

# HETA ASSET RESOLUTION

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## Company presentation

Answers to questions from investors – August 2016

**Klagenfurt am Wörthersee, 4 August 2016**

## Disclaimer

This document also contains statements about forecasts, planning, future expectations and other future-oriented statements which are based on the current perspectives and assumptions of the Management Board of HETA ASSET RESOLUTION AG (abbreviation: HETA) and are associated with known and unknown risks and uncertainties which may cause actual results and events to deviate significantly from the results and events contained in the future-oriented expectations and statements.

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It should be noted that HETA is currently working on the finalisation of the 2016 half-year financial statements (consolidated financial statements pursuant to IFRS and separate financial statements pursuant to UGB/BWG), which are to be published at the end of August 2016. On the basis of the implementation of the FMA administrative decision of 10 April 2016 (“administrative decision II”), the separate financial statements for HETA as of 30 June 2016 (which have been drawn up on a voluntary basis) will be subject to an audit by the auditors; no statutory obligation applies in this regard. The implementation of administrative decision II as shown in this document as of 31 December 2015 represents a simulation; the final representation will be reflected in the half-year financial statements as of 30 June 2016.

## Introduction

With the aim of creating additional transparency and promoting dialogue with investors and creditors regarding the questions arising from the FMA measures, Heta Asset Resolution AG set up a separate platform for questions from these specialist groups under [holding@heta-asset-resolution.com](mailto:holding@heta-asset-resolution.com) in August 2015. Since then, creditor information / a collection of questions and answers have been published several times:

20 October 2015:	Company presentation
15 December 2015:	Update of company presentation
25 April 2016:	Adaptation of company presentation
29 April 2016:	Additional information for creditors (reconciliation of the administrative decision of 10 April 2016 with the balance sheet (separate financial statements according to UGB/BWG) as of 31 December 2015

The present information for creditors provides answers to many questions which could be of relevance for creditors of HETA.

In connection with the information contained in this company presentation, the Management Board of HETA expressly refers creditors and investors to the corresponding disclaimer in the company presentation. It is also pointed out that the company presentation may be updated or added to at any time; any such updates and additions can be downloaded from the HETA website under Investor Relations/Investor Information.

On this basis, in accordance with the invitation issued on 13 August 2015, creditors or their representatives can also continue to send in further specific questions of general interest to creditors and investors in writing to this e-mail address: [holding@heta-asset-resolution.com](mailto:holding@heta-asset-resolution.com). The decision as to which questions will be answered, and also as to the form and content of answers, will continue to rest with HETA.

Please note that the FMA as resolution authority is also planning to publish relevant information on topics relating to BaSAG and the application of BaSAG by the FMA as resolution authority on its website ([www.fma.gv.at](http://www.fma.gv.at)). We would therefore also ask you to look at the FMA website at regular intervals.

## Questions

### Questions

1. Comparison of the 2015 budget (UBG/BWG) and the 2015 annual financial statements with notes in regard to important cash-relevant deviations in the individual balance sheet items
2. Current status of the balance sheet as of 30 April 2016 with breakdown of the principal assets and liabilities (particularly other assets, accruals and deferrals, provisions, other liabilities) and descriptions of the main changes compared with the 2015 annual financial statements
3. What are the planned cash receipts (without interest) from the refinancing lines granted to HGAA and HBI in comparison with and arising from the residential building promotion loans?
4. Has there been any change in the assumption regarding the cash inflow arising from the guarantee agreement with the Republic of Austria as compared with the last presentation?
5. What effects will the planned sales of entities (Centrice and Italy) as announced in the media have on the planning calculation?
6. How will the haircut affect the existing derivatives positions? What cash effects will arise?
7. At what interest rate is the excess cash invested?
8. What is the current status of the proceedings with BLB? What payments are expected in this regard?

## Question 1 – Comparison of 2015 budget with YE 2015 HETA AG UGB

<i>Balance Sheet local GAAP in MEUR</i>	YE 2014	Interim Balance Sheet 01.03.15	HY 2015	YE 2015	Δ YE '15 - YE '14	BU 2015	+YE 2015
<b>ASSETS</b>							
1. Cash reserve, central banks	2.359	2.513	2.110	4.273	1.915	2.937	1.336
2. Loans/advances credit institutions	4.563	4.428	5.266	3.869	-694	3.277	592
- IVA credit institutions	-2.239	-2.173	-2.149	-1.813	426	-1.485	-329
3. Loans and advances to customers	9.173	9.149	8.276	5.130	-4.043	5.391	-260
- IVA customers	-5.659	-5.735	-5.123	-2.635	3.024	-2.361	-274
4. Securities	788	748	411	383	-405	430	-46
5. Shares of affiliated companies	505	543	533	85	-420	270	-185
6. Other assets	120	144	278	263	144	178	86
<b>Total assets</b>	<b>9.610</b>	<b>9.618</b>	<b>9.601</b>	<b>9.556</b>	<b>-54</b>	<b>8.637</b>	<b>919</b>
<b>EQUITY AND LIABILITIES</b>							
1. Liabilities to credit institutions	2.929	3.790	3.617	3.519	590	3.147	372
2. Liabilities to customers	1.668	1.662	1.683	1.520	-148	1.418	102
3. Liabilities evidenced by certificates	8.616	8.738	8.816	8.848	231	8.816	31
4. Other liabilities	141	48	217	326	186	215	111
5. Deferred items	25	23	20	6	-19	20	-14
6. Provisions	2.122	1.442	1.375	845	-1.277	1.173	-329
7. Subordinated liabilities	1.096	1.928	1.944	1.970	875	1.944	26
<b>Total equity (items 9-18)</b>	<b>-6.987</b>	<b>-8.013</b>	<b>-8.071</b>	<b>-7.479</b>	<b>-492</b>	<b>-8.098</b>	<b>619</b>
<b>Total equity and liabilities</b>	<b>9.610</b>	<b>9.618</b>	<b>9.601</b>	<b>9.556</b>	<b>-54</b>	<b>8.637</b>	<b>919</b>
<b>Total assets not including cash</b>	<b>7.251</b>	<b>7.106</b>	<b>7.491</b>	<b>5.282</b>	<b>-1.968</b>	<b>5.699</b>	<b>-417</b>
Loans to customers (net)	3.514	3.415	3.153	2.495	-1.019	3.030	-534
Loans to credit institutions (net)	2.323	2.255	3.117	2.055	-268	1.793	263

### Comments

The cash increase of EUR 1.9 billion in 2015 is EUR 1.3 higher than the budget figure, and is essentially made up of the following items:

- **Hypo Italy claims EUR 140 million**  
- no repayments expected in 2015 budget
- **Refinancing lines to HETA subsidiaries EUR 390 million** (EUR +111 million higher return than budgeted)
- **Dissolution of minority companies EUR 280 million** (not in 2015 budget – dissolution occurred earlier than planned)
- **Corporate/public portfolio EUR 250 million** (EUR + 220 million as compared with budget), wind-down occurred earlier than planned
- **“Treasury” portfolio EUR 780 million** consisting of public sector loan notes, securities and loans and advances to banks (EUR + 200 million as compared with budget – sales of securities moved forward)
- **Other cash-in approx. EUR 145 million** (positive cash-in from swap interest, no interest payment for BaSAG liabilities)

## Question 2 – Current balance sheet status as of 30.04.2016 HETA AG UGB (1/2)

Current balance sheet status as of 30 April 2016 with breakdown of principal assets and liabilities (particularly other assets, accruals and deferrals, provisions, other liabilities) and descriptions of the main changes as compared with the 2015 annual financial statements.

HETA AG in EURm	YE 2015	ACT YTD Apr. 16	YE 2015 vs. YTD ACT
<b>AKTIVA</b>			
1. Cash reserve, central banks	4.273	5.047	774
2. Debt instruments/central bank refinancing	183	157	-26
3. Loans/advances credit institutions	3.869	2.705	-1.164
- IVA credit institutions	-1.813	-1.190	624
4. Loans and advances to customers	5.130	4.745	-385
- IVA customers	-2.635	-2.618	17
5. Securities	200	115	-85
6. Shares of affiliated companies	85	90	5
7. Other assets	263	232	-32
<b>Total assets</b>	<b>9.556</b>	<b>9.284</b>	<b>-272</b>
<b>Total assets not including cash</b>	<b>5.282</b>	<b>4.236</b>	<b>-1.046</b>
<b>EQUITY AND LIABILITIES</b>			
1. Liabilities to credit institutions	3.519	1.536	-1.983
2. Liabilities to customers	1.520	721	-799
3. Liabilities evidenced by certificates	8.820	4.109	-4.711
4. Other liabilities	326	277	-49
5. Deferred items	6	6	0
4. Other liabilities including deferred items	332	283	-49
6. Provisions	845	2.635	1.790
thereof provisions pursuant to § 88 (3) BaSAG		1.963	1.963
7. Subordinated liabilities	1.998	0	-1.998
8. Supplementary capital	0	0	0
8. Equity (total)	-7.479	0	7.479
<b>Total equity and liabilities</b>	<b>9.556</b>	<b>9.284</b>	<b>-272</b>

### Comments

#### Assets:

##### **Cash**

EUR 774 million

##### **Loans and advances to credit institutions EUR - 1.164 million YTD**

EUR -823 million Hypo Group Alpe-Adria/Addiko

(cash-effective EUR 150 million),

EUR -112 million Hypo Italy, EUR 245 million derivatives

##### **Loans and advances to customers EUR - 385 million YTD**

HETA AG customer portfolio cash-effective return EUR 197 million (of which corporate/public EUR 140 million, refinancing HETA industrial participations EUR 25 million, treasury loans EUR 32 million)

Refinancing of HETA subsidiaries cash-effective return EUR 181 million (but EUR 220 million increase arising from transferred portfolio according to HGAA sale agreement)

##### **Securities including debt instruments EUR - 111 million YTD**

#### LIABILITIES:

Have been adjusted upon FMA decision of 10 April 2016 (46% ratio on senior instruments, 0% equity and subordinated instruments) – further points still being agreed with FMA

Basis – Fast-Close (8<sup>th</sup> banking day, not audited)

## Question 2 – Current balance sheet status as of 30.04.2016

### HETA AG UGB – Effects of FMA decision (2/2)

HETA AG Separate Financial Statements according to UGB/BWG as at 31.12.2015 - Loss Allocation							
Amounts in EUR million							
EQUITY AND LIABILITIES	31.12.2015	Equity capital: -100% Loss Allocation	Subordinated liabilities and supplementary capital -100% Loss Allocation	Senior liabilities (non- subordinated) covered by the haircut	31.12.2015 (after loss allocation)	Allocation to provision	Liabilities 31.12.2015 after haircut
1. Liabilities to credit institutions	3.520			-1.706	1.814		1.814
2. Liabilities to customers	1.520			-819	701		701
3. Debt evidenced by certificates	8.848			-4.728	4.120		4.120
4. Other liabilities	326			-48	278		278
5. Deferred assets	6				6		6
6. Provisions	845			-62	783	1.853	2.636
6A. Funds for general banking risks	0				0		0
7. Subordinated liabilities	1.970		-1.970		0		0
8. Supplementary capital	0				0		0
9. Issued capital	3.494	-3.494			0		0
10. Capital reserves	0				0		0
11. Revenue reserves	0				0		0
12. Liability reserve according to section 57 (5) BWG	0				0		0
13. Net accumulated loss	-10.973	3.494	1.970	7.363	1.853	-1.853	0
14. Untaxed reserves	0						
<b>Total assets</b>	<b>9.556</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9.556</b>	<b>0</b>	<b>9.556</b>

Source: Investor presentation dated 29 April 2016 "Reconciliation of the administrative decision of 10 April 2016 with the balance sheet (separate financial statements according to UGB/BWG) as of 31 December 2015"

- The simulation of the effects relates to the FMA's administrative decision II and the bail-in percentages as stated therein; the basis is the annual financial statements of HETA AG as of 31 December 2015 according to UGB/BWG.
- The liabilities side is presented in accordance with § 90 BaSAG (loss absorption cascade).
- The basis for the classification is the administrative decision issued by the resolution authority (FMA) on 10 April 2016.
- By application of the haircut, the balance sheet loss for HETA AG as of 31 December 2015 (EUR -11.0 billion) is balanced out in 2016.

## **Question 3 – Refinancing lines for HGAA/Addiko and Hypo Italy, residential building promotion loans, inclusion in updated planning**

**What are the planned cash receipts (without interest) from the refinancing lines granted to HGAA/Addiko and Hypo Italy in comparison with and arising from the residential building promotion loans:**

**Residential building promotion loans** are planned up to 2018 with normal repayments and thereafter will be put up for sale. From the present-day perspective, it is assumed on the basis of the existing conditions that it will only be possible to dispose of the loans with the application of a certain haircut by comparison with the outstanding nominal amount.

**Hypo Group Alpe-Adria/Addiko** – Cash-effective repayment of EUR 150 million in 2016 – thereafter no further repayments planned until 2020.

**Hypo Italy** – Expected repayment of EUR 698 million by 2021, according to current estimate.



## Question 4 – Phoenix guarantee

**Has there been any change in the assumption regarding the cash inflow arising from the guarantee agreement with the Republic of Austria as compared with the last presentation?**

On the basis of the guarantee agreement concluded in December 2010, the Republic of Austria assumes liability for a precisely specified portion of the HETA claims portfolio, in a maximum amount of EUR 200.0 million. The guarantee continues in effect up to 30 June 2017. In return for the assumption of this liability by the Republic of Austria, a liability fee of 10.0% p.a., calculated from the nominal amount of the affected part amount of the claim, has been agreed. The nominal amount of the drawings to date amounts to EUR 60.6 million as of 30 June 2016. On the basis of the administrative decision of 1 March 2015, the commission payments were suspended. According to administrative decision II, the liability commission is also subject to the 53.98% haircut and is suspended until 31 December 2023 at the latest.

On the basis of the confirmation of the fulfilment of the drawing conditions in the context of a drawing, as issued by the Republic of Austria for the first time in December 2015, and the payment of around EUR 11.2 million by the Republic of Austria to HETA in the same month, HETA assumed, for the purposes of the 2015 annual financial statements, that the instrument would retain its full value. The administrative decision and the associated moratorium on the obligation to pay the liability fee do not in any way alter the validity and continuation of the guarantee.

This assumption regarding the inflow of funds from the guarantee agreement has not changed as of 30 June 2016. Consequently, the payment in regard to the other drawings that have already occurred, and also any possible future claims on the guarantee, should now only depend on the fulfilment of the specified drawing conditions. The audit process that has to be carried out by the Republic of Austria prior to a payment in relation to the drawings that have already occurred has proved to be more time-consuming than expected. However, HETA plans to agree on a mechanism to speed up the audit process by the conclusion of a 3rd addendum to the guarantee agreement.

## Question 5 – Sales of entities

**What effects will the planned sales of entities (Centrice and Italy) as announced in the media have on the planning calculation?**

**Centrice:**

The sale of Centrice in mid-2016 has been taken into account in the planning calculation on the basis of a cash inflow of EUR 340 million. In the meantime, closing of the transaction has taken place and a positive effect on the income statement and on recovery is to be assumed.

**HARIT:**

The planning calculation did not envisage a total sale of HARIT, but rather a wind-down of the individual assets. The results of the sale agreement concluded on 4 August 2016 are not yet reflected in the planning calculations.

From an overall perspective, no risk to the wind-down plan is to be perceived as arising from the sales.

## Question 6 – Haircut

### How will the haircut affect the existing derivatives positions? What cash effects will arise?

The haircut does not have any direct effect on the derivatives positions – because of cash collaterals, these are not included in the haircut. Therefore, there is also no direct effect on the cash on hand.

#### Additional information:

- On the basis of non-prohibition by the resolution authority, HETA AG started to terminate derivatives having a connection with the underlying transaction (liability) in November 2015.
- Further derivatives on asset positions are being wound down on an ongoing basis (with the underlying transaction).
- In addition, back-to-back derivatives are being terminated on an ongoing basis.
- This applies in particular in regard to the respective derivatives where termination has taken place.
- The liquidity effects, without market value fluctuations being taken into account, can be estimated at around EUR 26 million (reimbursement of independent amounts and termination costs).

## Question 7 – Interest on cash

### At what interest rate is the excess cash invested?

- All excess liquidity of HETA AG is invested with the Austrian central bank (OeNB).
- The current negative interest rate (Overnight Deposit Facility Rate) is -0.40% (from March 2016).
- An interest rate of between -40bp and -10bp is assumed in the planning calculation.

## Question 8 – BLB proceedings

### What is the current status of the proceedings with BLB? What payments are expected in this regard?

The BLB proceedings against HETA continue, without any settlement having been achieved in the context of the so-called MoU. However, BLB has stated in advance that it would be willing to make certain concessions in regard to its claims in the EKEG proceedings. These can be summarised as follows: Even if BLB is awarded a higher entitlement by final decision in the court proceedings, BLB will only participate in the resolution of HETA in the amount of EUR 2.4 billion. This declaration is subject to the proviso that the BLB claim participates with equal entitlement and equal ranking with the other senior creditors in a resolution as envisaged in BaSAG, or insolvency proceedings in regard to the assets, or any other form of resolution of the company. In addition, BLB has stated that it is willing to refrain from instituting enforcement measures and to limit itself to participating with its claim in the resolution of HETA as envisaged in BaSAG. No restrictions have been envisaged in regard to HETA's claim against BLB arising from the cross-claims.

By agreement with BLB, the limited period for the submission of the appeal justification was extended to 1 February 2016. Both HETA and BLB submitted their justifications in a timely manner. The appeal court has not yet reached a decision. On 18 May 2016, HETA obtained a court order from the Munich Higher Regional Court by which the court informed the parties, on the basis of the applicable provisions of BaSAG and administrative decision II, that in the court's view the resolution of HETA is to be regarded as equivalent to insolvency proceedings for banks, and the court was therefore considering interrupting the proceedings. The court was also considering disallowing the disputing parties' reciprocal need for legal protection, on the basis of the MoU concluded between the Republic of Austria and the Free State of Bavaria. Both HETA and BLB have stated that they are not in favour of interrupting the proceedings, and have demonstrated to the court that in spite of the conclusion of the MoU the proceedings between the parties have not come to an end. The further course of the proceedings remains to be seen.

From the present-day perspective – assuming that HETA will be the unsuccessful party – HETA will be faced with payment obligations of a maximum of EUR 2.4 billion (without haircut). If the haircut is taken into account, 46.1% of that amount (i.e. EUR 1.1 billion) would be due in December 2023. If HETA is successful in the EKEG proceedings and the BLB claims are to be regarded as subordinate, it is to be assumed that a total reduction of these liabilities to a value of EUR 0 would be undertaken. To the extent that the positive (for HETA) court judgement would also include the claims asserted by HETA against BLB (cross-claims) in the registered amount of EUR 4.8 billion, a corresponding cash inflow in this amount would be expected.

## List of abbreviations

In this presentation, the following abbreviations are used for the following terms:

AQR	Asset Quality Review
BaSAG	Austrian Federal Act on the Recovery and Resolution of Banks
BLB	Bayerische Landesbank
BWG	Austrian Banking Act
CHF	Swiss francs
CM	HBInt Credit Management Limited (Jersey)
Cluster 4 Loans	Treasury Loans
EM	Exit management
FMA	Austrian Financial Market Authority
GSA	Austrian Federal Act for the Creation of a Wind-Down Unit
HaaSanG	Austrian Federal Act on Restructuring Measures for Hypo Alpe Adria Bank International AG Hypo Alpe-Adria-Bank SpA (Italy)
HETA	HETA ASSET RESOLUTION AG (formerly Hypo Alpe-Adria-Bank International AG or HBInt)
HGAA	Hypo Group Alpe Adria (now Addiko Bank AG)
Administrative decision II	Administrative decision issued by the FMA on 10 April 2016
MoU	Memorandum of Understanding between the Republic of Austria and the Free State of Bavaria of 7.7.2015
NBW	Net book value
NPL	Non-Performing Loans
PL	Performing Loans
SEE	South-Eastern-Europe
SSM	Single Supervisory Mechanism
UGB	Austrian Corporate Code
WBF	Residential building promotion loans
WD participations	Wind-down participations