HYPO ALPE-ADRIA (JERSEY) II LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2015

HYPO ALPE-ADRIA (JERSEY) II LIMITED

REPORT OF THE DIRECTORS

The Directors present their annual report and the audited financial statements of Hypo Alpe-Adria (Jersey) II Limited (the "Company") for the year ended 31st December 2015.

INCORPORATION

The Company was incorporated in Jersey, Channel Islands on 2nd September 2004, as a public company, under the Companies (Jersey) Law 1991.

ACTIVITIES

The principal activity of the Company was the issue of Non-cumulative Non-voting Preferred Securities (the "Preferred Securities"), the proceeds from which were used to grant HETA Asset Resolution AG ("HETA") a loan facility of €150,000,000 (the "Subordinated Loan", or "Loan"). HETA was formerly known as Hypo Alpe-Adria Bank International AG (or "HAA"), but changed its name to HETA Asset Resolution AG on 3rd November 2014, as referred to below. The Company's rights under the Loan Agreement were guaranteed by HETA under the terms of a Support Agreement (the Loan Agreement and the Support Agreement together comprising the "Issuer Assets"). The commercial effect of the Support Agreement is to give holders of the Preferred Securities rights that would be equivalent to their rights if the Preferred Securities had been issued by HETA itself. As referred to below, the Loan was cancelled on 27th April 2012 for €nil consideration, thereby leaving the Support Agreement as the sole remaining Issuer Asset. The Company's immediate and ultimate holding company is HETA.

As set out in the Offering Circular dated 7th October 2004, the Preferred Securities are only intended for highly sophisticated and knowledgeable investors who are capable of understanding and evaluating the risks involved in investing in them. The Preferred Securities are listed on the Euronext Amsterdam Stock Exchange.

BACKGROUND TO HETA

HETA is wholly owned by the Republic of Austria, which acquired 100% of the equity shares in HETA on 30th December 2009 as a result of the effect of the economic crisis on HETA at that time. The Commission of the European Union (the "Commission") approved the nationalisation of HETA subject to a series of restrictions and conditions to be met under an approved restructuring plan.

On 3rd September 2013, the European Commission (the "Commission") delivered a final ruling on the state aid investigation into HAA, which began in May 2009. The basis for the ruling was the final bank restructuring plan submitted at the end of June 2013. In accordance with this restructuring plan, on 18th March 2014, following a request by the Federal Minister of Finance, the Austrian government ruled in favour of the implementation of the conversion of HAA into a deregulated wind-down company under private law without any general state guarantee.

It was announced on 30th October 2014 that HAA's licence to conduct banking activities pursuant to the Austrian Banking Law had been terminated and that HAA will continue its operations as a wind-down entity. The preconditions for the deregulation of HAA were that it no longer undertakes any deposit transactions and no longer holds any qualified participations in credit institutions or financial securities firms. These requirements were fulfilled as a result of the restructuring. HAA changed its name to HETA Asset Resolution AG ("HETA") on 3rd November 2014.

In accordance with the notices issued to the holders of the Preferred Securities in March 2010, March 2011, March 2012, March 2013, April 2014 and June 2015, HETA had an accumulated balance sheet loss as at the financial year ends 2009, 2010, 2011, 2012, 2013 and 2014 respectively. Consequently, due to insufficient distributable funds, the dividend payments on the Preferred Securities scheduled for: 7th October 2010, 2011, 2012, 2013, 2014 and 2015 respectively and 7th April 2010, 2011, 2012, 2013, 2014, 2015 and 2016 respectively were not made.

REPORT OF THE DIRECTORS - (CONTINUED)

BACKGROUND TO HETA - (CONTINUED)

On 1st March 2015, the Austrian Financial Market Authority ("FMA"), in its capacity as the Austrian resolution authority, issued an emergency administrative decision initiating the resolution of HETA in accordance with the Bundesgesetz über die Sanierung und Abwicklung von Banken ("Federal Act on the Recovery and Resolution of Banks" or "BaSAG") in accordance with the new European resolution regime for banks. In accordance with BaSAG, the FMA imposed a temporary moratorium on the liabilities of HETA until 31st May 2016 against its creditors.

On 10th April 2016, the FMA announced a further emergency administrative decision, being that it has reached the conclusion that the moratorium remains fully binding and that it has chosen to use the "bail-in" resolution tool such that the creditors of HETA are now all involved in the loss-sharing process and will have to bear their share of the losses. The FMA also announced the additional measures to be taken pursuant to BaSAG, namely the cancellation of interest on HETA's liabilities from 1st March 2015 and the harmonisation of the maturity date of all eligible liabilities to 31 December 2023. In addition, the FMA announced that it has set a target of completing the liquidation of HETA by the end of 2023.

The FMA has chosen to utilise the bail-in resolution tool as it has concluded that insolvency proceedings would be associated with significant financial disadvantages for the creditors in comparison to resolution. However, it is not possible to completely rule out the prospect of HETA insolvency.

NON-GOING CONCERN

Under the terms of the Support Agreement between the Company and HETA, HETA has agreed to maintain the Company as a subsidiary for so long as any Preferred Securities shall remain in issue and has undertaken that, so long as any of the Preferred Securities are outstanding, unless HETA is itself in liquidation, HETA will not permit, or take any action to cause, the liquidation, dissolution or winding-up of the Issuer. Consequently, the Directors currently expect HETA to continue to cover the Company's operational expenses. In addition, under the terms and conditions of the Preferred Securities, any amount payable under such Preferred Securities would only arise concurrently with an equal and opposite amount receivable under the terms of the Issuer Assets. Therefore, the Directors currently have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

However, the Company is no longer considered to be a going concern due to the following facts already outlined under "Background to HETA" on page 1: HETA's reported capital shortfall; the fact that the Company is now a part of the Asset Resolution Wind Down Unit; the fact that the Republic of Austria has declared that it will not fund HETA's future liquidity shortfalls in 2016 and 2017; and, the action taken by the FMA. Accordingly, the Directors have adopted the non-going concern basis in preparing these financial statements.

The Directors have been informed that the amount of net losses currently allocated to the Issuer Assets held by the Company significantly exceeds the principal amount of such Issuer Assets. Accordingly, a repayment value of zero should therefore be expected upon the eventual wind-down of HETA. Consequently, the Directors currently expect that the redemption value of the Preferred Securities issued is also likely to be zero.

REPORT OF THE DIRECTORS - (CONTINUED)

NON-GOING CONCERN - (CONTINUED)

Adoption of the non-going concern basis in preparing these financial statements has resulted in the following mis-match in accounting treatment under IFRS: the Issuer Assets are carried at their estimated recoverable amount in the statement of financial position, with the recoverable amount being estimated to be equal to the fair value of nil, whereas the Preferred Securities continue to be carried in the statement of financial position at the estimated fair value as at 31 December 2015 as indicated by the quoted market price as at that date as obtained from Bloomberg. This mis-match in accounting treatment has resulted in the statement of financial position showing the Company as being in a net liability position. However, as previously stated, the Directors currently expect that the redemption value of the Preferred Securities issued is also likely to be zero.

CORPORATE GOVERNANCE

The Company is not legally subject to any corporate governance code. However, the Company has appropriate internal controls and review procedures in place. Due to the nature of the principal activity for which the Company has been established and the limited risk within the Company, these internal controls are limited but are deemed to be appropriate for the Company. Due to the nature of the principal activity, there are no management or supervisory bodies other than the Board of Directors, as listed below.

RESULTS AND DIVIDENDS

The profit for the year amounted to €234,560 (2014: loss of €293,200).

The Directors do not recommend the payment of a dividend for the year (2014: €nil).

DIRECTORS

The Directors who held office throughout the year and up to the date of approval of the financial statements were:

G.P. Essex-Cater	(resigned on 9th July 2015)
L.V. Pinnington	(resigned on 9th July 2015)
S.J. Hopkins	
M.H. Russling	
J.N. Pendergast	(appointed 9th July 2015)
A. Orosco	(appointed 8th October 2015)

INDEPENDENT AUDITORS

Ernst & Young LLP have expressed their willingness to continue in office.

REGISTERED OFFICE

13 Castle Street, St Helier, Jersey, Channel Islands, JE4 5UT

SECRETARY

The Company Secretary is Sanne Secretaries Limited.

BY ORDER OF THE BOARD

Authorised Signatory
Sanne Secretaries Limited
Secretary
Date: 29th April 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Jersey Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board. The financial statements are required by law to be properly prepared in accordance with the Companies (Jersey) Law 1991.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the fair representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, the Directors are also required to:

* properly select and apply accounting policies;
* present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
* make judgements and estimates that are reasonable and prudent;
* provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
* make an assessment of the Company's ability to continue as a going concern unless it is inappropriate to presume that the Company will continue in business. As explained in the Report of the Directors and note 2 to the financial statements, the Directors do not believe it is appropriate to prepare these financial statements on a going concern basis.

The Directors are also responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991 and International Financial Reporting Standards. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT OF PERSONS RESPONSIBLE WITHIN THE ISSUER

With regard to Regulation 2004/109/EC of the European Union (the "EU Transparency Directive"), the Directors of the Company whose names appear on page 3 confirm to the best of their knowledge that the audited financial statements for the year ended 31st December 2015 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as required by the applicable accounting standards. The Report of the Directors gives a fair review of the development of the Company's business, financial position and the important events that have occurred during the financial year and their impact on the financial statements. The principal risks and uncertainties faced by the Company are disclosed in note 11 of these financial statements.

Signed on behalf of the Board of Directors

Director:

Date: 29th April 2016

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HYPO ALPE-ADRIA (JERSEY) II LIMITED

We have audited the financial statements of Hypo Alpe-Adria (Jersey) II Limited (the 'Company') for the year ended 31 December 2015 which comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards. These financial statements have been prepared on a non-going concern basis as disclosed in note 2.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and to express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its result for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.



Christopher James Matthews, FCA
for and on behalf of Ernst & Young LLP
Jersey, Channel Islands
Date: 29 April 2016

STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER 2015

	Notes	2015	2014
ASSETS			
Non-current assets			
Issuer Assets	3	-	-
Current assets			
Issuer Assets	3	-	-
Cash and cash equivalents	4	2	2
TOTAL ASSETS		€ 2	€ 2
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital	6	2	2
Retained earnings		(58,640)	(293,200)
TOTAL SHAREHOLDERS' DEFICIT		(58,638)	(293,198)
Non-current liabilities			
Preferred Securities	5	-	-
Current liabilities			
Preferred Securities	5	58,640	293,200
TOTAL EQUITY AND LIABILITIES		€ 2	€ 2

The financial statements on pages 6 to 22 were approved and authorised for issue by the Board of Directors on the 29th day of April 2016 and were signed on its behalf by:

Director: 

(The notes on pages 10 to 22 form part of these financial statements)

HYPO ALPE-ADRIA (JERSEY) II LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER 2015

	Notes	2015	2014
INCOME			
Gain on revaluation of Preferred Securities	5	234,560	905,402
EXPENDITURE			
Loss on revaluation of Issuer Assets	3	-	(1,198,602)
PROFIT/(LOSS) FOR THE YEAR		€ 234,560	€ (293,200)

Other comprehensive income

There were no items of other comprehensive income in either the current or prior year.

(The notes on pages 10 to 22 form part of these financial statements)

HYPO ALPE-ADRIA (JERSEY) II LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2015

		Stated capital		Retained earnings		Total
Balance at 1st January 2015		2	(	293,200)	(	293,198)
Profit for the year		-		234,560		234,560
Balance at 31st December 2015	€	2	€ (	58,640)	€ (	58,638)
Balance at 1st January 2014		2		-		2
Loss for the year		-	(	293,200)	(	293,200)
Balance at 31st December 2014	€	2	€ (	293,200)	€ (	293,198)

(The notes on pages 10 to 22 form part of these financial statements)

HYPO ALPE-ADRIA (JERSEY) II LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2015

		2015		2014
Cash flows from operating activities				
Profit/(loss) for the year		234,560	(	293,200)
Loss on revaluation of Issuer Assets		-		1,198,602
Gain on revaluation of Preferred Securities	(	234,560)	(	905,402)
Net cash flow from operating activities		-		-
Net change in cash and cash equivalents		-		-
Cash and cash equivalents at the beginning of the year		2		2
Cash and cash equivalents at the end of the year	€	2	€	2

(The notes on pages 10 to 22 form part of these financial statements)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2015

1. GENERAL INFORMATION

Hypo Alpe-Adria (Jersey) II Limited (the "Company") was incorporated in Jersey, Channel Islands on 2nd September 2004, as a public company, under the Companies (Jersey) Law 1991. The principal activity of the Company was the issue of Non-cumulative Non-voting Preferred Securities (the "Preferred Securities"). The proceeds from the Preferred Securities were used to grant HETA Asset Resolution AG ("HETA") a loan facility of €150,000,000 (the "Subordinated Loan", or "Loan"). HETA was formerly known as Hypo Alpe-Adria Bank International AG (or "HAA"), but changed its name to HETA Asset Resolution AG on 3rd November 2014.

The Company's rights under the Loan Agreement were guaranteed by HETA under the terms of a Support Agreement. The Loan Agreement and Support Agreement were entered into concurrently and in contemplation of each other. Consequently, these agreements were considered together to comprise the "Issuer Assets". The commercial effect of the Support Agreement is to give holders of the Preferred Securities rights that would be equivalent to their rights if the Preferred Securities had been issued by HETA itself. The Loan was cancelled on 27th April 2012 for €nil consideration, thereby leaving the Support Agreement as the sole remaining Issuer Asset, hereafter referred to as the "Issuer Assets". The Preferred Securities are listed on the Euronext Amsterdam Stock Exchange.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all the periods presented unless otherwise stated.

Basis of accounting

These financial statements have been prepared on a non-going concern basis, under the historical cost basis, as modified by the revaluation of the Issuer Assets and the Preferred Securities, in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee. Under this basis, assets are recorded at their recoverable amount, which equates to fair value, and liabilities are recorded at fair value. As liabilities are listed on a recognised stock exchange the fair value of the Preferred Securities is provided by the last quoted market price on or before the financial reporting date, as reported by Bloomberg.

Non-going concern

Under the terms of the Support Agreement between the Company and HETA, HETA has agreed to maintain the Company as a subsidiary for so long as any Preferred Securities shall remain in issue and has undertaken that, so long as any of the Preferred Securities are outstanding, unless HETA is itself in liquidation, HETA will not permit, or take any action to cause, the liquidation, dissolution or winding-up of the Issuer. Consequently, the Directors currently expect HETA to continue to cover the Company's operational expenses. In addition, under the terms and conditions of the Preferred Securities, any amount payable under such Preferred Securities would only arise concurrently with an equal and opposite amount receivable under the terms of the Issuer Assets.

However, the Company is no longer considered to be a going concern due to the following facts already outlined under "Background to HETA" on page 1: HETA's reported capital shortfall; the fact that the Company is now a part of the Asset Resolution Wind Down Unit; the fact that the Republic of Austria has declared that it will not fund HETA's future liquidity shortfalls in 2016 and 2017; and, the action taken by the FMA. Accordingly, the Directors have adopted the non-going concern basis in preparing these financial statements.

2. ACCOUNTING POLICIES - (CONTINUED)

Non-going concern - (continued)
The Directors have been informed that the amount of net losses currently allocated to the Issuer Assets held by the Company significantly exceeds the principal amount of such Issuer Assets and therefore a repayment value of zero should be expected. Consequently the Directors currently expect that the redemption value of the Preferred Securities issued is also likely to be zero.

New Accounting Standards, amendments to existing Accounting Standards and/or interpretations of existing Accounting Standards (separately or together, "New Accounting Requirements") adopted during the current year
The Directors have assessed the impact, or potential impact, of all New Accounting Requirements. In the opinion of the Directors, there are no mandatory New Accounting Requirements applicable in the current year that had any material effect on the reported performance, financial position, or disclosures of the Company. Consequently, no mandatory New Accounting Requirements are listed. The Company has not early adopted any New Accounting Requirements that are not mandatory in the current year.

Non-mandatory New Accounting Requirements adopted during the current year
In the Directors' opinion, there are no non-mandatory New Accounting Requirements that are either permitted to be adopted, or would have a material effect on the reported performance, financial position, or disclosures of the Company. Consequently, no such non-mandatory New Accounting Requirements have either been adopted, or listed.

Use of estimates, judgements and assumptions
The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the period. Actual results could differ from those estimates. Details of such estimates are provided in note 11 to the financial statements.

Functional currency and presentation currency
These financial statements are presented in euro, which is the Company's functional and presentation currency.

Financial assets at fair value through profit or loss
The Issuer Assets are perpetual financial instruments, redeemable at the option of HETA. The contractual terms of the Issuer Assets do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, as described under paragraph 4.1.3 of IFRS 9. Consequently, the Issuer Assets are classified as a financial asset at fair value through profit or loss ("FVTPL"). Upon initial recognition, the Issuer Assets were measured at fair value excluding transaction costs that were directly attributable to the acquisition of such assets. Subsequently, they were measured at fair value with changes thereof being recognised directly in the statement of comprehensive income. Due to adoption of the non-going concern basis as referred to above, the Issuer Assets are measured at their recoverable amount, which is estimated to be equal to the fair value of nil, and are classified as current assets.

Financial assets at FVTPL are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all risks and rewards of ownership.

2. ACCOUNTING POLICIES - (CONTINUED)

Preferred Securities

Preferred Securities were designated at FVTPL, as permitted under IFRS 9, in order to eliminate or reduce the accounting mismatch that would otherwise occur in the Company's statement of financial position and statement of comprehensive income if the Issuer Assets were to be measured at FVTPL whilst the Preferred Securities would otherwise be measured at amortised cost. Consequently the Preferred Securities are initially and subsequently measured at FVTPL. The Directors have considered the characteristics of the Preferred Securities, and the requirements of "Financial Instruments: Presentation" ("IAS 32"), and consider that the most appropriate classification of these securities is debt. Adoption of the non-going concern basis in preparing these financial statements has resulted in the Preferred Securities being classified as current liabilities.

Financial liabilities at FVTPL are derecognised when the company has transferred substantially all of its financial obligations relating thereto.

Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date.

The Preferred Securities issued by the Company are listed on a recognised stock exchange. However, only very limited liquidity exists for these securities. Consequently, the market for the Preferred Securities should be considered to be inactive. Nevertheless, in the absence of other suitable alternatives, the Directors consider that the best available estimate of the fair value of the Preferred Securities is provided by the last quoted market price on or before the financial reporting date, as reported by Bloomberg, being: 0.25% and 1.25% as at 31st December 2015 and 2014 respectively.

As noted in the Report of the Directors, the Directors have been informed that the amount of net losses currently allocated to the Issuer Assets held by the Company significantly exceeds the principal amount of such Issuer Assets. A repayment value of zero should therefore be expected upon the eventual wind-down of HETA and the Directors currently expect that the redemption value of the Preferred Securities issued is also likely to be zero. However, the Directors have continued to use the measurement basis described above to estimate the fair value of the Preferred Securities as at 31st December 2015, in accordance with IFRS 13.

The Directors note that the Issuer Assets are neither quoted nor actively traded. The Company's liabilities under the Preferred Securities are at all times economically matched by its Issuer Assets by an equal and opposite amount. Due to adoption of the non-going concern basis as referred to above, the Issuer Assets are measured at their recoverable amount, which is estimated to be equal to the fair value of nil as at 31st December 2015.

2. ACCOUNTING POLICIES - (CONTINUED)

Fair value estimation - (continued)

IFRS 13 "Fair Value Measurement" ("IFRS 13") defines a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under IFRS 13 are as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the valuation date;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices), including inputs from markets that are not considered to be active;

Level 3 – Inputs that are not based upon observable market data.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Preferred Securities and the related accrued interest thereon are currently classified within Level 2 of the fair value hierarchy on the basis that the market for the Preferred Securities is no longer an active market as defined by IFRS 13. If the market for the Preferred Securities should become active during any future reporting period and remain active as at such reporting period end, then the Preferred Securities and the related accrued interest thereon would be reclassified within Level 1 of the fair value hierarchy. Similarly, should quoted prices no longer be available during any future reporting period and remain unavailable as at such reporting period end, then the Preferred Securities and the related accrued interest thereon would be reclassified within Level 3 of the fair value hierarchy.

The estimated fair values of the Issuer Assets and the Preferred Securities are disclosed in note 11.

The level of reliance that can be placed upon estimated fair values is limited and the fair values disclosed may, or may not, be reasonable estimates of the prices at which a trade could have taken place at the reporting date. Due to the limited liquidity of the market in the Preferred Securities, the actual amount that could have been realised by a holder of the Preferred Securities could have been significantly different from the prices disclosed above.

Stated capital

Ordinary shares are not redeemable and are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Segmental reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Directors perform regular reviews of the operating results of the Company and make decisions using financial information at the entity level only. Accordingly, the Directors believe that the Company has only one reportable operating segment.

The Directors are responsible for ensuring that the Company carries out business activities in line with the transaction documents. They may delegate some or all of the day to day management of the business, including the decisions to purchase and sell securities, to other parties both internal and external to the Company. The decisions of such parties are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Directors. Therefore the Directors retain full responsibility as to the major allocation decisions of the Company.

3. ISSUER ASSETS

		2015		2014
Issuer Assets (carrying amount)				
Opening balance as at 1st January		-		1,198,602
Loss on revaluation of Issuer Assets		-	(	1,198,602)
Closing balance as at 31st December	€	-	€	-

The net proceeds from the issue of the Preferred securities of €150,000,000 were used by the Company to grant a loan facility (the "Loan") to HETA, with HETA also providing a Support Agreement. The Loan Agreement and Support Agreement were entered into concurrently and in contemplation of each other. Consequently, these agreements were considered together to comprise the "Issuer Assets".

The Loan was granted on 7th October 2004 under the terms and conditions, detailed in the Facility Agreement between the Company and HETA. On 27th April 2012, the Loan Agreement was terminated for €nil consideration by mutual consent between the Company and HETA, with the Company's rights under the Issuer Assets subsequently being represented by the Support Agreement only. The Loan bore interest initially at a fixed rate of 6.50% per annum, with the first coupon being receivable in arrears on 7th October 2005. Thereafter the facility bore interest at a rate equal to the relevant Reference Rate plus a margin of 0.15%, subject to a cap of 8%, payable semi-annually in arrears every 7th April and 7th October following the first payment. Payment of interest was receivable only if the amount of interest due was available from annual profits of HETA's previous fiscal year (before movement of reserves). The relevant Reference Rate was the 10-year mid swap rate in Euro versus 6M EURIBOR.

The Support Agreement (formerly the Loan) has no fixed repayment date, however HETA had the option to repay the Loan in full on 7th October 2011, and is permitted to exercise such option on any interest payment date thereafter, subject to giving the Company 30 days prior notice.

The obligations under the Support Agreement (Issuer Assets) constitute unsecured and subordinated obligations of HETA ranking pari passu among themselves and pari passu with all other subordinated obligations of HETA. In the event of the dissolution, liquidation or bankruptcy of HETA, the obligations under the Support Agreement may be satisfied only after the non-subordinated claims of creditors have been satisfied, so that in any such event no amounts shall be payable in respect of the Support Agreement until the claims of all unsubordinated creditors of HETA shall have been satisfied in full.

No interest was received under the Support Agreement during the current year and previous year due to insufficient distributable profits arising at HETA. Consequently, no dividends were paid on the Preferred Securities.

The Directors have been informed that the amount of net losses currently allocated to the Issuer Assets held by the Company exceeds its principal amount and therefore a repayment value of zero should be expected.

4. CASH AND CASH EQUIVALENTS

	2015	2014
Sanne Trust Company Limited - client account	€ 2	€ 2

5. PREFERRED SECURITIES

	2015	2014
Preferred Securities (principal amount):		
Opening balance as at 1st January	23,456,000	23,456,000
Closing balance as at 31st December	€ 23,456,000	€ 23,456,000
Preferred Securities (carrying amount)		
Opening balance as at 1st January	293,200	1,198,602
Gain on revaluation of Preferred Securities	(234,560)	(905,402)
Closing balance as at 31st December	€ 58,640	€ 293,200

150,000 Fixed/Floating Rate Non-cumulative Non-voting Preferred Securities (the "Preferred Securities"), each bearing a liquidation preference of €1,000 per Preferred Security (i.e. an aggregate liquidation preference of €150,000,000), were issued by the Company on 7th October 2004 under the terms of an Offering Circular dated 7th October 2004 (the "OC").

The Preferred Securities paid dividends initially at a rate of 6.50% per annum, with the first dividend amount payable in arrears on 7th October 2005. Thereafter, subject to the existence of sufficient distributable profits at HETA, the Preferred Securities pay dividends at a rate equal to the prevailing reference rate plus a margin of 0.15% per annum, subject to a cap of 8%, payable semi-annually in arrears every 7th April and 7th October following the fixed payment. The prevailing reference rate is the 10-year mid swap rate in Euro versus 6M EURIBOR. No dividends were paid on the Preferred Securities during the current year and previous year due to insufficient distributable profits at HETA.

A Support Agreement was entered into on 7th October 2004 between the Company and HETA as the Support Provider. Under this Agreement HETA undertakes to provide the Company with financial support, but HETA is not obliged to make any payment to the Company to the extent that such a payment would exceed HETA's distributable funds for the prior fiscal year or to the extent that such a payment would exceed HETA's annual surplus pursuant to HETA's own financial statements as at the reporting date immediately preceding the dividend payment date. The commercial effect of the Support Agreement is to give holders of the Preferred Securities rights that would be equivalent to their rights if the Preferred Securities had been issued by HETA itself.

The Preferred Securities are perpetual and therefore have no specified maturity date. The Preferred Securities are redeemable only at the option of the Company, in whole but not in part, from and including 7th October 2011 and on any interest payment date thereafter, upon giving the holders not less than 30 days notice. The Company may only redeem the Preferred Securities with the prior consent of HETA. Dividends on the Preferred Securities are payable on each Dividend Date at the rate specified in the Statement of Rights of the Preferred Securities as set out in the OC if the conditions specified therein are met.

5. PREFERRED SECURITIES - (CONTINUED)

The Company's obligation to pay a dividend on the Preferred Securities on any given Dividend Date will at all times be matched by the Company's right to receive an equal and opposite amount from HETA under the terms of the Issuer Assets (see note 3). However, in the event that one or more dividends are not payable, such dividends are non-cumulative (i.e. the right of the holders of the Preferred Securities to receive such dividends lapses) and no interest is payable on such unpaid dividends. In the event of the winding-up of the Company or the dissolution or winding-up of HETA, holders of the Preferred Securities will be entitled to receive for each Preferred Security a liquidation preference of €1,000 plus any accrued and unpaid dividends. The Preferred Securities are listed on the Euronext Amsterdam Stock Exchange.

As no interest was received from the Support Agreement (Issuer Assets) during the current year and prior year, no corresponding dividend payments were made to the holders of the Preferred Securities on the relevant dividend payment dates.

As disclosed in notes 1 and 3, due to the net losses currently allocated to the Issuer Assets held by the Company, the expected redemption value of the Preferred Securities issued is likely to be zero.

6. STATED CAPITAL

	2015	2014
AUTHORISED:		
Unlimited number of Ordinary Shares of no par value		
ISSUED AND FULLY PAID:		
2 Ordinary shares issued at €1 each	€ 2	€ 2

The Company has issued 2 ordinary shares at €1 each. These shares entitle holders to voting rights at any general meeting of the Company, to ordinary dividends as may be declared by the Directors from time to time, and to participate in the winding up of the Company.

The Company is not subject to externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2015

7. TAXATION

Profits arising in the Company are subject to Jersey Income Tax at the rate of 0% (2014: 0%)

8. ULTIMATE CONTROLLING PARTY

The Company's immediate and ultimate holding company is HETA, a company incorporated in Austria.

9. EXPENSES

HETA has agreed to cover the Company's ongoing operational expenses under the terms of the Support Agreement.

10. RELATED PARTIES

During the year, Sanne Corporate Services Limited ("SCSL") and Sanne Secretaries Limited ("SSL") provided administration and secretarial services respectively to the Company at commercial rates. SCSL was a subsidiary of Sanne Fiduciary Services Limited ("SFSL") until 31st July 2015 when SCSL and SFSL merged and SSL is a subsidiary of SFSL. Each of SSL and SFSL is a member of the "Sanne Group" (where the "Sanne Group" means Sanne Group PLC and all of its subsidiaries and affiliates of the same). Each of G.P. Essex-Cater, L.V. Pinnington, S.J. Hopkins, J.N. Pendergast and A. Orosco is a Director and/or employee of SFSL and should be regarded as interested in any transaction with any member of the Sanne Group.

M.H. Russling is an employee and officer of HETA and therefore should be regarded as interested in any transaction with HETA and the subsidiaries and affiliates of the same. Details of transactions with HETA are disclosed in the notes to the financial statements.

11. FINANCIAL RISK MANAGEMENT

Financial risk factors

The principal activity of the Company was the issue of Preferred Securities, the proceeds from which were used to grant a Loan to HETA. The strategies used by the Company in achieving its objectives regarding the use of its financial assets and liabilities were set when the Company entered into the transactions. The Company has matched the properties of its financial liabilities to its assets to avoid significant elements of risk generated by credit risk, liquidity risk and market risks such as interest rate risk, currency rate risk and price risk.

11. FINANCIAL RISK MANAGEMENT - (CONTINUED)

Fair values

The table below presents the fair values of the Company's assets and liabilities.

	2015		2014	
Financial assets:	**Principal Amount**	**Fair value**	**Principal Amount**	**Fair value**
Support Agreement / Issuer Assets	€ 23,456,000	€ -	€ 23,456,000	€ -
Financial liabilities:	**Principal Amount**	**Fair value**	**Principal Amount**	**Fair value**
Preferred Securities	€ (23,456,000)	€ (58,640)	€ (23,456,000)	€ (1,198,602)

As at 31st December 2015, the last quoted market price on for the Preferred Securities as reported by Bloomberg was 0.25% (31st December 2014: 1.25%). In the opinion of the Directors, the fair value of the Support Agreement/Issuer Assets held was previously approximately equal and opposite to the fair value of the Preferred Securities, as the terms and conditions of the Preferred Securities are equal and opposite to those of the Support Agreement/Issuer Assets and the credit risk attached to both the Preferred Securities and the Support Agreement/Issuer Assets are similar, being in each case closely related to that of HETA. In the opinion of the Directors, it was not practicable to estimate with sufficient reliability any difference in fair value between the Support Agreement/Issuer Assets and the Preferred Securities and any such difference in fair value that might exist was not expected to be significant. However, due to adoption of the non-going concern basis, the Issuer Assets are now measured at their recoverable amount, which is estimated to be equal to the fair value of nil.

Fair value hierarchy

The Directors consider that the market for the Preferred Securities is not currently an active market as defined by IFRS 13. Consequently, the fair value of the Preferred Securities is classified within Level 2 of the fair value hierarchy. The fair value of the Issuer Assets is estimated based primarily upon public announcements regarding HETA's financial position and prospects, which are considered to be observable inputs. Consequently, in the Directors' opinion, the fair value of the Issuer Assets should continue to be classified within Level 2 of the fair value hierarchy.

11. FINANCIAL RISK MANAGEMENT - (CONTINUED)

Market risk

Due to the measurement basis mismatch between the estimated fair value of the Issuer Assets, which are valued at the estimated recoverable amount of nil, and the estimated fair value of the Preferred Securities, which are valued using the quoted market price, any change in the quoted market price of the Preferred Securities will result in an accounting mismatch, impacting on the Company's reported financial position and performance. However, the terms of the Preferred Securities are matched by the equal and opposite terms of the Issuer Assets. Consequently, the Company itself is not exposed to any commercial or financial risk from these financial instruments. Therefore, this accounting mismatch is ignored in the following market risk disclosures.

Interest rate risk

The Company finances its operations through the issue of Preferred Securities upon which dividends are payable. Dividend payments under the Preferred Securities are non-cumulative and are equal and opposite to amounts receivable from HETA under the Support Agreement (Issuer Assets). Amounts receivable under the Support Agreement precisely match any amounts payable under the Preferred Securities. Therefore the Directors believe that there is no material interest rate risk to the Company.

		2015		2014	
	Interest basis	Effective interest rate	Principal amount	Effective interest rate	Principal amount
Financial assets:					
Issuer Assets	Fixed/Floating	0.000%	€ 23,456,000	0.000%	€ 23,456,000
Financial liabilities:					
Preferred Securities	Fixed/Floating	0.000%	€ (23,456,000)	0.000%	€ (23,456,000)

Currency rate risk

As all the Company's assets and liabilities are denominated in Euros the Directors believe that there is no material currency risk to the Company.

Other price risk

In the opinion of the Directors, there are no foreseeable other price risks that might affect the fair values of the Company's financial instruments.

Sensitivity analysis

As previously disclosed, the Issuer Assets are carried at an estimated recoverable amount of nil, whilst the Preferred Securities continue to be carried at their estimated fair value as indicated by the quoted market price reported by Bloomberg. Consequently, any change in the fair value of the Preferred Securities would have a corresponding effect on the Company's statement of financial position. However, as also previously disclosed, the Directors currently expect that the redemption value of the Preferred Securities issued is also likely to be zero. Consequently, in the Directors opinion, there is no material market risk to the Company.

11. FINANCIAL RISK MANAGEMENT - (CONTINUED)

Sensitivity analysis - (continued)

IFRS 7 requires disclosure of "a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date." As stated, whilst the financial instruments held by the Company are separately exposed to interest rate risk and market price risk, the Company itself is not exposed to market risk overall. Therefore, in the Directors' opinion, no sensitivity analysis is required to be disclosed. In addition, the estimated recoverable amount and fair value, as applicable, have been derived entirely from observable information.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's principal financial asset is the Support Agreement (Issuer Assets) entered into with HETA, from which all of the Company's income is derived. Credit risk arises principally from this Support Agreement. The maximum exposure to credit risk, expressed as the gross principal amount of the Issuer Assets outstanding rather than the carrying value of such Issuer Assets, without taking into account any collateral held or other credit enhancements is as follows:

		2015	2014
Support Agreement / Issuer Assets		23,456,000	23,456,000
Cash and cash equivalents		2	2
	€	23,456,002	23,456,002

The Directors believe that there is no material credit risk to the Company since dividend and principal payments under the Preferred Securities are non-cumulative, and are equal and opposite to amounts receivable from HETA under the Support Agreement (Issuer Assets). In the event that HETA is unable to repay the full principal amount of the remaining Support Agreement (Issuer Assets) balance, such loss would be borne by the holders of the Preferred Securities, not by the Company.

The carrying value of the Issuer Assets in the Company's statement of financial position is nil. Consequently, the Company has no further exposure to credit losses.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Distribution payments under the Preferred Securities are non-cumulative, and are equal and opposite to amounts receivable from HETA under the Support Agreement (Issuer Assets).

Due to the nature of the Company's operations, the Directors consider the net liquidity risk faced by the Company to be minimal. The most significant cash outflow consists of the payment of interest on the Preferred Securities. The timing of its cash outflows fall due on the same dates as the cash inflows from the Support Agreement (Issuer Assets). The Company's expenses are paid on its behalf by HETA and therefore the Directors consider its available cash resources to be sufficient.

11. FINANCIAL RISK MANAGEMENT - (CONTINUED)

Maturity of financial assets and liabilities

The expected maturity profile of the Company's financial assets and liabilities is as follows (at principal amount):

	2015 Financial Assets	2015 Financial Liabilities	2014 Financial Assets	2014 Financial Liabilities
In less than one year	€ 23,456,002	€ (23,456,000)	€ 23,456,002	€ (23,456,000)

The Company is no longer considered to be a going concern. Its parent company, HETA, is subject to the provisions of the Austrian Bundesgesetz zur Schaffung einer Abbaueinheit (Federal Act on the Establishment of a Run-Off Unit) (the "Act"). The Act was designed to achieve a winding down of HETA's business and assets, following which it will be dissolved. The FMA has announced that it has set a target for this to be completed by the end of 2023. Notwithstanding this target of 2023, the Directors also consider it reasonably possible that HETA might be subject to normal insolvency proceedings in the near future and that the Company's financial assets and liabilities would mature (at nil value) upon opening of such normal insolvency proceedings. Consequently, the Company's financial assets and financial liabilities are classified as falling due within one year. No interest or dividends are included above due to the current financial position of HETA. Please refer to notes 3 and 5 for details.

12. OPERATING SEGMENTS

Geographical information

All the Company's revenues are generated from Austria.

Non-current assets

The Company does not have any non-current assets.

Major investment company

The Company derives 100% (2014: 100%) of its revenues, if any, from a single entity (HETA). However, the Company received no revenues during the current year or prior year.

13. CAPITAL MANAGEMENT

The Company's original objective, when managing its capital, was to safeguard the Company's ability to continue as a going concern whilst the Company's financial assets and liabilities remained in issue. In order to maintain this, the Company's financial assets and liabilities and the relative underlying terms and conditions were exactly matched. The transactions were designed to enable the Company to pay its liabilities as they fall due only, without realising a return on capital. The level of interest income and interest expense were exactly matched and were established on incorporation of the Company in order that the Company should realise a net result of €nil each period.

Due to the events described in the Report of the Directors, the Company is no longer considered to be a going concern. However, HETA currently continues to have responsibility for meeting the Company's expenses. Consequently, in the Directors' opinion, the Company currently remains solvent. Except for the foregoing, there were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

14. SUBSEQUENT EVENTS

As stated in the Report of the Directors, on 10th April 2016, the FMA announced a further emergency administrative decision, being that it has reached the conclusion that the moratorium remains fully binding and that it has chosen to use the "bail-in" resolution tool such that the creditors of HETA are now all involved in the loss-sharing process and will have to bear their share of the losses. The FMA also announced the additional measures to be taken pursuant to BaSAG, namely the cancellation of interest on HETA's liabilities from 1st March 2015 and the harmonisation of the maturity date of all eligible liabilities to 31 December 2023. In addition, the FMA announced that it has set a target of completing the wind-down of HETA by the end of 2023. The effect of the FMA decision regarding HETA's ability to cover future expenses of the Company is currently subject to legal assessment; it cannot be ruled out that HETA will not be able to cover the Company's expenses in the future.

In the Directors' opinion, no other significant events have occurred between the reporting date and the date of approval of these financial statements that would be likely to have a material impact upon the Company, its reported financial position or its results.