Level II or Level III depending on which input factors were used.

### Fixed-interest receivables and liabilities

The method used to measure fixed-interest receivables, liabilities and securities depends on the liquidity on the relevant market. Liquid instruments measured at the respective market value are shown in Level I. In the absence of an active market, fair values are calculated on the basis of risk premium curves. The proximity to the risk premium curve used determines whether these instruments are reported in Level II or Level III. They are reported in Level III if the measurement procedure uses a significant input parameter that cannot be directly observed in the market. Provision of price data, either at a low frequency or only from one source, is reported in Level III.

### Liabilities

The fair value of the liabilities is calculated using an "Expected Present Value" technique. To this end, the portfolio of liquid assets expected for 31 December 2016, which is used to service "eligible liabilities", is discounted using a market-adequate interest rate and a discount for Heta's inherent insolvency risk. Other than the risk-free interest rate curve, all of the input parameters of the model cannot be directly observed in the market. Therefore the fair value is shown under Level III.

### Hedge accounting

Within the scope of hedge accounting, Heta used only fair value hedges to hedge the market values of financial instruments in the past. Financial instruments hedged according to IAS 39 are reported in the statement of financial position in accordance with the hedged fair value, i.e. the carrying amount plus the change of the market value attributable to the hedged part of the financial instrument. The hedge served above all to minimise the market value risk caused by changes to interest rates.

As the carrying amount of unhedged fixed interest financial instruments according to IAS 39 (Loans & Receivables (L&R), Held to Maturity) remains unaffected by market changes, this produces a difference between the fair value and the carrying amount, which is determined by means of a capital value-oriented valuation method.

For this purpose, Heta established the expected series of payments for each financial instrument and discounted it with a discounting rate based on market data.

Because of Heta's over-indebtedness in terms of equity as at 31 December 2014 and the announcement of the company's owner that he would not provide any additional funds, it was anticipated that the company would no longer be in a position to service its liabilities as they become due. Taking into account the Financial Market Authority (FMA) decision from 1 March 2015, which had the effect of deferring all of the liabilities covered under the Federal Act on the Recovery and Resolution of Banks (BaSAG) until 31 May 2016, it could no longer be assumed, with regard to those liabilities with hedges, that these represented efficient hedging relationships in terms of IAS 39 (Hedge Accounting). For this reason, the hedging relationships for all liabilities of Heta were terminated in the 2014 financial year and the derivative transactions are now continued as stand-alone derivatives. The effect arising from the termination of the hedging relationship, which consists primarily of the basis adjustments applied until that reporting day, was distributed over the term of the underlying transaction.

Hedging relationships in connection with active underlying transactions (especially securities and receivables) were terminated as at 31 December 2014 if the underlying transaction had a term of more than five years. The limited five-year term was determined in compliance with the time frame stipulated by the Management Board for the complete wind-down of the portfolio by 2020. Such derivatives were shown in the 2015 consolidated financial statements as stand-alone derivatives at the respective market value.



With Emergency Administrative Decision II from 10 April 2016 and the resulting requirement to adjust the originally hedged underlying transactions on the liabilities side, the basis adjustments for the underlying transactions on the liabilities side that still existed on 10 April 2016 were reversed.

The entire hedge accounting was closed in the second half of 2016, which means that Heta has not been using any hedge accounting as at 31 December 2016.

### 109.1. Fair value of financial instruments recognised at fair value

#### 109.1.1. MEASUREMENT TECHNIQUES USED TO CALCULATE THE FAIR VALUE OF LEVEL II AND LEVEL III ITEMS

The approved valuation techniques according to IFRS 13 are the market approach, the cost approach and the income approach. The valuation technique using the market approach is based on identical or comparable assets and liabilities. With the income approach, the future cash flows or income and expenses are discounted on the valuation date. The fair value determined in this manner reflects current market expectations regarding these future amounts. This includes in particular present value models and also option price models used for the valuation of financial instruments or cash flows with an option character. The cost approach is not used.

The fair value of financial instruments with short terms where the carrying amount is an adequate approximation of the fair value was not separately determined.

While market prices for some of the Level III items are provided externally, the market prices are either supplied less frequently or only from one source. Where possible, the values are verified against third-party valuations on a recurring basis. The following valuation techniques are applied to items that are valued internally based on models:

#### Present value of the future cash flows

Level II and III items that are not traded in active markets but for which the date and amount of the cash flows are known are valued at the present value of the future cash flows. A risk premium is taken into account for discounting. All input factors are observable for Level II instruments while some parameters cannot be directly observed for Level III.

#### Expected present value of the liabilities side

The valuation of the liabilities is based on two differently weighted scenarios (wind-down and insolvency scenario). In the wind-down scenario, the amount that is expected to be distributed to creditors in the wind-down scenario is derived from Heta's wind-down plan, whereas it is derived from internally estimated disposal proceeds in the case of assumed insolvency proceedings. The date of 31 December 2023 is assumed as the distribution date. The expected present value is calculated using a risk-adjusted curve that is derived from collateralised bonds.

#### Option valuation models

The existing portfolio of Level III items includes cash flows with amounts tied to various market variables such as swap rates, stock market indexes and FX rates, or with dates that cannot be determined. Recognised interest and option valuation models calibrated daily with market data (swaption prices, market prices, FX rates) are used for the valuation of such cash flows.

#### 109.1.2. NON-OBSERVABLE INPUT FACTORS FOR LEVEL III ITEMS

##### Volatilities and correlations

Volatilities are important input parameters for all option valuation models. The volatilities are derived from market data using recognised models. If a model incorporates more than one market variable, correlations also have to be estimated and taken into account.

##### Risk premiums

Credit risk premiums indicate the default risk of an issuer. They provide information about the expected loss if the issuer defaults, and therefore reflect the loss given default and the probability of default. Risk premiums for some issuers can be observed directly in the market. When single-name CDS curves are not available for an issuer, the risk premiums have to be estimated based on similarities to other issuers or based on the issuer's country and sector.

##### Country risk

Some countries have an additional issuer risk factor, which is also taken into account when calculating the fair value. A country risk premium, which is calculated on the basis of the country CDS curve, is taken into account for this purpose.

**Internal rating**

The issuer default risk is determined on the basis of the group's internal rating scale.

**Liquidity discount**

In an illiquid market, both income-based and market-based approaches take into account liquidity discounts, which are derived on the basis of market indications.

**Loss given default**

The loss given default is a parameter that is never directly observable before a company defaults. Historical data is used to estimate the expected loss given default.

**Probability of default**

The risk premium and loss given default are used to estimate the probability of default, which is used for possible fair value adjustments.

**Estimated amount of distribution in wind-down scenario**

The amount of distributions to the creditors in the wind-down scenario is taken from the expected cash position on 31 December 2023 and derived from the second planning iteration (as at 6 March 2017). It represents the update to the wind-down plan published in 2016, which reflects the developments that have taken place in the meantime.

**Estimated amount of distribution in insolvency scenario**

The amount distributed to creditors in a possible insolvency scenario is estimated on the basis of an internal insolvency scenario that assumes a shorter wind-down horizon.

**Probability of insolvency**

The wind-down measures applied in Emergency Administrative Decision II aim to prevent a situation in which Heta becomes insolvent during the wind-down horizon. Over-indebtedness as a reason for insolvency does not apply to Heta pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA). An application for insolvency can only be filed by the Financial Market Authority (FMA). There is a possibility that the wind-down measures implemented by the Financial Market Authority (FMA) are not recognised by the courts of other member states, particularly in the EU, or that a submission is made to the Constitutional Court of Austria (VfGH), which would use it to rescind the application of the Federal Act on the Recovery and Resolution of Banks (BaSAG) to Heta. It is also possible that it is found, during the course of a submission procedure before the European Court of Justice (ECJ) that the implementation of the Federal Act on the Recovery and Resolution of Banks (BaSAG) in Austria does not comply with the requirements under European law. However, because of the realisation of the offer from the Kärntner Ausgleichszahlungs-Fonds (K-AF), the threat from creditors who refused to recognise the wind-down measures of the Financial Market Authority (FMA), or contested the same in the courts, has been markedly reduced. That is because those creditors who accepted the repurchase offer had to submit a comprehensive waiver in favour of Heta, according to which they waived, unconditionally and with irrevocable effect, all present and future claims (including all claims to interest, costs and cost decisions), lawsuits and actionable claims.

The Financial Market Authority (FMA) itself announced, in line with its publications on the Heta issues, that e.g. an enforcement against Heta's assets, which breaches the principle of the equal treatment of creditors, could lead to an insolvency scenario (see note (2.6.1) Proceedings in connection with Emergency Administrative Decisions I and II).

The probability that this situation will actually occur is derived on the basis of an internal estimate.

**Term/distribution date in the wind-down and insolvency scenario**

The latest point in time as per the emergency administrative decision, hence 31 December 2023, is the assumed distribution date.

**Risk-adjusted discounted interest rate**

The applied discount curve is made up of an interest rate curve (EUR Swap) and a premium for covered bonds. The premium for covered bonds is calculated on the basis of an Austrian peer group, using the regression method.

On 31 December 2016, the ranges for non-observable input factors were as follows:

Financial instrument	Input parameters	Range
Derivatives	Loss Given Default (LGD)	40.00%
	Probability of Default (PD)	0.44%-100.00%
	Volatility (market quoted)	0.19%–1.71%
Securities and loans	Credit spread	0 bp-254 bp
Country risk	Credit spread	0 bp–71 bp
Internal rating	Probability of Default (PD)	0.00%–25.00%
Liquidity discount	-	-
Based on market	Discount	0.00%–55.00%
Based on income	Credit Spread	0 bp–250 bp
Loss severity	Loss Given Default (LGD)	45.00%
Liabilities	Distribution in wind-down scenario	EUR 9,580 Mio.
	Distribution in insolvency scenario	EUR 8,916 Mio.
	Probability of insolvency	5.00%
	Term	7 years
	Discount factor	0.37%

### 109.1.3. ADJUSTMENTS TO FAIR VALUE

#### Credit valuation adjustment (CVA) and debt valuation adjustment (DVA)

The credit valuation adjustment (CVA) and the debt valuation adjustment (DVA) are reported for all OTC derivatives. The calculation is based on a Monte-Carlo simulation of the future replacement value (exposure), taking into account the effects of CSA agreements (credit support annex, CSA) by path. This results in a distribution of replacement values for all future dates. To determine the CVA, the absolute expected values from the positive exposure paths are multiplied by the counterparty's marginal probabilities of default and discounted. The DVA on the other hand is determined by multiplying and discounting the absolute expected values from the negative exposure paths with the bank's own marginal probabilities of default.

For counterparties with a collateral contract, the CVA and DVA have to be calculated at the portfolio level. The calculation takes into account contractual parameters such as the minimum transfer amount, threshold, rounding and netting. The relative CVA approach is used to allocate the portfolio CVA to specific items. Here the portfolio CVA is distributed proportionately to the individual CVAs. The full CVA approach is applied to unsecured items. In this approach, the CVA is calculated at the individual item level. A waterfall principle is applied to determine the probabilities of default. First the probabilities of default are derived from CDS curves. Synthetic curves are used if there are no single-name curves; these are comprised of country-specific curves and an internal rating.

#### OIS discounting

Heta values derivatives taking into account basis spread influences by using various interest curves. Various interest curves are used to calculate the forward rates and discount factors (multi-curve framework). Overnight-indexed swap rates (OIS interest rates) are used for discounting purposes in the valuation of collateralised OTC derivatives in the course of the current market standards. A cross-currency basis spread is taken into account for foreign currency swaps, where the collateral and cash flows are in a different currency.

## 109.1.4. SENSITIVITY ANALYSIS WITH LEVEL III ITEMS

The values of Level III financial instruments are determined on the basis of non-observable input factors. The value assigned to these non-observable factors can be derived from a range of alternatives and is subject to management assumptions and estimates. As at 31 December 2016, the value of factors from within the possible range was selected on the basis of the pricing transparency and complexity of the financial instrument so as to best reflect market conditions. In order to determine sensitivities within the measurement of the fair value regarding changes in non-observable input factors, the factors were shifted by +/- 100 basis points. Credit spread was identified as a material, unobservable input factor for the valuation of Level III items. With respect to the valuation of liabilities, all input parameters were subjected to a sensitivity analysis.

The following effects on the result arose from the rise and fall of the credit spread and other input parameters on 31 December 2016:

EUR m

31.12.2016	Fair value - adjustment of credit spread input parameters -100 BP	Fair value - adjustment of credit spread input parameters +100 BP
<b>Assets</b>		
Financial assets – designated at fair value through profit or loss	11.4	-9.7
<b>Total</b>	<b>11.4</b>	<b>-9.7</b>

EUR m

31.12.2016	Fair value changes with positive shift	Fair value changes with negative shift
<b>Liabilities</b>		
Change of +/-10% in the estimated distribution amount in the wind-down scenario	887.0	-887.0
Change of +/-10% in the estimated distribution amount in the insolvency scenario	43.0	-43.0
Change of +/-5% (absolute) in the probability of insolvency	-32.0	32.0
Change of +/-1 year in the distribution date in the wind-down and insolvency scenario	-65.0	65.0
Change of +/-10bp (absolute) in the discount rate	-34.0	34.0
Change with premature distribution on 31.12.2017 in the amount of 10% of the planned cash balance at year end 2016 (EUR 616 million)	16.0	

## 109.1.5. FAIR VALUE LEVEL

The table below shows the allocation of financial instruments carried at fair value according to their level in the fair value hierarchy on 31 December 2016.

EUR m

31.12.2016	Level I - from active market	Level II - based on market assumptions	Level III - based on non- market assumptions	Total
<b>Assets</b>				
Derivative financial instruments	0.0	56.0	5.6	61.6
Financial assets – designated at fair value through profit or loss	0.0	0.0	225.2	225.2
Financial assets – available for sale	58.3	22.5	4.0	84.8
<b>Total</b>	<b>58.3</b>	<b>78.5</b>	<b>234.7</b>	<b>371.6</b>
<b>Liabilities</b>				
Liabilities to credit institutions	0.0	0.0	1,527.2	1,527.2
Liabilities to customers	0.0	0.0	1,343.1	1,343.1
Liabilities to Pfandbriefbank	0.0	0.0	0.0	0.0
Liabilities evidenced by certificates	0.0	0.0	5,985.4	5,985.4
Derivative financial instruments	0.0	179.0	5.5	184.5
Subordinated capital	0.0	0.0	0.0	0.0
Hybrid capital	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>179.0</b>	<b>8,861.2</b>	<b>9,040.2</b>

The distribution of fair value by level was as follows as at 31 December 2015:

EUR m

31.12.2015	Level I - from active market	Level II - based on market assumptions	Level III - based on non- market assumptions	Total
<b>Assets</b>				
Derivative financial instruments	0.0	542.8	53.4	596.2
Financial assets – designated at fair value through profit or loss	0.4	0.0	204.8	205.2
Financial assets – available for sale	328.2	32.0	35.7	395.9
<b>Total</b>	<b>328.6</b>	<b>574.8</b>	<b>293.9</b>	<b>1,197.3</b>
<b>Liabilities</b>				
Liabilities to credit institutions	0.0	0.0	172.8	172.8
Liabilities to customers	0.0	0.0	1.0	1.0
Liabilities to Pfandbriefbank	0.0	0.0	7.3	7.3
Liabilities evidenced by certificates	0.0	77.7	120.5	198.2
Derivative financial instruments	0.0	455.6	24.7	480.2
Subordinated capital	0.0	0.0	4.5	4.5
Hybrid capital	0.2	0.0	0.0	0.2
<b>Total</b>	<b>0.2</b>	<b>533.2</b>	<b>330.7</b>	<b>864.1</b>

The reconciliation of the financial instruments in Level III is shown in the table below:

EUR m

31.12.2016	At start of reporting period (+)	Total gains/losses	Revaluation (only afs)	Additions (+)	Disposals (-)	Transfer into Level III	First application from the "bail-in" of creditors pursuant to BaSAG	Other (+/-)	At end of reporting period (-)
<b>Assets</b>									
Trading assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Derivative financial instruments	53.4	-47.9	0.0	0.0	0.0	0.0	0.0	-0.0	5.6
Financial assets – designated at fair value through profit or loss	204.8	57.7	0.0	0.0	-28.2	0.0	0.0	-9.0	225.2
Financial assets – available for sale	35.8	-9.1	11.1	0.0	-33.4	0.0	0.0	-0.4	4.0
<b>Total</b>	<b>294.0</b>	<b>0.7</b>	<b>11.1</b>	<b>0.0</b>	<b>-61.6</b>	<b>0.0</b>	<b>0.0</b>	<b>-11.8</b>	<b>234.7</b>
<b>Liabilities</b>									
Liabilities to credit institutions	172.8	186.1	0.0	0.0	-172.8	0.0	1,480.3	-139.1	1,527.2
Liabilities to customers	1.0	159.9	0.0	0.0	-12.0	0.0	1,055.1	139.1	1,343.1
Liabilities to Pfandbriefbank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities evidenced by certificates	127.8	740.4	0.0	0.0	-127.8	82.3	5,162.7	0.0	5,985.4
Derivative financial instruments	24.7	-19.1	0.0	0.0	0.0	0.0	0.0	0.0	5.5
Subordinated capital	4.5	-4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>330.7</b>	<b>1,062.7</b>	<b>0.0</b>	<b>0.0</b>	<b>-312.7</b>	<b>82.3</b>	<b>7,698.1</b>	<b>0.0</b>	<b>8,861.2</b>

On 31 December 2016, liabilities evidenced by certificates in the amount of EUR 82.3 million were reclassified from Level II into Level III, since market price quotations are no longer obtained from third parties as a result of the implementation of Emergency Administrative Decision II.

The first application of "eligible liabilities" at the fair value is shown in the column first application from "bail-in" of creditors. The profits/losses column includes the measurement effect between the initial application on 10 April 2016 and the balance sheet date 31 December 2016. For additional details, please see note (3) Effects of the haircut on the consolidated financial statements. Additionally, the column "Total gains/losses" contains both income and expenses from financial instruments which were held as at 31 December 2016, as well as from financial instruments that were put on the market during the 2016 financial year.

The measurement of "eligible liabilities" at the fair value is shown in the result from financial instruments - designated at fair value through profit or loss. Gains and losses for derivative financial instruments are reported in the result from financial instruments - designated at fair value through profit and loss, in the result from hedge accounting and in the trading result; the remaining items are reported in accordance with their category in the income statement and in equity.

The financial instruments held as at 31 December 2016 result in a loss of EUR -1,019.6 million (2015: EUR -51.0 million), which is reported in the result from financial investments - designated at fair value through profit and loss, in the result from hedge accounting and in the trading result.

Due to the restricted availability of external market values, a total of EUR 0.0 million (2015: EUR 0.0 million) was reclassified from Level I to Level III in 2016.

The reconciliation of the assets reported in Level III as at 31 December 2015 was as follows:

EUR m

31.12.2015	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 (-)
<b>Assets</b>									
Trading assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Derivative financial instruments	79.6	-26.1	0.0	0.1	0.0	0.0	-0.2	0.0	53.4
Financial assets – designated at fair value through profit or loss	487.4	-85.1	0.0	0.0	-199.4	1.9	0.0	0.0	204.8
Financial assets – available for sale	273.5	0.2	0.8	8.7	-248.8	18.1	0.0	-14.6	38.1
<b>Total</b>	<b>840.6</b>	<b>-111.0</b>	<b>0.8</b>	<b>8.8</b>	<b>-448.1</b>	<b>19.9</b>	<b>-0.2</b>	<b>-14.6</b>	<b>296.3</b>
<b>Liabilities</b>									
Liabilities to credit institutions	198.0	-25.2	0.0	0.0	0.0	0.0	0.0	0.0	172.8
Liabilities to customers	3.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Liabilities to Pfandbriefbank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities evidenced by certificates	148.5	-18.9	0.0	0.0	-1.8	0.0	0.0	0.0	127.8
Derivative financial instruments	46.3	-21.6	0.0	0.1	0.0	0.0	0.0	-0.1	24.7
Subordinated capital	3.3	2.2	0.0	0.0	-1.0	0.0	0.0	0.0	4.5
<b>Total</b>	<b>399.1</b>	<b>-65.6</b>	<b>0.0</b>	<b>0.1</b>	<b>-2.8</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>	<b>330.7</b>



## 109.2. Fair value of financial instruments not recognised at fair value

The measurement techniques for calculating the fair value of the group's financial instruments, which are not recognised at fair value in the statement of financial position, correspond to those shown in note (109.1) Fair value of financial instruments recognised at fair value.

The carrying amounts of the reported financial investments and assets not recognised at the fair value are compared to the respective fair values below:

EUR m

31.12.2016	Carrying amount	Fair value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non- market assumptions
<b>Assets</b>						
Loans and advances to credit institutions	1,787.5	1,786.9	-0.6	0.0	0.0	1,786.9
Loans and advances to customers	1,713.4	1,769.1	55.6	0.0	0.0	1,769.1
Other financial investments – investment properties	221.3	235.4	14.2	0.0	0.0	242.0
Assets classified as held for sale	246.7	291.4	44.7	0.0	0.0	291.4
Other receivables	63.9	70.8	6.9	0.0	0.0	70.8
<b>Total</b>	<b>4,032.8</b>	<b>4,153.5</b>	<b>120.8</b>	<b>0.0</b>	<b>0.0</b>	<b>4,160.1</b>
<b>Liabilities</b>						
Liabilities to credit institutions	6.3	6.3	0.0	0.0	0.0	6.3
Liabilities to customers	26.3	26.3	0.0	0.0	0.0	26.3
Liabilities to Pfandbriefbank	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities evidenced by certificates	0.0	0.0	0.0	0.0	0.0	0.0
Subordinated capital	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	18.1	18.1	0.0	0.0	0.0	18.1
<b>Total</b>	<b>50.6</b>	<b>50.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>50.6</b>

The fair value of loans and liabilities is determined according to the present value of future cash flows.

The risk premium for loans and advances depends on the internal or external rating of the borrower, a country risk premium and a liquidity discount for illiquid markets. The inherent model risk and illiquidity of the items were also taken into account with adjustment factors.

The fair value of investment properties is determined on the basis of market-based estimates, which are generally calculated by appraisers. If market-based estimates are not available, the fair value is estimated on the basis of the income approach.

In the case of assets classified as held for sale, the fair value is calculated on the basis of existing purchase price offers.

The carrying amounts of financial instruments and assets not measured at fair value in the statement of financial position, as well as the respective fair values, were as follows as at 31 December 2015:

EUR m

31.12.2015	Carrying amount	Fair value	Difference	Level I - from active market	Level II - based on market assumptions	Level III - based on non- market assumptions
<b>Assets</b>						
Loans and advances to credit institutions	2,200.4	2,199.6	-0.8	0.0	0.0	2,199.6
Loans and advances to customers	2,385.0	2,260.0	-125.0	0.0	0.0	2,260.0
Other financial investments – investment properties	405.6	417.8	12.2	0.0	0.0	417.8
Assets classified as held for sale	429.4	430.5	1.2	0.0	0.0	430.5
Other receivables	23.4	28.0	4.6	0.0	0.0	28.0
<b>Total</b>	<b>5,443.6</b>	<b>5,335.9</b>	<b>-107.8</b>	<b>0.0</b>	<b>0.0</b>	<b>5,335.9</b>
<b>Liabilities</b>						
Liabilities to credit institutions	3,227.3	3,171.6	55.7	0.0	0.0	3,171.6
Liabilities to customers	1,549.9	1,020.7	529.2	0.0	0.0	1,020.7
Liabilities evidenced by certificates	8,595.5	5,724.5	2,871.0	0.0	0.0	5,724.5
Subordinated capital	2,000.6	1,439.2	561.4	0.0	0.0	1,439.2
Other liabilities	22.0	22.0	0.0	0.0	0.0	22.0
<b>Total</b>	<b>15,395.3</b>	<b>11,378.0</b>	<b>4,017.3</b>	<b>0.0</b>	<b>0.0</b>	<b>11,378.0</b>

### (110) Offsetting

The following tables show the reconciliation of gross amounts to the offset net amounts, separately for all recognised financial assets and liabilities. The amounts that are subject to a legally enforceable global netting or similar agreement but have not been offset in the financial statements are also disclosed.

EUR m

	31.12.2016	31.12.2015
<b>ASSETS</b>	<b>Derivative financial instruments</b>	
Gross amounts of recognised financial instruments	61.6	596.2
Carrying amounts of financial instruments not able to be netted	0.0	0.0
<b>a) Gross amounts of recognised financial instruments (I and II)*</b>	<b>61.6</b>	<b>596.2</b>
b) Amounts that are set off for financial instruments I	0.0	0.0
<b>c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)</b>	<b>61.6</b>	<b>596.2</b>
d) Master netting arrangements (that are not included in b)	0.0	0.0
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	38.3	146.7
Amounts related to financial collateral (including cash collateral);	0.0	0.0
<b>e) Net amounts of financial instruments I and II (c-d)</b>	<b>23.3</b>	<b>449.5</b>

\*) Financial instruments I: Financial investments and liabilities that are already offset in the statement of financial position.

Financial instruments II: Financial instruments that are subject to a netting agreement but are not offset in the statement of financial position.

EUR m

	31.12.2016	31.12.2015
<b>LIABILITIES</b>	<b>Derivative financial instruments</b>	
Gross amounts of recognised financial instruments	184.5	480.2
Carrying amounts of financial instruments not able to be netted	0.0	0.0
<b>a) Gross amounts of recognised financial instruments (I and II)*</b>	<b>184.5</b>	<b>480.2</b>
b) Amounts that are set off for financial instruments I	0.0	0.0
<b>c) Net amounts of financial instruments I and gross amounts of financial instruments II presented in the statement of financial position (a-b)</b>	<b>184.5</b>	<b>480.2</b>
d) Master netting arrangements (that are not included in b)		
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria (Netting effect of financial instruments II)	38.3	146.7
Amounts related to financial collateral (including cash collateral);	0.0	0.0
<b>e) Net amounts of financial instruments I and II (c-d)</b>	<b>146.2</b>	<b>333.5</b>

\*) Financial instruments I: Financial investments and liabilities that are already offset in the statement of financial position.

Financial instruments II: Financial instruments that are subject to a netting agreement but are not offset in the statement of financial position.

Master agreements are concluded with business partners for offsetting derivatives transactions, so that positive and negative market values of the derivatives contracts covered by the master agreements can be offset against each other. Since such offsetting cannot be performed in the ordinary course of business but only in case of termination, such as in the event of insolvency, these are not offset in the statement of financial position.

## (111) Derivative financial instruments

### 111.1. Derivatives schedule

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

EUR m

	31.12.2016			31.12.2015		
	Fair values			Fair values		
	Nominal amounts	Positive	Negative	Nominal amounts	Positive	Negative
<b>a) Interest-related transactions</b>						
<b>OTC-products</b>	<b>572.4</b>	<b>61.5</b>	<b>76.1</b>	<b>8,177.4</b>	<b>579.3</b>	<b>328.9</b>
- Interest rate swaps	536.3	61.5	76.1	8,115.1	579.2	328.8
- Forward rate agreements	0.0	0.0	0.0	0.0	0.0	0.0
- Interest options	0.0	0.0	0.0	0.0	0.0	0.0
- Caps, floors	36.1	0.0	0.0	62.3	0.1	0.1
- Other interest derivatives	0.0	0.0	0.0	0.0	0.0	0.0
<b>b) Currency-related transactions</b>						
<b>OTC-products</b>	<b>312.5</b>	<b>0.1</b>	<b>108.4</b>	<b>733.8</b>	<b>17.0</b>	<b>156.3</b>
- Currency swaps	264.7	0.0	108.4	464.7	17.0	152.3
- Foreign exchange swaps	47.8	0.1	0.0	266.7	0.0	4.0
- Forward exchange contracts - purchases	0.0	0.0	0.0	1.2	0.0	0.0
- Forward exchange contracts - sales	0.0	0.0	0.0	1.2	0.0	0.0
- Currency swaptions	0.0	0.0	0.0	0.0	0.0	0.0

Derivative transactions are used to hedge against fluctuations in interest rates, currencies or market prices. For the most part, micro hedges are used to hedge individual transactions on the liabilities side. All hedges that relate to lending transactions with a term that goes beyond the wind-down horizon specified by the resolution authority (December 2020), as well as all hedges relating to the deposit business, were terminated. With regard to the recognition and measurement of derivatives, please see note (17) Financial instruments: Recognition and measurement (IAS 39) and note (20) Hedge accounting.

### 111.2. Due date analysis for derivatives

The due date analysis for derivatives includes the products cross currency, interest rate and FX swaps, and is divided into the portfolios that are of relevance for controlling purposes. Future expected cash flows are shown on a net basis. Most derivatives are secured with cash collateral. Possible changes to derivative market values lead to changes in the cash collateral, which are not taken into account here:

EUR m

As at 31 December 2016	1 Y (2017)	2 Y (2018)	3 Y (2019)	4 Y (2020)	5 Y (2021)	>5 Y (>2021)	Total
Net cash flow of derivatives							
Investment portfolio	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Market Risk Steering ALM	-3.6	-2.3	-2.0	-2.1	-1.1	-3.0	-14.1
Market Risk Steering B2B	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Market Risk Steering FVO	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1
Market Risk Steering FX	-51.4	-53.9	0.0	0.0	0.0	0.0	-105.3
<b>Total</b>	<b>-55.1</b>	<b>-56.2</b>	<b>-2.0</b>	<b>-2.1</b>	<b>-1.1</b>	<b>-3.0</b>	<b>-119.4</b>

EUR m

As at 31 December 2015	1 Y (2016)	2 Y (2017)	3 Y (2018)	4 Y (2019)	5 Y (2020)	>5 Y (>2020)	Total
Net cash flow of derivatives							
Investment portfolio	-16.0	-14.0	-12.0	-10.0	-9.0	-40.0	-101.0
Market Risk Steering ALM	178.0	112.0	18.0	7.0	4.0	-9.0	310.0
Market Risk Steering B2B	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Market Risk Steering FVO	3.0	13.0	0.0	-2.0	-2.0	-8.0	4.0
Market Risk Steering FX	11.0	-49.0	-52.0	0.0	0.0	0.0	-90.0
Market Risk Steering HA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>176.0</b>	<b>62.0</b>	<b>-46.0</b>	<b>-5.0</b>	<b>-7.0</b>	<b>-57.0</b>	<b>123.0</b>

ALM – Asset Liability Management – Derivatives to manage the interest change risk

B2B – Back to back derivatives (mirror derivatives)

FVO – Derivatives in economic hedging relationships (fair value options)

FX – Currency/Cross Currency Swaps

HA – Derivatives in hedging relationships (Fair Value Hedges)

**(112) Related parties disclosures**

Business relations with related parties on the respective balance sheet date were as follows:

EUR m

31.12.2016	Parent*)	Affiliated companies	Joint Ventures	Key management personnel	Hypo Alpe-Adria-Bank S.p.A., Udine
<b>Assets</b>	<b>105.9</b>	<b>38.5</b>	<b>18.7</b>	<b>0.0</b>	<b>543.7</b>
Loans and advances to credit institutions	0.0	0.0	0.0	0.0	856.5
Loans and advances to customers	50.0	108.2	18.7	0.0	0.0
Risk provisions on loans and advances	0.0	-70.8	0.0	0.0	-312.8
Other assets	55.9	1.1	0.0	0.0	0.0
<b>Liabilities</b>	<b>303.5</b>	<b>1.1</b>	<b>0.4</b>	<b>0.6</b>	<b>0.0</b>
Liabilities to customers	0.0	1.0	0.4	0.0	0.0
Provisions	244.1	0.1	0.0	0.4	0.0
Other financial liabilities	59.5	0.0	0.0	0.0	0.0
Other non-financial obligations	0.0	0.0	0.0	0.2	0.0
<b>Liabilities arising from guarantees</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>
Guarantees issued by the group for related party	0.0	0.0	0.0	0.0	0.1
Guarantees received by the group from related party	0.0	0.0	0.0	0.0	0.0

\*) Control over and exercise of the administration rights associated with the shares and ownership rights was assumed by the Financial Market Authority (FMA) on 10 April 2016

EUR m

31.12.2015	Parent	Affiliated companies	Joint Ventures	Key management personnel	Hypo Alpe-Adria-Bank S.p.A., Udine
<b>Assets</b>	<b>99.5</b>	<b>23.9</b>	<b>21.2</b>	<b>0.0</b>	<b>618.2</b>
Loans and advances to credit institutions	0.0	0.0	0.0	0.0	1,146.3
Loans and advances to customers	50.0	92.2	22.2	0.0	0.0
Risk provisions on loans and advances	0.0	-72.9	-1.0	0.0	-528.1
Other assets	49.5	4.6	0.0	0.0	0.0
<b>Debt</b>	<b>211.3</b>	<b>0.5</b>	<b>4.5</b>	<b>0.0</b>	<b>0.0</b>
Liabilities to customers	0.0	0.4	4.5	0.0	0.0
Provisions	143.9	0.0	0.0	0.0	0.0
Other financial liabilities	67.4	0.0	0.0	0.0	0.0
Other non-financial obligations	0.0	0.1	0.0	0.0	0.0
<b>Liabilities arising from guarantees</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>
Guarantees issued by the group for related party	0.0	0.0	0.0	0.0	0.2
Guarantees received by the group from related party	0.0	0.0	0.0	0.0	0.0

Balances and transactions between the company and its fully-consolidated subsidiaries, which are related parties, were eliminated during the consolidation process and must therefore not be disclosed in these notes.

A number of business and liability relationships are maintained with the Republic of Austria in its capacity as the sole owner of Heta, which are described in detail in note (116.1) Guarantee agreement with the Republic of Austria.

Key management personnel is defined as the Management Board members and managing directors of the subsidiaries, as well as the first and second levels of management of Heta.

Relationships with companies accounted for at equity are shown in the table under participations.

Income of EUR 3.1 million (2015: EUR -1.2 million) was recorded in 2016 for uncollectible receivables and doubtful accounts with related parties (non-consolidated investment companies owned by Heta).

The conditions for the refinancing lines to a former group company, which must continue to be treated as a related party, amount to a spread of between 33 and 210 basis points on the respective benchmark interest rate.

In addition, on the balance sheet date there are business relationships with other publicly-owned organisations at a scope customary for the banking industry.

The relationships with the executive bodies of Heta are shown under note (121) Executive bodies of the company.

The company maintains a series of business relationships and relationships under liability law with the Republic of Austria. On the balance sheet date of 31 December 2016, these relationships result in the following situations that are relevant in terms of the financial statements:

EUR m

	Treatment according to Emergency Administrative Decision 10.4.2016	Reduction pursuant to the decision	Claim after consideration of Emergency Administrative Decision	Term
Fee 5.375% p.a. for GGB	eligible	46.02%	192.7	until 2022
Cost reimbursement claims in connection with management GGB		46.02%	0.1	until 2022
Fee Phoenix 10% p.a. for non-drawn cases	eligible	46.02%	13.2	until 2017
Adria hedging instrument	no eligible liabilities	n/a	5.5	until 2017
Settlement costs	no eligible liabilities	n/a	13.4	until 2023
<b>Total</b>			<b>224.9</b>	

The amounts drawn to date in line with the EUR 200 million guarantee agreement ("Phoenix") but not yet paid by the Republic of Austria are shown under other assets and amount to EUR 55.9 million (31 December 2015: EUR 49.5 million). For additional information, please see note (116.1) Guarantee agreement with the Republic of Austria.

### (113) Participation capital

The participation capital - subscribed by the Republic of Austria - was reported in the 2015 consolidated financial statements in a separate item under equity at an amount of EUR 1,075,111,072.56. Pursuant to Emergency Administrative Decision II, the entire "common equity tier 1 capital" pursuant to section 50 (1) line 1 in connection with section 74 (2) line 4 in connection with section 90 (1) line 1 in connection with section 73 (2) line 1 Federal Act on the Recovery and Resolution of Banks (BaSAG) was reduced to zero.

### (114) Guarantee by the State of Carinthia

The legal guarantee of the State of Carinthia for all commitments of Heta is a statutory guarantee pursuant to section 1356 of the Austrian Civil Code (ABGB) and covers all commitments entered into before 3 April 2003 as well as all commitments entered into between 3 April 2003 and 1 April 2007 whose terms does not extend beyond 30 September 2017. The state does not assume any guarantee for liabilities assumed after 1 April 2007. The guarantee was set out in the Kärntner Landesholding Act (K-LGH). The Kärntner Landesholding Act (K-LHG) was repealed with the law that sets out the dissolution of the Kärntner Landesholding; however, section 1 (2) of this act also clarifies that section 5 of the Kärntner Landesholding Act (K-LHG) (old) must continue to be applied to the guarantees assumed by the state as the deficiency guarantor pursuant to section 1356 Austrian Civil Code (ABGB), insofar as these are bona fide and were legally substantiated.

A guarantee commission agreement between the State of Carinthia and Heta provided for a guarantee commission of 1% p.a. of the outstanding amount. This guarantee commission agreement was terminated by Heta on 31 December 2011 in exercise of the contractually designated ordinary termination right, as a result of which the contractual obligation to pay the guarantee commission is cancelled as of the year 2012. Notwithstanding this termination of the contractual guarantee commission agreement, the State of Carinthia's deficiency guarantee as set out in the legislation continues to be in effect. The Aufsichtskommissär (Supervisor) of the Sondervermögen Kärnten fund (as the universal successor to the Kärntner Landesholding) is still authorised to access the relevant information at the company.

The company and the State of Carinthia have diverging legal opinions regarding the guarantee commission for the year 2011, which has not been paid by Heta to date. The company submitted a waiver of the statute of limitation ending in 31 December 2016 to the state, which was extended to 31 March 2017 at the end of 2016. In turn, the State of Carinthia committed to not file suit against the company for the time being. The State of Carinthia and Heta are currently in talks for the settlement of these claims, taking into account the result of a still outstanding expert clarification with respect to the existence and amount of these claims.

Based on item II.2. of Emergency Administrative Decision II issued by the Financial Market Authority (FMA), all of Heta's state-guaranteed liabilities, with the exception of the guaranteed pension provisions and the cover pool liabilities were reduced to 46.02%.

Taking into account the cover pool liabilities paid back during the first six months of 2016, which were not subject to a payment moratorium under the Federal Act on the Recovery and Resolution of Banks (BaSAG), the state-guaranteed liability as at 31 December 2016 amounted to EUR 4,6 billion (2015: EUR 11,1 billion).

On the basis of the statutory authorisation pursuant to section 2a of the Financial Market Stability Act (FinStaG), on 20 January 2016 the State of Carinthia submitted, through the specially created Kärntner Ausgleichszahlungs-Fonds (K-AF), an offer to Heta creditors for the purchase of all of Heta's debt instruments secured by the state guarantee, which however was not accepted by the creditors with the legally required majority. On 6 September 2016, the K-AF submitted a new public offer that was accepted with the required majority at the beginning of October. As part of its existing obligations to provide information pursuant to section 5 K-LHG (old), Heta responded to the request for information submitted by the State of Carinthia in connection with these offers regarding its debt instruments secured by the state guarantee.

In addition to the deficiency guarantee by the State of Carinthia pursuant to section 5 Kärntner Landesholding Act (K-LHG) (old), there is also a deficiency guarantee by the Sondervermögen Kärnten Fonds and the Kärntner Beteiligungsverwaltung as the legal successor to the Kärntner Landesholding (KLH) pursuant to section 4 Kärntner Landesholding Act (K-LHG). This deficiency guarantee comprises all of Heta's liabilities that were incurred until the repeal of the Kärntner Landesholding Act (K-LHG) on 4 May 2016.

## **(115) Important proceedings**

### **115.1. Proceeding with Bayerische Landesbank (BayernLB) and Memorandum of Understanding (MoU)**

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

The Munich I Regional Court issued the judgement of the court of first instance at the hearing of 8 May 2015. In a not yet binding judgement, almost the entire order sought by BayernLB was admitted, and Heta was ordered to pay (i) EUR 1.03 billion plus associated interest in the amount of EUR 17.1 million, along with interest of 5.0% above the respective base rate (but at least 5.0% p.a. since 1 January 2014 and 21 June 2014), (ii) CHF 1.29 billion plus associated interest of CHF 15.2 million, along with interest of 5.0% above the respective base rate (but at least 5.0% p.a. since 1 January 2014) and (iii) EUR 1.4 million plus interest, and dismissed all of Heta's counterclaims (claims for recovery). Only in the instance of one bond of CHF 300.0 million the court found that it did not have jurisdiction. In general, the reasoning put forward by the court is based on the argument that Heta was not able to provide evidence of a "crisis" in terms of the Austrian Equity Substituting Capital Act (EKEG), and the court also dismissed the application of the Hypo Alpe Adria Restructuring Act (HaaSanG) and the measures for claims based on the same according to German law, and also the application of Emergency Administrative Decision I issued on 1 March 2015 by Financial Market Authority (FMA) on the basis of the Federal Act on the Recovery and Resolution of Banks (BaSAG), which had the effect of deferring in particular those BayernLB's claims that formed the subject of the proceedings until 31 May 2016.

The MoU concluded by the Republic of Austria and the Free State of Bavaria on 7 July 2015 created the basis for the settlement of all (alleged) claims between BayernLB on the one side and Heta on the other side, as well as those between BayernLB on the one side and the Republic of Austria and the Kärntner Landesholding on the other side. Heta subsequently reviewed the conditions for concluding a settlement and the associated effects. On 21 September 2015, Heta announced that it would be prepared to conclude a settlement - as outlined in the MoU - with BayernLB. But in the end, BayernLB was not willing to settle the Austrian Equity Substituting Capital Act (EKEG) proceedings with Heta in the form that was originally planned. Therefore the proceedings are continued by Heta without any restrictions, and are to be completed with a legally binding decision by the German courts with jurisdiction. To this end, Heta submitted its grounds of appeal to the Munich Higher Regional Court on 1 February 2016, in compliance with the deadlines.

However, BayernLB also declared its willingness to make certain concessions regarding its claims in the Austrian Equity Substituting Capital Act (EKEG) proceedings. These were unilaterally submitted by BayernLB in the form of a written settlement declaration, and can be summarised as follows: Even if BayernLB is awarded a larger claim in the Austrian Equity Substituting Capital Act (EKEG) proceedings with legal effect, it will only participate in the wind-down of Heta at an amount of EUR 2.4 billion plus interest of 5.0% p.a. above the respective base rate, at minimum 5.0% p.a. This declaration was submitted



with the provision that BayernLB's claim participates in a wind-down procedure according to the Federal Act on the Recovery and Resolution of Banks (BaSAG), in an insolvency proceeding regarding the assets or another form of wind-down of the company with the same rights and at the same rank as the other senior creditors. In addition, BayernLB has indicated its willingness to waive the initiation of compulsory enforcement measures and to limit its activities to participating in the wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) with its claim. No restrictions have been provided for with regard to Heta's claim against BayernLB from the counterclaims. If Heta is able to legally enforce its claims, BayernLB may also be taken to task with regard to these claims. With the exception of the claims from the Austrian Equity Substituting Capital Act (EKEG) proceedings and certain derivative transactions between BayernLB and Heta, all mutual claims were settled by way of the corresponding declarations by BayernLB on the one hand and Heta on the other hand.

Possible claims of Heta against the Republic of Austria were not set out in any of the agreements and declarations. These are not affected by the agreements that have been entered into. Heta has obtained a waiver of the statute of limitation from the Republic of Austria until 31 December 2016 in order to protect its potential claims. This waiver was extended until 31 July 2017 at the end of the year. In turn, Heta agreed not to file a lawsuit until the end of May 2017.

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

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

The liabilities of EUR 2.8 billion (nominal plus interest claims) to BayernLB as at 31 December 2016 can only be reduced to the settlement value agreed by BayernLB of approximately EUR 2.4 billion once it has been determined that the Financial Market Authority (FMA) recognises BayernLB's claims as equal-ranking and unsecured senior liabilities in the wind-down procedure for Heta. This waiver only takes effect once the wind-down of Heta is complete, however. The liabilities to BayernLB reported as at 31 December 2016 are also covered by the "bail-in" measures of the Financial Market Authority (FMA) according to the Emergency Administrative Decision II from 10 April 2016. Finally, the extent of the haircut will depend on the outcome of the proceedings before the Munich Higher Regional Court.

A decision by the Court of Appeal is still outstanding. On 18 May 2016, Heta received an order from the Munich Higher Regional Court in which the court is considering, on the basis of the applicable Federal Act on the Recovery and Resolution of Banks (BaSAG) and Emergency Administrative Decision II issued by the Financial Market Authority (FMA) on 10 April 2016, which in the opinion of the court must be equated to insolvency proceedings for banks, to interrupt the proceedings and to withdraw recognition of the mutual need for legal protection as a result of the Memorandum of Understanding (MoU) concluded between the Republic of Austria and the Free State of Bavaria. Both Heta and BayernLB have objected to an interruption in the proceedings. The Munich Higher Regional Court has not yet commented on the submissions of the two parties. At the beginning of October 2016, BayernLB submitted an (unsolicited) reply to Heta's appeal, even though the Munich Higher Regional Court did not impose any deadlines in this regard. The Munich Higher Regional Court has not released any statements as to when and how the proceedings are to be continued.

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

On 14 July 2015, Heta was served with an arbitration action by Anadi Financial Holdings Pte. Ltd., the buyer of the former Hypo Alpe-Adria-Bank AG, Klagenfurt am Wörthersee (now: Austrian Anadi Bank AG). After multiple changes to the order sought, Anadi Financial Holdings Pte. Ltd. now submitted an action for performance for a total amount of EUR 78.0 million, and also a declaratory judgement regarding Heta's liability for future damages incurred by Anadi Financial Holdings Pte. Ltd. due to alleged incorrect information and Heta's failure to disclose information during the course of the sale of Hypo Alpe-Adria-Bank AG to Anadi Financial Holdings Pte. Ltd. in the year 2013.

The jurisdiction of the Vienna International Arbitral Centre (VIAC) according to the "Vienna Rules" was agreed in the purchase agreement for the event of a dispute. On 13 August 2015, Heta submitted a statement of defence in compliance with the deadlines, in which it rejected all of the plaintiff's allegations. The oral proceedings before the arbitration tribunal were held in November 2016; based on the current information, it is expected that the proceedings will be completed at the earliest in the first quarter of 2017. The proceedings are not public.

Heta continues to believe that the claims are unfounded; therefore no provisions were created for the matter in dispute.

### 115.3. Other proceedings

#### 115.3.1. LAWSUITS AND LEGISLATIVE MEASURES PERTAINING THE TERMS IN LOAN AGREEMENTS

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

On 22 August 2015, a new law went into force in Montenegro, according to which banks were obliged to convert existing CHF loans into Euro in accordance with the official exchange rate that applied at the time the loan agreement was concluded. The Heta company in Montenegro was initially unaffected by the legislation due to its status as a non-bank. The law was amended effective 23 September 2016, and now also includes third parties to whom receivables from CHF loan agreements were transferred. This means that the law now also applies to the Heta unit in Montenegro. It has submitted an unsolicited inquiry for a review of the constitutionality of the law and a request for the interpretation of the same to the institutions in charge. The law was implemented in compliance with the deadlines. In September 2015, such a law was also approved and implemented in Croatia. The Croatian Heta unit is only minimally affected by this law, since the affected volume of loans is relatively small. The highest courts of both Croatia and Serbia handed down decisions on these issues in the year 2016, which are generally friendly to borrowers and the practical impacts of which remain to be seen. In December 2016, the constitutional court in Croatia rescinded a portion of a judgement of the Supreme Court, which assessed the legality of the foreign currency clause, on formal grounds. Now the Supreme Court must arrive at a new decision, whereby it is also possible that proceedings are initiated before the European Court of Justice (ECJ). In Serbia, the court with jurisdiction issued a binding judgement in September 2016, according to which a loan agreement must be cancelled since the change in foreign currency for the CHF loan was made independent of the wishes of the borrower and made it more difficult for the borrower to meet his repayment obligations. According to the purchase agreement concluded with the buyer of Addiko Bank AG, Heta was required to compensate damages from the CHF portfolios of the former banking subsidiaries that result from such legal measures under certain conditions. The corresponding indemnification obligation on the part of Heta was however conclusively settled with the settlement on 10 March 2016 (also for future losses incurred by the buyer).

In Italy, lessees have filed several individual claims against the Italian group company Heta Asset Resolution Italia S.r.l. (HARIT), in which they allege that the index clauses used in the leasing agreements (interest and currency indexing regarding the London Interbank Offered Rate (LIBOR) and CHF) should be declared null and void. Heta assumed these leasing agreements of the former Italian group subsidiary bank HBI in line with an internal group restructuring process in 2012. Specifically, it is argued that because of the indexing clauses that are used in the leasing agreements, these agreements contained derivative instruments, which would lead to additional information and audit obligations under Italian law. The first judgements were in favour of HARIT, but negative judgements of the first instance were issued in 2015. Even though case law had initially classified the leasing agreements as non-derivative, the more recent decisions argued in favour of such a classification however. HARIT appealed the negative decisions. A corresponding provision was already created in the consolidated financial statements for 31 December 2015. With the sale of HARIT in February 2017, the outcome of these proceedings is no longer of relevance to Heta.

#### 115.3.2. PROCEEDINGS INVOLVING FORMER SHAREHOLDERS

During the course of the forensic investigation of the past, civil lawsuits were filed against former owners and former executive bodies by the former Hypo Alpe-Adria-Bank International AG in 2011 and 2012. It includes the suit (so-called “special dividend/consultant” civil action) filed in March 2012 against certain original shareholders and a total of nine former executive bodies. It asserts claims (original value in dispute EUR 50.1 million) in connection with the distribution of a non-linear special dividend to the noted original shareholders in 2008 for the 2007 financial year, which in Heta's opinion was not justified. Settlements of approximately EUR 19.0 million (around 75% of the defendants' amounts in dispute) were concluded with Heta in July 2014 with three defendant original shareholders and two former members of the executive bodies. Due to the initiation of the preliminary proceedings under criminal law, the civil proceedings were suspended on 1 December 2014 until the end of the criminal proceedings. The preliminary proceedings have in the meantime been discontinued. Heta had submitted an application to continue the proceedings in compliance with the deadlines. The request for continuation was rejected in December 2016. Heta subsequently made an application to continue the civil proceedings. In the meantime, a settlement was reached with another defendant. Other settlement talks continue.

A civil suit filed in 2011 relates to the group of issues pertaining to the Hypo Leasing Holding (HLH) preferred shares, which were placed in 2004 and 2006 in two tranches. Following an investigation of the financing model and the preparation of a forensic report on the order of Heta, these events were prosecuted both in terms of civil and criminal law. Heta had filed a suit for payment of EUR 48.0 million against 12 defendants with joint liability for the same amount. However, the Supreme Court found that Heta's legal argument was devoid of any factual and legal basis, and instead referred the proceedings back to the first instance with a restricted value in dispute of EUR 23.0 million (action for performance EUR 17.5 million and action for declaratory judgement EUR 5.5 million). The amount of approximately EUR 17.0 million was dismissed with legal effect. In the meantime, a settlement was reached with three defendants. Other settlement talks continue. The proceedings have in the meantime been continued against the remaining nine defendants

### 115.3.3. OTHER PROCEDURAL MATTERS

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

In 2015, these proceedings were entered across the group in a new electronic database at the holding level. In addition, a group-wide review of relevant and pending passive proceedings was held as part of the Legal Quality Review (LQR) project, with the support of external legal advisors. The focus of this project was to identify the chances of success and, in the same vein, to determine the need to create or increase/reverse risk provisions. After the end of the LQR, the decision was made to conduct a semi-annual review of all already pending and new passive proceedings in the future, so that possible changes with regard to the strategy and estimates regarding the chance of success can be considered during the strategy definition process. Approximately 800 passive court proceedings in the entire group were subjected to a review in June and July 2016, followed by a review of approximately 900 proceedings in December 2016 and January 2017.

Most passive proceedings are connected to outstanding loan cases. Usually, in these proceedings borrowers assert a variety of claims and allegations in an attempt to extract themselves from the obligation to repay the loans. They argue, for example, that Heta did not meet its obligations to continue financing the borrower, and thus caused the borrower to incur damages, or that the collateral that Heta was trying to utilise was not validly registered. In Croatia, a non-governmental organisation sometimes appears as the plaintiff, which tries to allege the supposed nullity of the loans and collateral registered in favour of Heta with the argument of missing regulatory approvals. The developments in these proceedings are closely followed, and the corresponding impairments or provisions are posted in the event the outcome is expected to be negative for Heta. In this vein, Heta had to create a provision of just under EUR 23 million (after the haircut) as a result of a judgement of the first instance that was issued in favour of a borrower. Many lawsuits are also filed by third parties that have acquired property rights to assumed unencumbered assets of Heta's borrowers, and now demand that collateral that continues to be validly registered in Heta's favour is deleted. Moreover, those subsidiaries that had assumed assets from the former banks of the Hypo Group in line with the "brush transactions" are also confronted with lawsuits contesting the validity of these transfers. In addition, there are also legal disputes that are not related to loan agreements but other contractual obligations previously entered into by Heta.

The active proceedings relate mainly to proceedings for collecting outstanding claims from loan and leasing agreements, as well as different execution proceedings, enforcement and insolvency proceedings. The project "Legal Case Resolution" (LCR) was also started in 2016, with the aim of creating structures and mechanisms for reducing the numerous legal proceedings pending in the group congruently with the wind-down of other assets.

## (116) Main agreements

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

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

Guarantee commission payments were suspended on 1 March 2015 due to the moratorium imposed by the Financial Market Authority (FMA). Based on Emergency Administrative Decision II from 10 April 2016, both the guarantee fee not yet paid by 1 March 2015 as well as all future payment obligations under the guarantee commission were subjected to a haircut and thus were reduced to 46.02%. The claims by the Republic of Austria are deferred until latest 31 December 2023.

At this time the Republic of Austria has paid EUR 11.2 million to Heta.

Drawdowns from the guarantee totalled EUR 67.1 million by 31 December 2016. Additional drawdowns totalling EUR 83.8 million were made in January 2017.

A separate receivable from the Republic of Austria is added to the balance sheet for those cases that were drawn and not yet serviced by the Republic of Austria. As at 31 December 2016, the claim is EUR 55.9 million. A waiver until the end of 2017 was obtained from the Republic of Austria in order to prevent the limitation of possible claims in relation to the already drawn cases.

At this time, a settlement for terminating the agreement is being considered. To this end, discussions have been initiated with representatives of the Republic of Austria. Since Heta did not receive any additional payments from the Republic of Austria (with the exception of one payment), it can be expected that the Republic of Austria could object to making the remaining payments to Heta. It is conceivable that the resolution regime under the Federal Act on the Recovery and Resolution of Banks (BaSAG), the interpretation of various provisions under the guarantee itself, or the existence of drawdown preconditions in individual cases may be cited as reasons. Against this background, Heta has reassessed the recoverability of its claim against the Republic of Austria for the current consolidated financial statements. The initiated discussions regarding the settlement let the valuation in the 2016 financial statements seem adequate.

#### **116.2. Conclusion of sales agreements and other agreement in connection with wind-down activities**

During the course of Heta's wind-down activities, Heta and its subsidiaries enter into new contractual obligations in connection with the various wind-down activities. In particular, they conclude sales agreements, settlement agreements, agreements regarding the early repayment of financing and similar agreements regarding the sale of assets held by Heta. In this context, attempts are generally made to keep the contractual obligations of Heta and its subsidiaries to a minimum. But frequently the customary warranties must be provided in relation to the assets to be sold (participations, real estate, loan receivables etc.). For the purpose of securing the warranty claims, many buyers also demand the corresponding security mechanisms, usually escrow agreements. In addition, there are also situations, depending on the type of the asset, in which Heta provides certain services to the buyer until the legal status can be fully transferred.

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

In meeting the statutory requirements of the Federal Law on the Creation of a Wind-down Unit (GSA) and the HBI-Bundesholding-law, Heta had to transfer all its shares in Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) to HBI-Bundesholding AG (HBI-BH) on the basis of the share purchase agreement from 8 September 2014. To avert regulatory proceedings for HBI by the Banca d'Italia, which would otherwise have been unavoidable due to liquidity and capital shortfalls at the Italian bank, Heta announced a waiver for a portion of EUR 280.0 million in the first half of 2015, and HBI-BH also announced a waiver for EUR 96.0 million at the end of 2015. The additional waivers of receivables committed by Heta in line with the so-called "Term Sheet Agreement" of up to EUR 350.0 million have not been utilised to date. The purpose of the write-offs is to ensure compliance with the capital ratios prescribed for HBI by Banca d'Italia; they were authorised by the resolution authority on 23 December 2015 with a non-prohibition.

All relevant aspects of the Term Sheet (including the pledging of shares in HBI in favour of Heta and the appointment of a board observer from Heta at HBI's Administrative Board meetings) were formally implemented by March 2016.

In 2016, HBI repaid another EUR 295.0 million to Heta. Beyond that, no material financial changes occurred at HBI. The results achieved by HBI are generally in line with expectations and the wind-down plan, and are suited to successfully implement the wind-down strategy for the Italian bank through the sale of the portfolio and the branch network by 2018. The refinancing lines provided by Heta to HBI in the past were again subjected to an assessment of recoverability at the end of 2016; the assessment is based on the most recent wind-down plan for HBI, the results of the 2016 financial year and a conservative estimate of the additionally identified potential risks. Compared to the provisions created in the previous year, reversals of EUR 215.3 million could be applied in 2016.

## (117) Servicing of subordinated capital

### 117.1. Supplementary capital

In the past, the company has issued supplementary capital in terms of section 23 (7) Austrian Banking Act (BWG) (applicable version), which was recognised as an equity component for regulatory purposes. Pursuant to the restrictions under section 23 (7) (2) Austrian Banking Act (BWG), interest pertaining to the same may only be paid out “if such payments are covered by the net income for the year (before movement in reserves)”. As documented in Heta's annual financial statements according to the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG), this criterion was not met for the 2007 to 2015 financial years. In addition, the entire supplementary capital was also subject to Emergency Administrative Decision II from 10 April 2016, and was reduced to zero by the Financial Market Authority (FMA).

Even without taking into account this reduction as per the emergency administrative decision, a total loss was already previously noted with regard to the supplementary capital issues, taking into account the statutory loss allocation. On the basis of significantly changed future estimates, future expected cash flows to investors had to be adjusted in the 2012 financial year to the degree that a positive value for the supplementary capital could no longer be determined in application of the effective interest rate method, and therefore the value of the supplementary capital accounted for at amortised cost was reduced in compliance with IAS 39 and IAS 8.

### 117.2. Hybrid capital

In the past, the company launched a total of two subordinated hybrid capital issues without an obligation to provide subsequent payments (Hypo Alpe-Adria Jersey Ltd. for EUR 75.0 million (nominal) and Hypo Alpe-Adria (Jersey) II Ltd. for EUR 150.0 million (nominal)). Both issues feature an unlimited term in principle, whereby the issuer is entitled to a unilateral termination right. The primary criterion for servicing the outstanding hybrid capital issues is the existence of an adequate distribution basis (“distributable funds”) according to the definition in the issue's terms and conditions; a secondary criterion stipulates that the limits that apply to the group's capital funds may not be undercut. Since Heta's annual financial statements according to the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) for 31 December 2016 report a loss for the year (before the movement in reserves), the criterion for the continued servicing of the hybrid capital no longer applies in principle, which is why it may not be serviced. In addition, this obligation, insofar as it were to apply, is included in the Emergency Administrative Decision II of the resolution authority and is reduced to zero.

Since it is not expected that payments will be made for these hybrid capital issues in the future due to Emergency Administrative Decision II, they have been shown in the consolidated financial statements at a value of zero.

The annual financial statements of both companies are disclosed on Heta's home page at [www.heta-asset-resolution.com](http://www.heta-asset-resolution.com) (→ Investor Relations → Publications).

### 117.3. Subordinated capital

All of the subordinated capital outstanding as at 31 December 2015 at the nominal amount of approximately EUR 1.9 billion are included under Emergency Administrative Decision II and had to be reduced to zero.

Emergency Administrative Decision II also includes the subordinated bond of EUR 1.0 billion that was issued on 6 December 2012, for which the Republic of Austria provided an unconditional and irrevocable guarantee. This guarantee was approved with the decision of the European Commission on 3 September 2013. For receiving this guarantee, Heta committed (in the year 2012) to pay the Republic a guarantee fee that was calculated on the basis of a formula defined by the EU Commission. The fee, as an “eligible liability”, is subject to the reduction to 46.02% and deferral until latest 31 December 2023.

## (118) Employee data

	31.12.2016	31.12.2015*)
Employees at closing date (Full Time Equivalent – FTE)	1,015	1,351
Employees average (FTEs)	1,222	1,644

\*) figures from the previous year were adjusted

The significant reduction (336) in the number of employees (FTEs) as at 31 December 2016 is the result of efficient employee reduction measures in line with the continuous restructuring process.



**(119) Severance and pension payments**

The parent company expended the following amounts for severance payments and provisions for severances and pensions:

EUR m

	31.12.2016		31.12.2015	
	Severance Payments	Pensions	Severance Payments	Pensions
Members of Management Board	0.0	0.2	0.0	0.1
Key management personnel	0.1	0.2	0.5	0.0
Other employees	0.2	0.3	0.6	0.2
<b>Total</b>	<b>0.3</b>	<b>0.7</b>	<b>1.1</b>	<b>0.3</b>

\*) figures from the previous year were adjusted

Severance and pension payments include an amount of EUR 0.4 million (2015: 0.4 million) for defined-contribution pension schemes.

**(120) Relations with executive bodies**

No advances regarding loans or guarantees were granted for executive bodies during the previous year and in the 2016 financial year.

The remuneration for the members of the Management Board and the Supervisory Board of Heta as the parent company, which they received for carrying out their function from this or another group company, are as follows:

EUR m

	31.12.2016	31.12.2015*)
<b>Management Board</b>	<b>2.0</b>	<b>1.8</b>
thereof ongoing payments	2.0	1.8
<b>Supervisory Board</b>	<b>0.2</b>	<b>0.3</b>
<b>Remuneration of former members of the Management and Supervisory Board and their surviving dependents</b>	<b>0.0</b>	<b>0.5</b>
thereof payments after termination	0.0	0.5
<b>Total</b>	<b>2.3</b>	<b>2.6</b>

\*) figures from the previous year were adjusted

The remuneration for Board members for 2016 (2015 figures adjusted) does not include any variable elements.

The members of the Management Board and Supervisory Board during the financial year are shown under note (121) Executive bodies of the company.

**(121) Executive bodies of the company**

1 January to 31 December 2016

**Supervisory Board****Chairman of the Supervisory Board:**

Dipl.-Kfm. Michael MENDEL

**Deputy Chairman of the Supervisory Board:**

Dr. Stefan Josef Peter Heinrich SCHMITTMANN, from 29 June 2016

Mag. Alois HOCHEGGER, until 29 June 2016

**Members of the Supervisory Board:**

Mag. Regina OVESNY-STRAKA, from 29 June 2016

Dr. Karl F. ENGELHART, from 18 August 2016

Mag. Regina FRIEDRICH, until 29 June 2016

Mag. Christine SUMPER-BILLINGER, until 29 June 2016

DI Bernhard PERNER, until 29 June 2016

**Appointed to the Supervisory Board by the Works Council:**

Erwin SUCHER

Mag. Lisa TAUCHHAMMER

**Federal Supervisory Authorities****State Commissioner:**

Mag. Alexander PESCHETZ

**Deputy State Commissioner:**

Mag. Stefan WIESER

**Trustees****Trustee:**

Mag. Alexander PESCHETZ, Federal Ministry of Finance, from 1 January 2016

**Deputy Trustee:**

HR Mag. Maria HACKER-OSTERMANN, Federal Ministry of Finance

**Management Board**

Wirt.-Ing. Sebastian Prinz von SCHOENAICH-CAROLATH, Chairman of the Management Board

Mag. Martin HANDRICH, Member of the Management Board

Mag. Alexander TSCHERTEU, Member of the Management Board

Mag. Arnold SCHIEFER, Member of the Management Board



## (122) Material subsidiaries as at 31 December 2016

HETA ASSET RESOLUTION AG	
FINANCIALS	OTHERS
<b>Austria:</b> HAR GmbH, Klagenfurt/WS HETA Asset Resolution Leasing GmbH, Klagenfurt/WS HETA Real Estate GmbH, Klagenfurt/WS HETA Luftfahrzeuge Leasing GmbH, Klagenfurt/WS HETA Grund- und Bau-Leasing GmbH, Klagenfurt/WS HETA Leasing Kärnten GmbH & Co KG, Klagenfurt/WS HETA Immobilien- und Bauconsult GmbH, Klagenfurt/WS	<b>Austria:</b> CEDRUS Handels- und Beteiligungs GmbH, Klagenfurt/WS <sup>1</sup> HETA BETEILIGUNGEN GMBH, Klagenfurt/WS Hypo Alpe-Adria-Immobilien GmbH, Klagenfurt/WS <sup>1</sup> HETA Vermögensverwaltung Gesellschaft m.b.H., Klagenfurt/WS <sup>1</sup>
<b>Bosnia and Herzegovina:</b> HETA d.o.o., Sarajevo BORA d.o.o., Banja Luka	<b>Croatia:</b> REZIDENCIJA SKIPER d.o.o., Savudrija <sup>1</sup> SKIPER HOTELI d.o.o., Savudrija X TURIST d.o.o., Umag Y TURIST d.o.o., Umag
<b>Serbia:</b> HETA LEASING D.O.O., BEOGRAD HETA ASSET RESOLUTION D.O.O., BEOGRAD HETA REAL ESTATE D.O.O., BELGRAD	<b>Serbia:</b> ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD – U LIKVIDACIJ <sup>1</sup>
<b>Bulgaria:</b> HETA ASSET RESOLUTION Bulgaria OOD, Sofia <sup>1</sup> HETA ASSET RESOLUTION Auto Bulgaria OOD, Sofia <sup>1</sup>	
<b>Italy:</b> Heta Asset Resolution Italia S.r.l., Udine	
<b>Montenegro:</b> HETA ASSET RESOLUTION Leasing d.o.o. PODGORICA HETA ASSET RESOLUTION d.o.o. PODGORICA	
<b>Slovenia:</b> HETA Asset Resolution d.o.o., Ljubljana <sup>1</sup> TCV d.o.o., Ljubljana <sup>1</sup> TCK d.o.o., Ljubljana <sup>1</sup>	<b>Hungary:</b> HETA Asset Resolution Magyarország Zrt., Budapest
<b>Croatia:</b> HETA Asset Resolution Hrvatska d.o.o., Zagreb Alpe-Adria poslovodstvo d.o.o., Zagreb H-ABDUCO d.o.o., Zagreb	<b>Germany:</b> HETA Asset Resolution Germany GmbH, München

Illustrated are the direct fully consolidated subsidiaries of HETA ASSET RESOLUTION AG (except: some companies in liquidation) which are marked with '1'. The other subsidiaries represent fully consolidated second- or third level subsidiaries of HETA ASSET RESOLUTION AG, mainly subsidiaries of HAR GmbH. It is pointed out that this chart does not contain all direct/indirect and consolidated subsidiaries of HETA ASSET RESOLUTION AG, therefore the illustration is not exhaustive.

**Segment Financials:** Contains the Wind-Down leasing companies and the companies which took over the non-performing financing portfolio from the former sister banks („brush entities“).

**Segment Others:** Contains the subholdings and other subsidiaries.

**(123) Scope of consolidation**

The consolidated group of companies as defined in IFRS as at 31 December 2016 includes the following direct and indirect subsidiaries of Heta using the full consolidation method:

Company	Registered office	Ownership (direct) in %	Ownership (indirect) in %	Closing date
Alpe-Adria poslovodstvo d.o.o.	Zagreb	100.0	100.0	31.12.2016
BORA d.o.o. Banja Luka	Banja Luka	100.0	100.0	31.12.2016
CEDRUS Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2016
DOHEL d.o.o.	Sesvete	100.0	100.0	31.12.2016
H-ABDUKO d.o.o.	Zagreb	100.0	100.0	31.12.2016
HAR GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2016
HETA ASSET RESOLUTION Auto Bulgaria OOD	Sofia	(99.8/0.2)	100.0	31.12.2016
HETA ASSET RESOLUTION Bulgaria OOD	Sofia	(99.9/0.1)	100.0	31.12.2016
HETA Asset Resolution d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2016
HETA ASSET RESOLUTION D.O.O. BEOGRAD	Beograd	100.0	100.0	31.12.2016
HETA ASSET RESOLUTION d.o.o. PODGORICA	Podgorica	100.0	100.0	31.12.2016
HETA Asset Resolution Germany GmbH	Munich	100.0	100.0	31.12.2016
HETA Asset Resolution Hrvatska d.o.o.	Zagreb	100.0	100.0	31.12.2016
Heta Asset Resolution Italia S.r.l.	Tavagnacco (UD)	100.0	100.0	31.12.2016
HETA ASSET RESOLUTION Leasing d.o.o. PODGORICA	Podgorica	100.0	100.0	31.12.2016
HETA Asset Resolution Leasing GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2016
HETA Asset Resolution Magyarországt Zrt.	Budapest	100.0	100.0	31.12.2016
HETA BETEILIGUNGEN GMBH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2016
HETA d.o.o. Sarajevo	Sarajevo	100.0	100.0	31.12.2016
HETA Grund- und Bau-Leasing GmbH	Klagenfurt am Wörthersee	(99.9/0.1)	100.0	31.12.2016
HETA HOUSE D.O.O. - PODGORICA	Podgorica	100.0	100.0	31.12.2016
HETA Immobilien- und Bauconsult GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2016
HETA LEASING D.O.O. BEOGRAD	Beograd	100.0	100.0	31.12.2016
HETA Leasing Kärnten GmbH & Co KG	Klagenfurt am Wörthersee	100.0	100.0	31.12.2016
HETA Luftfahrzeuge Leasing GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2016
HETA REAL ESTATE D.O.O. BELGRAD	Beograd	100.0	100.0	31.12.2016
HETA Real Estate GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2016
HETA Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	100.0	100.0	31.12.2016
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2016
Malpensa Gestioni Srl	Tavagnacco (Udine)	100.0	100.0	31.12.2016
REZIDENCIJA SKIPER d.o.o.	Savudrija	(75.0/25.0)	100.0	31.12.2016
SKIPER HOTELI d.o.o.	Savudrija	100.0	100.0	31.12.2016
SKIPER OPERACIJE d.o.o.	Savudrija	100.0	100.0	31.12.2016
SPC SZENTEND Ingatlanforgalmazó és Ingatlanfejlesztő Kft.	Budapest	100.0	100.0	31.12.2016
TCK d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2016
TCV d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2016
Tridana d.o.o.	Ljubljana	100.0	100.0	31.12.2016
X TURIST d.o.o.	Umag	100.0	100.0	31.12.2016
Y TURIST d.o.o.	Umag	100.0	100.0	31.12.2016
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD - U LIKVIDACIJI	Novi Beograd	100.0	100.0	31.12.2016

The following table shows the companies accounted for at equity:

EUR m

Company	Registered office	Ownership (direct) in %	Ownership (indirect) in %	Carrying amount of investment as of 31.12.2016	Share of profit for the year
Bergbahnen Nassfeld Pramollo AG	Hermagor	29.5	29.5	0.0	0.4
HETA BA Leasing Süd GmbH	Klagenfurt am Wörthersee	50.0	50.0	1.4	-0.1
HYPO PARK DOBANOVCI DOO BEOGRAD	Belgrade	50.0	50.0	0.0	-0.1
LANDTRUST DOO BEOGRAD	Belgrade	50.0	50.0	0.1	-0.5

The proportion of voting rights in HYPO PARK DOBANOVCI DOO BEOGRAD is 50%.

**(124) Events after the balance sheet date**

The disposition of all shares in Heta Asset Resolution Italien S.r.l. (HARIT), which was announced in August 2016, was successfully completed on 21 February 2017 (closing). HARIT was sold to an alternative investment fund that is affiliated with Bain Capital Credit (European Advisors), Ltd., whereby all of Heta's financing that was outstanding as of that date was also covered. Following the completion of this transaction, Heta no longer undertakes any operating activities in Italy.

In January 2017, additional drawdowns were made for a volume of EUR 83.8 million in connection with the guarantee agreement with the Republic of Austria (note (116.1) Guarantee agreement with the Republic of Austria).

On 6 February 2017, Addiko Bank AG repaid the refinancing lines with the original repayment obligations until 2022, which were provided by Heta. According to the agreement from 23 December 2016 (see note (2.7) Business relationships with the former SEE network) a repayment of almost EUR 1 billion was made for the refinancing line. With the repayment, all of the warranties and exemptions agreed as part of the sale of Heta's SEE banking network to Advent International and EBRD in 2014, as well as the complex mutual contractual linkages between Heta and Addiko Bank AG, were settled and conclusively terminated.

As a result of the progress made with the portfolio wind-down, the cash and balances at central banks continued to rise since the balance sheet date (EUR 6.2 billion) to EUR 7.8 billion by the middle of March 2017.

Klagenfurt am Wörthersee, 15 March 2017  
Heta Asset Resolution AG

THE MANAGEMENT BOARD

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

Mag. Martin Handrich  
(Member)

Mag. Arnold Schiefer  
(Member)

Mag. Alexander Tscherteu  
(Member)

## Statement of all legal representatives

“We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business together with a description of the principal risks and uncertainties the group faces”.

Klagenfurt am Wörthersee, 15 March 2017  
Heta Asset Resolution AG

THE MANAGEMENT BOARD

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

Mag. Martin Handrich  
(Member)

Mag. Arnold Schiefer  
(Member)

Mag. Alexander Tscherteu  
(Member)

## AUDITORS' REPORT

### Report on the consolidated financial statements\*

#### Opinion

We have audited the consolidated financial statements of **HETA ASSET RESOLUTION AG, Klagenfurt am Wörthersee**, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ending on that reporting day and the notes to the consolidated financial statements.

In our opinion, the attached consolidated financial statements comply with legal requirements and give a true and fair view of the consolidated financial position as at December 31, 2016, its consolidated financial performance and its consolidated cash flows for the financial year ending on that reporting day in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements under section 245a Austrian Commercial Code (UGB).

#### Basis for the opinion

We conducted our audit in accordance with the Austrian Generally Accepted Standards on Auditing. Those standards require the application of the International Standards on Auditing (ISA). Our responsibilities pursuant to these provisions and standards are described in the section "Auditors' responsibilities for the audit of the consolidated financial statements" in our auditors' report. We are independent of the group in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of matters

We draw your attention to

- a) the information provided by the company's Management Board in the notes to the consolidated financial statements under note (6) "Measurement basis: Gone concern assumption", which describes that the consolidated financial statements prepared in consideration of Emergency Administrative Decision II continue to be based on the gone concern assumption, and
- b) the information provided by the company's Management Board in the notes to the consolidated financial statements in the notes (1) "Company", (2.2) "Federal Act on the Creation of a Wind-down Entity (GSA)" and (4) "Wind-down plan pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA)", which describe the wind-down of the assets in a manner that is orderly, active and to the best possible advantage.

Our audit opinion is not modified with regard to these circumstances.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year. These situations were considered in connection with our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Below, we describe the key audit matters from our perspective:

- a) Measurement of legal risks in connection with the Federal Act on the Recovery and Resolution of Banks (BaSAG) lawsuits and the proceedings before the European Court of Justice (ECJ)
- b) Impairment of the wind-down assets (loans and advances to customers and real estate)
- c) Impairment of the refinancing lines Hypo Alpe-Adria-Bank S.p.A.
- d) The measurement of all liabilities designated as "eligible liabilities" under Emergency Administrative Decision II at the fair value.

### **a) Measurement of legal risks in connection with the Federal Act on the Recovery and Resolution of Banks (BaSAG) lawsuits and the proceedings before the European Court of Justice (ECJ)**

#### **Description:**

While planning the audit, we discovered that lawsuits filed by investors affected by Emergency Administrative Decisions I and II were pending at the Frankfurt Regional Court. These lawsuits related to the bonds (in Euro) issued by the company with a nominal value of approximately EUR 2.2 billion, as well as bonds (in CHF) with a nominal value of approximately 33 million. The plaintiffs disputed the recognition of the measures taken by the Financial Market Authority (FMA) pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG).

In Austria, additional lawsuits against the company were pending in connection with the subordinated debt instruments affected by the Hypo Alpe Adria Restructuring Act (HaaSanG).

In 2016, various questions regarding the applicability of the European Directive for the Recovery and Resolution of Credit Institutions and investment firms (BRRD) and of the haircut to the company were submitted to the European Court of Justice (ECJ) in line with so-called "preliminary decision proceedings". If the European Court of Justice (ECJ) had decided against the company, the consequences may have been as follows:

- Heta could no longer be wound-down according to the objectives and principles of the Federal Act on the Recovery and Resolution of Banks (BaSAG)
- Some creditors could bring about enforcement measures that are contrary to the principles of the equal treatment of creditors and the (equal) assumption of losses set out in the Federal Act on the Recovery and Resolution of Banks (BaSAG)

These effects could also give rise to an insolvency scenario, which would generate significantly lower return flows from the wind-down process.

Due to the successful acceptance of the buy-back offer submitted by the Kärntner Ausgleichszahlungs-Fonds (K-AF), all of the proceedings in Germany and most of the proceedings in Austria were terminated in late fall of 2016.

In this regard, we refer to the information provided by the company's Management Board in the notes to the consolidated financial statements in notes (2.6.4) "Proceedings before the European Court of Justice (ECJ)", (2.6.5) "Proceedings before the Constitutional Court of Austria (VfGH)" and (2.6.7) "Possible consequences of a judgement against Heta in connection with the Federal Act on the Recovery and Resolution of Banks (BaSAG)".

#### **How we addressed the matters in the course of the audit:**

We obtained confirmations from the lawyers for all key proceedings, and subsequently assessed whether they may result in a heightened risk that makes it impossible to proceed with the wind-down according to the Federal Act on the Recovery and Resolution of Banks (BaSAG).

We critically assessed the appropriateness of the Management Board's estimates and assumptions with regard to these legal risks by examining the consistency between the lawyers' confirmations and status reports as well as the statements and the on-going reports of the management to the Supervisory Board.

We traced the developments after the balance sheet date up to the time the audit opinion was issued by interviewing the Management Board and the legal department, and by submitting follow-up questions for the lawyers' confirmations.

We assessed the explanations offered in the notes as to whether these risks in connection with the court proceedings are appropriately disclosed in the notes.



## **b) Impairment of the wind-down assets (loans and advances to customers and real estate)**

### **Description:**

The loan and property portfolios represent a major portion of the group's assets.

The recoverability of these portfolios depends to a large degree on economic developments in the South-Eastern European countries. Moreover, the time lines resulting from the wind-down plan may result in a situation where additional discounts on existing carrying amounts for individual and portfolio transactions have to be accepted during the course of future wind-down activities.

The recoverability of loan exposures is reviewed by the company on an individual case basis as part of the HIAT (Heta Individual Assessment Tranche) process. In this process, the estimates regarding the amount, duration and probable occurrence of the return flows (mainly from real estate collaterals) play a major role; all of these estimates are associated with considerable estimate uncertainties. The loans not covered under the HIAT process are subject to lump-sum risk provisions or portfolio risk provisions, the quantification of which is greatly influenced by the definition of parameters on the basis of the results from the HIAT process.

Real estate portfolios and real estate collaterals are measured at market values "under special assumptions" (market values under short-term wind-down aspects). Therefore this method deviates from the customary measurement methods under the going concern premise, and is also fraught with considerable estimate uncertainties.

In this regard, we refer to the information provided by the company's Management Board in the notes to the consolidated financial statements in notes (8) "Use of estimates and assumptions/main estimate uncertainties", (26) "Risk provisions on loans and advances", (29) "Investment properties", (67) "Risk provisions on loans and advances and provisions for credit risk" and (90.4) "Heta Individual Assessment Tranche (HIAT)".

### **How we addressed the matters in the course of the audit:**

We assessed the documentation of the processes for monitoring and creating risk provisions for loans and advances to customers, and the valuation of real estate, as to whether they are suited to measure the recoverability of these receivables and real estate property. In addition, we tested the key controls in this area in terms of their design and implementation, and also tested their effectiveness based on samples.

We performed individual loan audits for the exposures included in the "HIAT process" based on sampling. The samples were selected in consideration of the risks for the annual financial statements. During these audits of individual cases, the estimates regarding the amount and date of future cash flows and the assumptions were assessed for their appropriateness and - if available - compared with external evidence. For the audited cases, we checked the mathematical correctness of the calculation of provisions shown in the annual financial statements.

We compared the back-testing of the parameters for the lump-sum risk provisions and the portfolio risk provisions with the results of the on-going wind-down process.

In addition, we also analysed the appropriateness of the provisions in total by analysing the changes in the coverage ratios (exposure versus risk provisions) for the various portfolios and their development compared to the previous periods.

Our real estate specialists assessed the methodology and procedures for the measurement of real estate on the basis of the internal directives as to whether they correspond to the generally accepted measurement principles. Individual measurements were traced through comparisons with market data.

We also traced the developments after the balance sheet date up to the date the audit opinion was issued by interviewing the Management Board and by assessing the internal reports on events after the balance sheet date.

Finally, we also assessed the adequacy of the information in the notes regarding the calculation of risk provisions for loans and receivables to customers and the measurement of real estate as well as the explanations regarding estimate uncertainties in connection with the wind-down of assets.

### **c) Impairment of the refinancing lines Hypo Alpe-Adria-Bank S.p.A.**

#### **Description:**

The refinancing lines vis-a-vis the former Italian subsidiary bank (Hypo Alpe-Adria-Bank S.p.A.; subsequently: HBI) represent a major portion of the loans and receivables to credit institutions, the measurement of which is associated with considerable estimate uncertainties.

The assessment of the recoverability of the loans and receivables to HBI greatly depends substantially on the estimate of the execution of the wind-down of this bank.

In this regard, we refer to the information provided by the company's Management Board in the notes to the consolidated financial statements under note (116.3) "Development of the credit engagement vis-a-vis the former Italian subsidiary bank Hypo Alpe-Adria-Bank".

#### **How we addressed the matters in the course of the audit:**

We have critically assessed the estimates of the Management Board regarding to the expected return flows from HBI on the basis of the submitted documentation and business plans for HBI. We also assessed Heta's adaptations to the planning for HBI by interviewing the Management Board and the employee responsible for managing this receivable. Moreover, we also analysed the on-going development of results at HBI and the changes in the plans, and evaluated their consistency with the assumptions that were used to determine the provisions.

We traced the mathematical correctness of the calculation of these provisions. In addition, we also assessed whether the risks in connection with these receivables as well as the accounting and measurement policies were appropriately disclosed in the notes.

### **d) The measurement of all liabilities designated as "eligible liabilities" under Emergency Administrative Decision II at the fair value**

#### **Description:**

All of Heta's "eligible liabilities", which were reduced by Emergency Administrative Decision II issued by the Financial Market Authority (FMA), were designated as liabilities measured at fair value in 2016, since they are managed on the basis of the fair value in accordance with the documented risk management and investment strategy. This concerned a discretionary decision made by the Management Board. As a Level 3 fair value, this internal measurement is fraught with considerable estimate uncertainties - particularly with regard to the expected return flows from the wind-down process.

In this regard, we refer to the information provided by the company's Management Board in the notes to the consolidated financial statements under notes (17) "Financial instruments: Recognition and measurement (IAS 39)", (34) "Liabilities" and (109) "Fair value disclosures".

#### **How we addressed the matters in the course of the audit:**

With the support of IFRS experts, we assessed, on the basis of the documentation and the statements of external accounting experts provided by the company, whether the criteria for an application of the fair value option are in place.

To assess the appropriateness of the fair values (Level 3) calculated by the company we employed financial mathematics specialists. We assessed the methodology and procedures for the measurement of the fair value on the basis of the internal directives as to whether they correspond to the generally accepted measurement principles. Individual measurement steps and individual measurement parameters were traced through comparisons with market data.

We compared the assumptions and estimates in the planning assumptions, on which the calculation of the expected return flows are based, with the approved wind-down plan (pursuant to the Federal Act on the Creation of a Wind-down Entity (GSA)). In order to assess the appropriateness of these planning assumptions, we critically assessed these estimates by conducting an analysis of the planning details and by interviewing the employees in charge of planning and the Chief Financial Officer. For the purpose of assessing the reliability of the plan, we compared the current actual results with the original budget assumptions.

Finally, we also assessed whether the accounting and measurement policies, including the information required for Level 3 measurements, are properly disclosed in the notes.

### **Responsibilities of the management and the audit committee for the consolidated financial statements**

The Management Board of Heta is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements under section 245a Austrian Commercial Code (UGB). Additionally, the management is also responsible for the internal controls that they deem necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the management is responsible for assessing the group's ability to continue operating as a going concern, disclosing, as applicable, matters related to going concern and using the gone concern principle of accounting if the management either intends to liquidate the group or discontinue business operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the group's financial reporting processes.

### **Auditors' responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian Generally Accepted Standards on Auditing, which require the application of the ISAs, will always detect a material misstatement, if such exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Austrian Generally Accepted Standards on Auditing, which require the application of the ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

The following also applies:

1. We identify and assess the risks of material misstatement of the consolidated financial statement, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control system.
3. We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
4. We conclude on the appropriateness of management's use of the gone concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a proper wind-down. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report.
5. We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that give a true and fair view.
6. We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and schedule of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with the relevant professional requirements for independence, and also consult with the committee with regard to all relationships and other matters that that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were most significant for the audit of the consolidated financial statements for the financial year, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such a communication.

### **Other legal and regulatory requirements**

#### **Report on the group management report**

Pursuant to statutory provisions, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and whether it has been prepared in accordance with the applicable legal requirements. The management is responsible for the preparation of the group management report in accordance with the Austrian Commercial Code (UGB).

We conducted our audit in accordance with laws and regulations applicable with respect to the group management report.

#### **Opinion**

In our opinion, the group management report has been prepared in accordance with the applicable legal requirements, includes appropriate disclosures pursuant to section 235a Austrian Commercial Code (UGB), and is consistent with the consolidated financial statements.

#### **Statement**

Based on the findings during the audit of the consolidated financial statements and due to the thus obtained understanding concerning the group and its circumstances no material misstatements in the group management report came to our attention.

#### **Other information**

The management is responsible for the other information. Other information contains all information in the annual report, but does not include the consolidated financial statements (annual financial statements), the group management report (management report) and our auditors' report thereon. We expect to receive the annual report after the date of the auditors' report. Our auditors' report for the consolidated financial statements (annual financial statements) does not cover this other information, and we will not provide any type of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements (annual financial statements), it is our responsibility to read this other information as soon as it becomes available, and to assess whether, in view of the knowledge gained during the course of the audit, this information is materially inconsistent with the consolidated financial statements (annual financial statements) or otherwise appears to be materially misstated.

**Auditors responsible for the engagement**

The engagement partners on the audit resulting in this independent auditors' report are Mag. Friedrich O. Hief (EY) and DDr. Martin Wagner (KPMG).

Vienna, 15 March 2017

Ernst & Young  
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Ernst Schönhuber  
Auditor

Mag. Friedrich O. Hief  
Auditor

KPMG Austria GmbH  
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

DDr. Martin Wagner  
Auditor

\*) This report is a translation of the original report in German, which is solely valid. Publication or sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the group management report are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the group management report for the Group. Section 281 paragraph 2 UGB (Austrian Company Code) applies to alternated versions.

## Imprint

**Publisher of the annual financial report  
and responsible for contents:**

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Forward-looking statements and forecasts are based on information and data available at the time the annual report was prepared (15 March 2017). Changes after this date could influence the facts and forecasts provided in the annual report. We have drawn up this report with the greatest of care and the data upon which it is based has been checked. Rounding errors or mistakes in transmission, typesetting or printing cannot be ruled out, however. The English version of the annual report is a translation. Only the German is the authentic language version. All uses of the third person pronoun in the masculine form in this annual report that were used in the interests of better legibility also cover the feminine form.

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