

**Semi-annual financial statements
(UGB/BWG) 30 June 2016**

HETA ASSET RESOLUTION AG

Key figures based on the semi-annual financial statements (UGB/BWG)

Heta Asset Resolution AG

EUR m

	2016	2015	2014
	1.1. –30.06.	1.1. –31.12.	1.1. –31.12.
Income statement			
Net interest income	-80.0	-151.5	-53.4
Net fee and commission income	-14.6	-91.3	-68.0
Operating expenses (general administrative expenses)	-42.1	-129.8	-182.5
Operating result	-78.3	-286.8	-235.5
Net gain/loss on current financial assets, including risk provisions on loans and advances	386.4	3,580.0	-5,574.8
Net gain/loss on financial assets, including impairments on equity investments	21.8	-3,118.2	-2,355.2
Result from ordinary activities	329.9	175.0	-8,165.4
Net profit/loss for the year	7,478.8	-491.6	-7,899.6
Net accumulated profit/loss	0.0	-10,973.0	-10,481.4
Balance sheet	30.06.	31.12.	31.12.
Loans and advances to credit institutions	1,430.5	2,054.5	2,520.4
Loans and advances to customers	1,945.7	2,504.0	3,246.4
Liabilities to credit institutions	1,444.4	3,519.5	2,929.2
Liabilities to customers	705.3	1,480.7	1,668.1
Liabilities to Pfandbriefbank	573.7	1,245.2	0.0
Liabilities evidenced by certificates and subordinated capital	3,336.2	9,612.2	9,712.0
Equity	0.0	-7,478.8	-6,987.2
Total assets	9,154.4	9,555.8	9,609.5
Employees	30.06.	31.12.	31.12.
Employees at closing date	368	410	548
Employees average	388	441	552

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Note

Due to the special situation at Heta Asset Resolution AG (Heta), the Executive Board believes that the separate financial statements of Heta Asset Resolution AG pursuant to the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) provide a more relevant presentation of the correct description of the asset, financial and earnings position. Therefore Heta also releases semi-annual financial statements pursuant to the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) (separate financial statements) for 30 June 2016 in addition to the mandatory interim financial report pursuant to section 87 (1) Stock Exchange Act (BörseG), which is prepared on a consolidated basis and in application of the international financial reporting standards (IFRS). These separate financial statements, which consist of the balance sheet, income statement and notes (but not a management report), were prepared with the aim of providing relevant information to the creditors. Due to the considerable effects from the application of the Emergency Administrative Decision II from 10 April 2016, the financial statements were subjected to a (voluntary) audit and received an unqualified audit opinion, although with additional emphasis of matter with regard to the audit opinion.

Semi-annual financial statements (UGB/BWG)

Balance sheet as at 30 June 2016

		30.06.2016	31.12.2015
		EUR	EUR thousand
Assets			
1.	Cash in hand, balances with other banks	5,326,972,152.93	4,273,366
2.	Treasury bills and other bills eligible for refinancing with central banks		
a)	Treasury bills and other similar securities	128,915,227.53	182,898
3.	Loans and advances to credit institutions	1,430,496,299.99	2,054,481
4.	Loans and advances to customers	1,945,704,628.32	2,504,042
5.	Bonds and other fixed income securities		
a)	Issued by the public sector	0.00	27,976
b)	Issued by others	82,040,842.20	145,936
	of which own debt securities	EUR 2,117,419.71	173,912
	(prior year: EUR 3,073 thousand)		
6.	Shares and other non-fixed income securities	1,020,183.96	18,519
7.	Shares in associated companies	2.00	0
	thereof: credit institutions	EUR 0.00	
	(prior year: EUR 0 thousand)		
8.	Shares in affiliated companies	69,350,198.77	85,375
	thereof: credit institutions	EUR 0.00	
	(prior year: EUR 0 thousand)		
9.	Intangible fixed assets	2,337,593.00	2,483
10.	Tangible fixed assets	4,186,937.38	4,378
	thereof:		
	Land and buildings used by the company for its own activities	EUR 2,294,512.54	
	(prior year: EUR 2,312 thousand)		
11.	Other assets	163,342,447.33	249,297
12.	Deferred assets	1,650.01	7,023
Total assets		9,154,368,163.42	9,555,774

	30.06.2016	31.12.2015
	EUR	EUR thousand
Equity and Liabilities		
1. Liabilities to credit institutions	1,444,387,554.71	3,519,497
2. Liabilities to customers	705,309,319.45	1,480,656
3. Liabilities to Pfandbriefbank	573,714,925.00	1,245,248
4. Debt evidenced by certificates	3,336,217,816.65	7,642,442
5. Other liabilities	229,030,420.35	326,095
6. Deferred liabilities	0.00	6,135
7. Provisions		
a) Provisions for severance payments	3,072,699.00	3,109
b) Provisions for pensions	5,810,787.00	5,823
c) Tax provisions	13,304,881.12	2,312
d) Other	719,807,144.07	833,575
e) Provision for contingent liabilities related to resolution procedures	2,123,712,616.07	0
	2,865,708,127.26	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 profit/loss	0.00	-10,973,042
Total equity and liabilities	9,154,368,163.42	9,555,774

	30.06.2016	31.12.2015
	EUR	EUR thousand
Below-the-line memo items		
1. Contingent liabilities	7,513,316,729.29	105,143
thereof:		
a) Guarantees and other collateral securities	2,950,169.11	
(prior year: EUR 105,143 thousand)		
b) due to application of creditor participation reduced liability	7,510,366,560.18	
(prior year: EUR 0 thousand)		
2. Loan exposures	137,780,493.59	185,655
3. Commitments arising from fiduciary transactions	73,257,414.28	73,257

Income statement for the period 1 January to 30 June 2016

		1.1.-30.06.2016	1.1.-31.12.2015
		EUR	EUR thousand
1.	Interest and similar income	76,166,575.16	424,765
	thereof: fixed-interest securities EUR 5,893,248.06 (prior year: EUR 14,209 thousand)		
2.	Interest and similar expenses	(156,160,202.40)	(576,287)
I.	NET INTEREST INCOME	-79,993,627.24	-151,522
3.	Income from equity interests and investments		
	a) Shares, other equity interests and non-interest-bearing securities	0.00	0
	b) Associated companies	0.00	270
	c) Affiliated companies	0.00	734
		0.00	1,004
4.	Fee and commission income	314,134.08	1,792
5.	Fee and commission expenses	(14,953,720.39)	(93,114)
6.	Net income from trading activities	19,878,346.05	56,350
7.	Other operating income	38,629,432.05	28,505
II.	OPERATING INCOME	-36,125,435.45	-156,985
8.	General administrative expenses		
	a) Personnel expenses: thereof		
	aa) Wages and salaries	(14,358,726.34)	(30,164)
	ab) Costs of statutory social security contributions and other pay-related contributions	(3,552,772.26)	(8,055)
	ac) Other social welfare contributions	(308,333.39)	(628)
	ad) Expenses for pensions and other retirement benefits	(529,623.79)	(655)
	ae) Pension provision allocations	(206,080.59)	(672)
	af) Expenses for severance payments and contributions to employee severance funds	(368,901.20)	(1,143)
		(19,324,437.57)	(41,316)
	b) Other administrative expenses (operating expenses)	(21,650,292.72)	(85,358)
		(40,974,730.29)	(126,674)
9.	Depreciation and amortisation of fixed assets (balance sheet items 9 and 10)	(1,091,512.45)	(3,113)
10.	Other operating expenses	(82,381.96)	(35)
III.	OPERATING EXPENSES	-42,148,624.70	-129,822

		1.1.-30.06.2016	1.1.-31.12.2015
		EUR	EUR thousand
IV.	OPERATING PROFIT	-78,274,060.15	-286,807
11./12.	Net gain/loss from the remeasurement and disposal of receivables, contingent liabilities, loan exposures and securities held as current assets	386,436,856.47	3,579,981
13./14.	Net gain/loss from the remeasurement and disposal of securities treated as financial assets and from investments in associated and affiliated companies	21,760,592.71	(3,118,181)
V.	PROFIT FROM ORDINARY ACTIVITIES	329,923,389.03	174,993
15.	Extraordinary income	9,445,514,186.98	1,087,908
16.	Extraordinary expenses	(2,292,890,181.68)	(1,743,472)
17.	Extraordinary result	7,152,624,005.30	-655,564
18.	Income taxes	(3,684,177.52)	(8,885)
	thereof:		
	expenses connected to the taxation agreement	EUR 7,766,445.95 (prior year: EUR -7,639 thousand)	
19.	Other taxes not recognised under the item 18	(29,538.31)	(2,158)
VI.	Net profit/loss for year	7,478,833,678.50	-491,613
20.	Changes in reserves	3,494,208,118.77	0
	thereof:		
	Capital stock	EUR 2,419,097,046.21	0
	Participation capital	EUR 1,075,111,072.56	0
VII.	Loss carried forward	-10,973,041,797.27	-10,481,428
VIII.	NET ACCUMULATED PROFIT/LOSS	0.00	-10,973,042

NOTES TO THE SEMI-ANNUAL FINANCIAL STATEMENTS FOR 30 JUNE 2016

I. General information

(1) The company

Heta Asset Resolution AG (the former Hypo-Alpe-Adria-Bank International AG), was founded in 1896 as Kärntner Landes- und Hypothekenbankanstalt, and acts 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 Markets 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 (in short: 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 (GSA) (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 Markets Authority (FMA). Following the determination of a considerable asset coverage shortfall in February 2015, and the imposition of a payment moratorium on 1 March 2015 by the Financial Markets Authority (FMA) in its capacity as the resolution authority, 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 Markets Authority (FMA), in its capacity as the resolution authority, 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 Commission of the European Union (EU Commission) from 3 September 2013

On 3 September 2013, the Commission of the European Union (European Commission) reached a 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-East 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. had to be 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. has been transferred to HBI-Bundesholding AG.

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 is monitored by an independent trustee appointed by the European Commission, the “Monitoring Trustee”.

2.2. Federal Act on the Creation of a Wind-down (GSA)

The license granted to the former Hypo Alpe-Adria-Bank International AG to conduct banking activities according to the Austrian Banking Act (BWG) was terminated by the decision of the Austrian Financial Markets Authority (FMA) on 30 October 2014. Preconditions were that Heta no longer undertakes any deposit transactions and no longer holds any qualified participations – within the meaning of the Capital Requirements Regulation (CRR) – in credit institutions or financial securities firms. These preconditions were met following the 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. In addition, the wind-down unit may render certain transition services to former group companies. 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 Markets Authority (FMA) continues to be the responsible regulatory authority and is obligated, pursuant to section 8 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 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 from 29 June 2016 provides that a resolution on dissolution will 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 securities companies in the European Union (EU). When a bank fails, the Bank Recovery and Resolution Directive (BRRD) provides for a "cascade of liability", 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 European Union (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 effect 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 section four 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. Financial Markets Authority's (FMA) emergency administrative decisions pursuant to the Federal Act on the Recovery and Resolution of Banks (BASAG)

2.4.1. EMERGENCY ADMINISTRATIVE DECISION I

In order to ensure that the objective of a "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 group-wide review of the assets that are relevant to the portfolio wind-down, a so-called "Asset Quality Review (AQR)", at the end of 2014. After the first interim results of the group-wide Asset Quality Review (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 Commission of the European Union (EU Commission), became known in February 2015, the Republic of Austria, in its capacity as Heta's owner, let it be known that it would no longer 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 Markets 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.

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

2.4.2. EMERGENCY ADMINISTRATIVE DECISION II

Also on 10 April 2016, the Financial Markets Authority (FMA), announced another emergency administrative 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:

- The reduction of common equity tier 1 and reduction of the nominal value of the instruments of supplementary capital to zero
- "bail-in" of creditors, in particular
 - the reduction of subordinated "eligible liabilities" as at 1 March 2015 including the respective interest accrued up to 28 February 2015 to zero
 - the reduction of non-subordinated "eligible liabilities" as at 1 March 2015 including the respective interest accrued up to 28 February 2015 to 46.02 %
 - the 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 rates on „eligible liabilities“ of Heta as at 1 March 2015 to 0 %.
- 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 Markets Authority (FMA)

The Emergency Administrative Decision II can be found at <https://www.fma.gv.at/heta-asset-resolution-ag/> and on Heta's website at www.heta-asset-resolution.com (→ Investor Relations → Ad Hoc releases 2016). An appeal against Emergency Administrative Decision II by the Financial Markets Authority (FMA) could have been submitted within three months after it was released (10 April 2016), although this would not have had any suspensory effect. Both emergency administrative decisions are based on the Federal Act on the Recovery and Resolution of Banks (BaSAG), which was used to implement the European Bank Recovery and Resolution Directive (BRRD) in Austria. Accordingly the decisions must also be recognised in all EU member states.

2.4.3. LAWSUITS IN CONNECTION WITH EMERGENCY ADMINISTRATIVE DECISIONS I AND II

Eleven lawsuits have been filed against Heta in Germany by investors for payment of bonds and applicable interest, which was not paid on the original payment day as a result of the moratorium. All of these lawsuits are pending at the Regional Court of Frankfurt am Main (Frankfurt Regional Court). The lawsuits comprise bonds with a nominal value of EUR 2.2 billion and CHF 33.0 million.

The plaintiffs dispute the recognition of the measures by the Financial Markets Authority (FMA) according to the Federal Act on the Recovery and Resolution of Banks (BaSAG), and request full payment - despite the "bail-in" of creditors and the deferral stipulated in the emergency administrative decisions. 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 leads to the risk that plaintiffs will 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 European Bank Recovery and Resolution Directive (BRRD) - has requested that the court proceedings pending at the Frankfurt Regional Court be suspended until a decision is handed down by the European Court of Justice (ECJ). On 16 March 2016 the Financial Markets 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. As a result of Emergency Administrative Decision II, which has been issued in the meantime, and in reference to the submissions made to the European Court of Justice by the Vienna Commercial Court and the Federal Administrative Court, the Financial Markets Authority (FMA) on 18 May 2016 submitted additional applications to suspend all proceedings pending in Frankfurt until such time as a preliminary ruling is issued by the European Court of Justice (ECJ) (see note(2.4.3.3) 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 also submitted the legal questions regarding the applicability of the European Bank Recovery and Resolution Directive (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. Heta expects that other similarly positioned proceedings will also result in suspensions/submissions to the European Court of Justice (ECJ).

Against this background, and as a result of the Memorandum of Understanding between the Republic of Austria and a large number of creditors which was concluded in the meantime, eight of the eleven pending Federal Act on the Recovery and Resolution of Banks (BaSAG) proceedings before the Frankfurt Regional Court have been suspended. With regard to the remaining proceedings, it is not expected that any decisions will be handed down until the fall of 2016. Similarly, most of the 34 lawsuits filed against Heta in Austria have also been suspended, or no dates have been set.

The Emergency Administrative Decisions I and II are also the subject of the 34 lawsuits pending against Heta at Austrian courts with regard to the subordinate bonds affected by the Hypo Alpe Adria Restructuring Act (HaaSanG). 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 has been restricted to the applicability of the payment moratorium to Heta (which has been in place since 1 March 2015), and the applicability of the wind-down measures ordered in the meantime pursuant to Emergency Administrative Decision II.

2.4.3.1. 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 Landes- und Hypothekenbank - Holding (KLH) in connection with the legal proceedings initiated by investors against the State of Carinthia and the Kärntner Landesholding (KLH) on the basis of the deficiency guarantees ordered by state law in connection with the bonds affected by the moratorium. Heta has 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 is now attempting to bring about a decision by the Supreme Court (OGH) by way of a further appeal. Because of changes to the facts and the legal situation, Heta has decided to withdraw as an intervenor in these two proceedings. The third proceedings have been suspended since the spring 2016.

2.4.3.2. Austrian Equity Substituting Capital Act (EKEG) proceedings

In the judgement of Regional Court of Munich I 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 of the Financial Markets 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 Higher Regional Court Munich (OLG) 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 Markets 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 Bayerische Landesbank (BayernLB) have objected to an interruption of the proceedings.

2.4.3.3. 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 procedures", various questions regarding the applicability of the European 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 Markets Authority (FMA) rather than Heta is a participant, the Austrian Administrative Court 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 European Bank Recovery and Resolution Directive (BRRD).

A certification procedure was commenced at the European Court of Justice (ECJ) on 13 May 2016 - based on legal proceedings against Heta, which are pending at the Vienna Commercial Court. The preliminary ruling procedures by the Vienna Commercial Court and the Austrian Administrative Court have in the meantime been combined into one single proceeding by the European Court of Justice (ECJ).

Preliminary ruling procedures are not used to perform 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.

Against this background, Heta has determined two possible outcome scenarios with regard to the preliminary ruling procedure:

- The European Court of Justice (ECJ) responds to the questions that have been submitted as envisioned by Heta; that is, that Heta falls under the personal/time-related scope of the European Bank Recovery and Resolution Directive (BRRD) and that the haircut is covered by the BRRD in terms of the factual aspects, and/or that the measures must in any case be recognised in accordance with other provisions under European law.
- Alternatively, the European Court of Justice (ECJ) could answer the questions that were submitted contrary to the outcome envisioned by Heta, i.e. it denies that the measures are covered by the European Bank Recovery and Resolution Directive (BRRD).

In the case of the first scenario, it can be expected, with a high degree of certainty, that the lawsuits filed by the creditors before the competent courts will be dismissed as unfounded. In that case, the wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) would continue without disruptions.

The second scenario could lead to judgements that are negative for Heta, and subsequent enforcement attempts by creditors against Heta. The company believes that this scenario has the potential to threaten the orderly wind-down of Heta pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG). It is expected that the proceeding before the European Court of Justice (ECJ) will take on average 16 to 18 months.

2.4.3.4. Proceedings before the Constitutional Court of Austria (VfGH)

Two of the three submitted requests to the Constitutional Court of Austria (VfGH) related to the Federal Act on the Recovery and Resolution of Banks (BaSAG) 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 request until such time as the European Court of Justice (ECJ) hands down its decision.

2.4.3.5. 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 demanded in 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 Markets 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.

The satisfaction 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 the ensuring that creditors are not put in a worse position as compared to liquidation measures taken in the course of an 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 Markets Authority (FMA).

(3) Effects of haircut on the semi-annual financial statements (UGB/BWG)

With the 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 under “2.4.2. Emergency Administrative Decision II” were applied to Heta. In the semi-annual financial statements for 30 June 2016, these measures had an effect both on the balance sheet and off-balance-sheet obligations (liabilities, provisions and contingent liabilities).

The following table shows the volume of both reduced „eligible liabilities“ and non-reduced „eligible liabilities“ by line items:

		EUR thousand					
		Balance Sheet value			Balance Sheet value		of which: due to
		30 June 2016	eligible	non-eligible	31 December 2015	Changes to 30 June 2016	"bail-in" of creditors pursuant to BaSAG
Instrument of the "bail-in" of creditors:							
1.	Liabilities to credit institutions	1,444,388	1,330,444	113,944	3,519,497	-2,075,109	-1,715,073
2.	Liabilities to customers	705,309	645,386	59,923	1,480,656	-775,346	-821,945
3.	Liabilities to Pfandbriefbank	573,715	573,715	0	1,245,248	-671,534	-680,564
4.	Debt evidenced by certificates	3,336,218	3,336,218	0	7,642,442	-4,306,224	-4,123,828
5.	Other liabilities	229,030	53,169	175,861	326,095	-97,065	-55,938
6.	Deferred liabilities	0	0	0	6,135	-6,135	0
7.	Provisions (without provision for contingent liabilities related to resolution procedures)	741,996	203,691	538,304	844,819	-102,823	-70,246
	- Provision for contingent liabilities related to resolution procedures	2,123,713	0	2,123,713	0	2,123,713	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
Instrument of the "bail-in" of holders of relevant capital instruments							
9.	Issued capital	0	0	0	3,494,208	0	0
10.	Net accumulated profit/loss	0	0	0	-10,973,042	0	0
Total		9,154,368	6,142,623	3,011,745	9,555,774	-7,880,240	-9,445,514

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 9,443,589 thousand, which is shown in the income statement within "Extraordinary income".

In addition to the "bail-in" of creditors, the Financial Markets Authority (FMA) reduces the nominal value of the share capital and participation capital to zero. As a result, the entire amount shown within the line item "Issued capital" had to be derecognized. The amount resulting from the reduction in issued capital to the amount of EUR 3,494,208 thousand is shown in the income statement after the net profit/loss for the period within "capital reduction according to BaSAG".

The "bail-in" of creditors leads to a reduction of the nominal value of the subordinated liabilities as well as of 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 Markets Authority (FMA)). Furthermore, the common equity tier 1 capital and the nominal value of the instruments of the supplementary capital were reduced. As a result of implementing Emergency Administrative Decision II in 2016, there will be a positive effect on Heta's balance sheet as of the respective reporting date, which may however change significantly over the resolution period depending on the company's future success as well as possible imponderables in the wind-down process. Thus a so-called "provision for contingent liabilities related to resolution procedures" was recognized to the amount of this positive effect.

In addition to the reduction of the nominal amount or outstanding residual amount of the „eligible liabilities“ a provision must be recognised for the case that the haircut, which is based on the preliminary valuation, exceeds the required amount under the final valuation ("provision for contingent liabilities related to resolution procedures"). The Financial Markets Authority (FMA) can issue an administrative decision in which it orders the upward revaluation to satisfy the claims of the creditors and possibly also those of the shareholders.

This "provision for contingent liabilities related to resolution procedures" was formed to the amount of the difference by which assets exceed liabilities. The expenditure for the recognition of the provision in the amount of EUR -2,112,718 thousand is shown in the income statement within "Extraordinary expenses".

In connection with the haircut, other provisions are recognised for future guarantee 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 % defined in Emergency Administrative Decision II. The expenses for the recognition of these provisions are shown in the income statement within "Extraordinary expenses".

(4) 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 confirm 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.

It is planned that the Kärntner Ausgleichszahlungs-Fonds (K-AF) will submit a new public offer on the basis of section 2a of the Financial Market Stability Act (FinStaG). Based on the currently available information, this offer is expected to be submitted in the fall 2016.

The repurchase offers of the Kärntner Ausgleichszahlungs-Fonds (K-AF) and their non-acceptance do not have a direct effect on Heta's financial statements for 30 June 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.

(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 Executive 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) with Emergency Administrative Decision I, which left the further course of action adopted by the Financial Markets Authority (FMA) with regard to the time period after 31 May 2016 open, 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 whether and (if yes) in which form the Financial Markets Authority (FMA) would create the conditions for an orderly wind-down process by issuing a directive for wind-down measures.

For this reason, Heta has not published an official wind-down plan to date. In the meantime, Heta did however prepare a plan that met the legal requirements for the portfolio wind-down. These activities were given the name "Medium-term planning", 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 Markets Authority (FMA) issued Emergency Administrative Decision II, which imposed significant resolution measures with regard to Heta. The publication of Emergency Administrative Decision II provided the basis for finalising the wind-down plan.

Emergency Administrative Decision II issued by the Financial Markets Authority (FMA) has far-reaching implications for Heta's wind-down plan. The following planning-related simplified assumptions were made with regard to the repayment of the „eligible liabilities“ pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG), and the portfolio of cash liquidity (wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA)):

- For planning purposes it is assumed that the „eligible liabilities“ covered under Emergency Administrative Decision II are not serviced during the wind-down period of 2016 - 2020 and that they are reduced respectively to 0 % or 46.02 % due to the "bail-in" of creditors as specified in the emergency administrative decision. Interest expenses attributable to these liabilities starting from 1 March 2015 are set to zero.
- The planned return flows from the reduction in Heta's assets increase the cash liquidity position of Heta Asset Resolution AG accordingly, since they are not used to pay the „eligible liabilities“. In coordination with the Financial Markets 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 entire course of the wind-down.
- The possible earlier distribution of the income from disposals as provided for in Emergency administrative decision II was not taken into account on a planning level in the current wind-down plan.
- The company still expects that assets (excluding cash liquidity) will be reduced by approximately 80 % by the end of 2018, starting from the end of 2014. To achieve the targets, receivables and real estate are to be sold to investors mainly through individual transactions.
- The planning assumptions relating to the receivables from Hypo Alpe-Adria-Bank S.p.A., Udine (HBI) and Addiko Bank AG (former Hypo Group Alpe Adria AG) were examined separately, since these are still expected to remain in place after 2020 for term-related reasons. Similarly, some finance lease receivables have terms that exceed the planning period and are not wound down completely in the current wind-down plan.

Heta reached these planning-related assumptions independently for the wind-down plan according to the Federal Act on the Creation of a Wind-down Entity (GSA).

The Heta Supervisory Board approved the 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) 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. Heta will review the wind-down plan on a regular basis and will initiate a corresponding update of the wind-down plan if such circumstances should arise.

(6) Winding down investment companies and portfolio sales

6.1. Sales activities

Significant progress was made in terms of the wind-down of investments during the first six months of 2016. Activities in this area focused on the wind-down of investment companies and portfolios as well as assets, in particular residential and commercial real estate.

The projects that were established in 2015 with the aim of putting together non-performing loans (NPL) portfolios and offering them in the market were continued. Several binding offers have been received for the "PATHFINDER" project, which consists of a non-performing loans (NPL) portfolio of secured loans to Croatian borrowers. It is expected that this transaction will be completed in the fourth quarter of 2016. The public tender for the "DRAVA" project (unsecured non-performing (NPL) portfolio) took place in May 2016, and the data room was opened in June 2016. In addition, it is expected that industry-specific portfolios from Germany and Bulgaria will also be sold in the near future.

6.2. Disposal of participations and assets

The wind-down of the investment portfolio continued significantly during the first six months of 2016.

The disposal process for the wholly-owned group company Centrice Real Estate GmbH (Centrice) and its 15 subsidiaries was successfully completed. The closing for this transaction took place on 28 June 2016, following the signing of the sale agreement on 31 May 2016. At the same time, the seller paid (in cash) 80 % of the purchase price, which covers Centrice and all of its 15 subsidiaries and all associated financing lines.

The closing for the sale of the Macedonian group company Heta Asset Resolution Leasing DOOEL Skopje took place on 27 July 2016.

The sales procedures for a large Croatian tourism project resulted in a top bidder; intensive negotiations are currently ongoing.

Several binding offers were received for the public tender for the sales of Heta Asset Resolution Italia S.r.l. (HARIT) including its subsidiary Malpensa Gestioni Srl. The sale agreement with the top bidder was signed on 5 August 2016, while the closing is expected to take place sometime in the second half of 2016.

(7) Changes on the Supervisory Board

Mag. Regina Friedrich, Mag. Alois Hohegger, DI Bernhard Perner as well as Mag. Christine Sumper-Billinger, who supported Heta's progression from a regulated banking institution to a deregulated wind-down unit, left the Supervisory Board effective 29 June 2016.

In exercise of its ownership rights since the Emergency Administrative Decision II from 10 April 2016, the Financial Markets Authority (FMA) added several new members to the supervisory body at the extraordinary shareholders' meeting of Heta Asset Resolution AG on 29 June 2016. Dr. Stefan Schmittmann was appointed Deputy Chairman of the Supervisory Board, while Mag. Regina Ovesny-Straka was appointed a member of the Supervisory Board.

The Financial Markets Authority (FMA), which exercises all owner's rights in Heta since the Emergency Administrative Decision II from 10 April 2016, appointed Dr. Karl Engelhart as a new member of the Supervisory Board at the extraordinary shareholders' meeting on 18 August 2016.

Dipl.-Kfm. Michael Mendel remains the Chairman of the Supervisory Board.

II. ACCOUNTING POLICIES

(8) General information

The semi-annual financial statements of Heta were prepared according to the regulations of the applicable version of the Austrian Commercial Code (UGB), the Austrian 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) of the GSA stipulates that the following accounting-related provisions of the XIIth section 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
Sections 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 2016 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 semi-annual financial statements consist of the balance sheet, the income statement and the notes. A management report is not 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).

(9) 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) results in the following main changes for the 2016 semi-annual financial statements:

Impairments for financial investment and current assets entered 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 value adjustment must be created for already incurred but not yet reported impairments to the credit 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 losses carried forward. Extraordinary expenses and income must no longer be reported separately in the income statement pursuant to the Austrian Commercial Code (UGB).

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 semi-annual financial statements. Heta does not hold any securities dedicated to long-term financial assets. In the past, Heta created a portfolio value adjustment for already incurred but not yet reported impairments to the credit portfolio, so that the newly introduced obligation to create provisions does not have any further effect. If the reasons for an impairment no longer apply, a write-up is applied with regard to the credit 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. Given Heta's special situation, deferred taxes from temporary differences and loss carryforwards were not entered on the asset side of the balance sheet since these are not expected to be realised due to the obligatory shut-down of the company. 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 valuation of the assets at the time of the reso-

lution 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 contingent liabilities related to 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 valuation assumption, and for the purpose of complying with the general principle 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.

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

The comparative figures of the previous year listed in the semi-annual financial statements for 30 June 2016 refer to the reporting date of 31 December 2015 with regard to the balance sheet, while those figures relating to the income statement refer to the time period 1 January to 31 December 2015. This is also the reason why the reference figures cannot be used for comparison purposes. Information about foreign assets and liabilities, asset and liabilities items denominated in foreign currency and the residual terms of receivables and liabilities cannot be shown for technical reasons; however, this information is not material to the presentation of a correct representation of the asset, financial and earnings positions. Information regarding events after the balance sheet date, and the outlook for the second half of 2016 (outlook) has been added to the notes in light of the fact that the company does not prepare a separate management report.

(10) 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 reflects 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 an asset 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 European Commission (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 Markets 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 (2.4.1) Emergency Administrative Decision I), with 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 the Emergency Administrative Decision I under the Federal Act on the Recovery and Resolution of Banks (BaSAG) issued by the Financial Markets Authority (FMA), the Executive Board no longer had a basis for continuing to prepare the financial statements on the basis of the going concern assumption.

With the Emergency Administrative Decision II from 10 April 2016 (see note (2.4.2) Emergency Administrative Decision II), the authority announced wind-down measures, in the implementation of which the negative equity reported as at 31 December 2015 (EUR -7.5 billion) would be fully removed. According to this emergency administrative decision, the due date for the reduced liabilities was set to the date of the resolution on dissolution, but no later than 31 December 2023.

The semi-annual financial statements for 30 June 2016, which were 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 Federal Act on the Recovery and Resolution of Banks (BaSAG) objectives and principles at risk will occur in the future.

III. ACCOUNTING AND MEASUREMENT POLICIES

(11) Measurement of assets and liabilities

The semi-annual financial statements were prepared subject to the principles of proper accounting according to the gone concern assumption 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 assumption. Where section 3 of the Federal Law on the Creation of a Wind-down Entity (GSA) provides for a wind-down process that is as quick as possible within the scope of the wind-down targets, section 54 of the Federal Act on the Recovery and Resolution of Banks (BaSAG) stipulates that a "fair, prudent and realistic measurement of assets and liabilities" must be carried out.

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 entered at their nominal value; less risk provisions on loans and advances and those according 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 allowances for loans and advances 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 allowances are created where there is an objective evidence of credit risk, taking into account the amount of the expected loss. The size of the specific 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 provision is calculated as a lump-sum amount. Portfolio risk provisions are formed for impairments on the credit portfolio which have been incurred as at the balance sheet date but which have not yet been reported. In the calculation of these risk provisions, loans and advances are grouped in 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 provisions have been formed are not included in the calculation of portfolio risk provisions. Furthermore, impairments 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. The simulated 2020 equity capital is the result of the amount of expected losses based on the business plans of the respective companies, which have been adjusted for the measurement results, and the forecast losses from the portfolio sales by these companies. This simulated equity capital is compared to the outstanding amount for the refinancing line. A negative difference gives rise to a risk provision. For those companies for which a sale agreement has already been signed, the change in the impairment is calculated on the basis of the expected return flows from the sale. This is achieved by comparing the nominal value of the receivable on the balance sheet date with the purchase price (to be discounted to the date on which it is expected to be received) less sales costs and expected utilisations from seller warranties and guarantees.

Non-current securities are shown on the balance sheet as 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). Bought-back liabilities are allocated to current assets. These own issues are generally measured at acquisition cost, whereby the “bail-in” of creditors ratio as noted in Emergency Administrative Decision II (-53.98 %) has been applied. 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.

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 participation 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 intrinsic value of the carrying amounts is checked close to each balance sheet date. 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 participations 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 participations is calculated on the basis of this for companies which show positive equity.

Intangible assets, together with **tangible assets** (land and buildings; fixtures, fittings and equipment) are recognised at acquisition or construction cost, less scheduled depreciation and amortisation and, where necessary, less write-downs for impairment. Depreciation and amortisation is applied on a straight-line basis. Rates of depreciation and amortisation for immovable assets are between 2 % and 4 %, 5 % to 33 % for movable assets, and 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.

In the case of “non-eligible liabilities” (pursuant to Emergency Administrative Decision II), the **liabilities** are entered at the nominal value or amount repayable, or, in the case of “eligible liabilities”, at the percentage (0 % or 46.02 %) of the nominal amount plus accrued interest as at 1 March 2015 as set out in the ruling. 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-contribution pension schemes 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 **provisions for pension obligations** for current pensions were calculated on the basis of an actuarial appraisal. The calculation used an interest rate of 2.0 % (2015: 2.0 %) and an unchanged annual pension increase of 2.0 % p.a.

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 was carried out on the basis of an interest rate of 2.0 % (2015: 2.0 %) and an amended salary trend of 3.0 % (2015: 3.0 %) p.a., taking into account a fluctuation discount of 6.0 % (2015: 6.0 %).

Provisions for severance payments were calculated on the basis of an actuarial appraisal, taking into account the claims at the expected termination date. The calculation was carried out on the basis of an interest rate of 2.0 % (2015: 2.0 %) and an amended salary trend of 3.0 % (2015: 3.0 %) p.a., taking into account a fluctuation discount of 0.0 % (2015: 0.0 %). The provision was calculated assuming retirement at the earliest statutory pensionable age according to the General Social Insurance Act (2004 Pension Reform) and termination by the employee after 10 years of uninterrupted employment. Current service costs for pensions are distributed evenly over the entire period of service, from joining the company until reaching the statutory retirement age.

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. Non-current other provisions are not discounted. Other provisions include provisions for restructuring costs accrued in relation to the wind-down of the company. The reduction of the workforce was also provided for by forming a provision for expected costs. In order to give adequate consideration to the special characteristics of the complete wind-down of the company under the gone concern assumption and the principle of prudence, a one-off provision was formed for yet to be incurred personnel and material costs in the planning period to 2020. Allocations and reversals (usually to compensate for expenses and losses) are applied in the other operating income or expenses.

A **provision for contingent liabilities related to resolution procedures** was created for the first time on 30 June 2016 as a result of the application of Emergency Administrative Decision II. The amount is based on the amount of the difference by which assets exceed liabilities reported as at 30 June 2016. The expenditure from the creation of the provision is shown in the income statement under "Extraordinary income".

Derivative financial transactions (forward transactions, swaps, options) are allocated either to the banking book or to the trading book, depending on their purpose. Pending transactions, as a matter of principle, are not recognised in the balance sheet. Derivatives allocated to the trading book (currency futures) are recognised at market value under the Austrian Commercial Code (UGB) 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 – as well as not fully effective hedging relationships – is shown in the balance sheet for any negative market value existing on the balance sheet date. Paid for and received option premiums are disclosed under other assets and other liabilities respectively. Option price models based on the Black-Scholes models or the Hull-White models 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 hedging relationships 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.

(12) Use of estimates and assumptions/main estimate uncertainties

The semi-annual 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 equity investments and refinancing lines provided to the same, 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 revised 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 semi-annual financial statements.

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' business plans, which provide 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 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.

In view of the continuing economic weakness in south-eastern Europe, it is also possible that additional impairments may have to be applied to the existing loan portfolio in the future. 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.

IV. NOTES TO THE BALANCE SHEET

(13) 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	
	30.06.2016	31.12.2015
A3: Loans and advances to credit institutions	1,430,496	2,054,481
of which to affiliated companies	0	0
of which to associated companies	0	0
of which to non-group companies	1,430,496	2,054,481
A4: Loans and advances to customers	1,945,705	2,504,042
of which to affiliated companies	677,330	1,083,091
of which to associated companies	0	0
of which to non-group companies	1,268,375	1,420,951
P1: Liabilities to credit institutions	1,444,388	3,519,497
of which to affiliated companies	0	0
of which to associated companies	0	0
of which to non-group companies	1,444,388	3,519,497
P2: Liabilities to customers	705,309	1,480,656
of which to affiliated companies	60,984	50,329
of which to associated companies	0	0
of which to non-group companies	644,325	1,430,327
P8: Subordinated liabilities	0	1,969,716
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 declined in the semi-annual financial statement as at 30 June 2016 from EUR 2.1 billion to EUR 1.4 billion, which is mainly due to repayments and the wind-down of derivative positions and the associated reduction in the amount of cash collaterals.

The decrease in liabilities during the first six months of 2016 is primarily due to the implementation of Emergency Administrative Decision II.

(14) Maturities of balance sheet items

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 the Emergency Administrative Decision II issued by the Financial Markets Authority (FMA) on 10 April 2016 (see note (2.4.2) Emergency Administrative Decision II), 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 104,439 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 subsidiaries are invested with the Austrian National Bank (OeNB), with the effect that the liquidity reserves will continue to rise in connection with the debt moratorium.

(15) Securities

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

	EUR thousand	
	30.06.2016	31.12.2015
2. Treasury bills and other bills eligible for refinancing with central banks	128,915	182,898
of which listed	128,915	182,898
of which not listed	0	0
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	127,832	180,203
of which accrued interest	1,084	2,695
3. Loans and advances to credit institutions (evidenced by certificates)	931	2,146
of which listed	0	0
of which not listed	931	2,146
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	931	2,146
of which accrued interest	0	0
4. Loans and advances to customers (evidenced by certificates)	84,486	136,840
of which listed	0	0
of which not listed	84,486	136,840
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	84,394	136,244
of which accrued interest	92	596
5. Bonds and other fixed income securities	82,041	173,912
of which listed	82,041	173,912
of which not listed	0	0
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	80,222	171,942
of which accrued interest	1,819	1,970
6. Shares and other non-interest-bearing securities	1,020	18,520
of which listed	612	18,103
of which not listed	408	417
of which fixed assets	0	0
of which accrued interest	0	0
of which current assets	1,020	18,520
of which accrued interest	0	0
7. Shares in associated companies	0	0
of which listed	0	0
of which not listed	0	0
8. Shares in affiliated companies	69,350	85,375
of which listed	0	0
of which not listed	69,350	85,375

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

	EUR thousand	
	30.06.2016	31.12.2015
Issued by the public sector	29,321	27,976
Issued by others	52,719	145,936
Own issues	2,117	3,122
Domestic bonds (credit institutions)	16,106	16,111
Foreign bonds (credit institutions)	11,125	93,312
Mortgage bonds and municipal bonds	8,879	8,876
Convertible bonds	0	0
Other bonds	14,492	24,515
Total	82,040	173,912

The difference between the securities valued at the higher market value (section 56 (5) BWG) and the acquisition costs is 6,452 thousand (2015: EUR 18,628 thousand).

In the second half of 2016, fixed-income securities in the amount of EUR 49,192 thousand (previous year's figure relating to 2016: EUR 181,775 thousand) from securities denominated in Euro and EUR 0 thousand (previous year's figure 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 42,901 thousand (2015: EUR 118,569 thousand).

As at 30 June 2016, subordinated securities according to section 45 (2) BWG in the portfolio 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 2015.

Securities that are recorded in the trading book or banking 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) BWG. The fixed asset portfolio does not contain any financial instruments.

(16) Investments in associated and affiliated companies

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

The 30 June 2016 semi-annual financial statements include expenses arising from shares in affiliated companies and participations in the total amount of EUR 68,476 thousand (2015: EUR 3,137,233 thousand), which also included write-downs of carrying amounts due to disposals.

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

In the semi-annual financial statements for 30 June 2016, the carrying amounts for affiliated companies were written up in the amount of EUR 200 thousand (2015: EUR 39,498 thousand).

(17) Intangible and tangible assets

Analysis of individual items and of their development during the year under review are shown in the fixed assets movement schedule (Annex 1 to the notes).

As at 30 June 2016, the value of land included in land and buildings amounted to EUR 1,020 thousand (2015: EUR 1,020 thousand).

(18) Other assets

Other assets are comprised of the following:

	EUR thousand	
	30.06.2016	31.12.2015
Interest income	24,589	128,543
- of which to be paid after the closing date	19,222	119,492
Offset claim	60,482	57,705
Receivables from dividends paid out in different year to their allocation	0	0
Receivables arising from the foreign exchange valuation of banking book derivatives	336	16,454
Loans to affiliated companies	20,444	20,391
Receivables from trading book derivatives	17,397	14,042
Trade receivables	6,209	11,912
Other loans and advances	33,884	249
Total	163,342	249,296

Other loans and advances include an amount of EUR 33,634 thousand (2015: EUR 0 thousand) that is connected to the disposal of subsidiaries.

(19) Other liabilities

Other liabilities are comprised of the following:

	EUR thousand	
	30.06.2016	31.12.2015
Interest expenses	54,557	91,156
- of which to be paid after the closing date	7,484	27,302
Clearing account balances	5,001	6,882
Fees and levies	27,537	34,052
Liabilities from foreign currency measurement of banking book derivatives	105,082	138,945
Liabilities from trading book derivatives	18,564	14,799
Trade payables	236	1,571
Miscellaneous liabilities	18,054	38,690
Total	229,031	326,095

Other liabilities include fees and levies of EUR 23,991 thousand (2015: EUR 31.368 thousand) from liabilities related to the tax allocation in the course of group taxation.

The remaining other liabilities include accruals for guarantee commissions in the amount of EUR 7,897 thousand (2015: EUR 17,161 thousand). Since this concerns an "eligible liability", it was reduced to 46.02 % in line with the implementation of Emergency Administrative Decision II.

(20) 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 the 30 June 2016 balance sheet date is EUR 2 thousand (2015: EUR 7,023 thousand).

(21) Other provisions

Other provisions are comprised of the following:

	EUR thousand	
	30.06.2016	31.12.2015
Holiday not taken	2,718	2,013
Long-service bonuses	87	87
Payments to employees	5,146	5,315
Legal and consultancy fees	105,991	114,294
Risks from the lending business	13,688	33,062
Restructuring provisions	26,564	27,174
Obligations towards subsidiaries	5,180	17,196
Provision related to sales transactions	111,338	122,510
Provision related to closing costs	230,590	262,000
Provision related to guarantee fees	163,549	23,979
Provision related to legal cost compensations	36,358	51,025
Provision related to a loss sustained in pending transactions	12,759	165,298
Taxes	13,305	2,313
Miscellaneous provisions	5,840	9,622
Total	733,113	835,888

The provisions for legal and consulting fees include an amount of EUR 29,883 thousand (2015: 32,507 thousand) that pertains to the forensic investigation of the company's past and the associated legal advisory and procedural costs.

The provisions for risks from the loan business include provisions at the portfolio level of EUR 0 thousand (2015: EUR 1,169 thousand) and also provisions for single cases in the amount of EUR 13,688 thousand (2015: EUR 31,892 thousand). Since some of these also consist of "eligible liabilities", they were reduced to 46.02 % in line with the implementation of Emergency Administrative Decision II.

Special restructuring provisions were created to take into account the planned reduction in the workforce (until and including 2020) and the financial charges resulting from the social plan; these provisions amount to EUR 26,564 thousand (2015: EUR 27,174 thousand). The provision for obligations to subsidiaries includes a contingent loss provision of EUR 5,125 thousand (2015: EUR 16,993 thousand) resulting from a group internal leasing contract for a corporate asset (real estate). Since an "eligible liability" also had to be taken into account during the calculation of the provision, it was reduced accordingly.

The obligations from sales transactions, which are shown at EUR 111,338 thousand (2015: EUR 122,510 thousand), are connected to the transfer of the SEE network. It 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 provides for the conversion of Heta into a wind-down unit and the mandatory 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-down costs"). This provision is based on the gone concern assumption, which, in order to ensure consistency with the generally accepted principle of providing a true and fair view 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 2020, which are associated with the complete wind-down of the portfolio. As at 30 June 2016, the provision is EUR 230,590 thousand (2015: EUR 262,000 thousand). The use of EUR 31,410 thousand (2015: EUR 163,000 thousand) was recognised in other operating income (2015: extraordinary income), and consists of EUR 31,410 thousand (2015: EUR 73,221 thousand) in compensation for personnel and operating expenditures as well as EUR 0 thousand (2015: EUR 89,779 thousand) from the adjustment of this provision due to amended business plans.

The provisions item in connection with the guarantee fees includes expenses of EUR 5,447 thousand (2015: EUR 23,979 thousand) in future fees for the financial years 2016 and 2017 with regard to the guarantee agreement, as well as expenses of EUR 158,101 thousand (2015: EUR 0 thousand) for future fees for the financial years 2016 to 2022 in connection with the state-guaranteed issue. Since these fees are deemed "eligible liabilities", both the 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 shown under 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 30 June 2016 in the amount of EUR 12.759 thousand (2015: EUR 165.298 thousand) included a consideration of the report by the Austrian Financial Reporting and Auditing Committee (AFRAC) "Recognition of Derivatives and Hedging Instruments under Company Law" from December 2015. According to the Austrian Financial Reporting and Auditing Committee (AFRAC) opinion, derivatives constitute pending transactions and according to the imparity realisation principle may only be entered in the balance sheet if a provision must be established for pending losses pursuant to section 198 (8) (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 decision of the resolution authority (FMA) from 1 March 2015, it was not assumed that the issued bonds and debt instruments (shown as liabilities) that are subject to the moratorium will be serviced in the amount of the nominal claim. Therefore, no effective hedging relationship between the underlying transaction (shown as a liability) and the derivative security transaction 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 have a hedging relationship to a claim or security shown in the balance sheet as an asset (asset swap), the maturity date of which is after 2020, to dissolve this hedging relationship and to enter a provision in the amount of a possible negative market value. This situation still exists as at 30 June 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 positive 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 result of the reduction of this liability pursuant to the decision, this leads to a reversal of the provision compared to 31 December 2015, which was recognised in extraordinary income.

(22) Provision for contingent liabilities related to resolution procedures

The application of the instrument 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) (Emergency Administrative Decision II by the Financial Markets Authority (FMA)). In the course of implementing the effects from Emergency Administrative Decision II, Heta's semi-annual financial statements generate a positive amount as at 30 June 2016, which may change significantly over the settlement period depending on the company's future success in settling its affairs. 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".

A provision for contingent liabilities related to resolution procedures in the amount of EUR 2,123,713 thousand (2015: EUR 0 thousand) was recognised for 30 June 2016.

(23) Information on risk provisions

The following risk provisions are in place as at 30 June 2016:

	EUR thousand	
	30.06.2016	31.12.2015
Loans and advances to credit institutions	666,303	677,003
Specific risk provisions	634,281	657,646
Portfolio-based provisions	32,022	19,357
Loans and advances to customers	2,131,650	2,381,808
Specific risk provisions	2,106,748	2,352,806
Portfolio-based provisions	24,902	29,002
Off-balance-sheet risks from the lending business	13,688	33,061
Individual provisions	13,688	31,892
Portfolio-based provisions	0	1,169
Total	2,811,641	3,091,872

Credit defaults that had already occurred on the reporting date but were not yet identified as such were taken into account with a portfolio risk provision of EUR 56,924 thousand (2015: EUR 49,528 thousand).

The level of the specific risk provisions for loans and advances to customers and credit institutions decreased from 3,010,452 thousand (31 December 2015) to EUR 2,741,029 thousand (30 June 2016), of which an amount of EUR 675,181 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.

(24) Risk provisions according to section 57 (1) BWG (provision adjustments)

For those receivables from customers that show no indications of payment default, a provision of EUR 101,949 thousand (2015: EUR 107,755 thousand) was recognised according to section 57 (1) BWG for the loss on disposal expected due to an earlier sale (difference between the market value of the receivables and the carrying amount).

With regard to claims against public debtors that are also not considered to be in payment default, provisions totalling 34,101 thousand (2015: EUR 31,521 thousand) were created for the measurement risk (losses that exceed the expected loss on disposal).

In addition, a provision adjustment of EUR 12,950 thousand (2015: EUR 65,525 thousand) was created for the foreign currency risks resulting from the CHF receivables.

Overall, the maximum provisions created pursuant to section 57 (1) BWG amount to EUR 149,000 thousand (2015: EUR 200,800 thousand).

(25) Liabilities Pfandbriefbank

The other member institutions and guarantors covered the liabilities of the Pfandbriefbank (Österreich) AG (Pfandbriefbank) after 1 March 2015, for which Heta would have been responsible in terms of the internal relationship. These concern those issues that were carried out 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.

Since Heta was not fully informed of the internal agreements between the Pfandbriefbank, the other member institutions and the guarantors, the Executive Board made the decision that the liabilities issued through the Pfandbriefbank would no longer be reported under liabilities to customers and liabilities evidenced by certificates, but rather in a separate item as at 31 December 2015. This disclosure was also retained for the semi-annual financial statements for 30 June 2016. Since all of these liabilities fall under Emergency Administrative Decision II as "eligible liabilities", they were reduced to a level of 46.02 % in line with the implementation of the decision.

For further information, please refer to note (31) Liability for commitments issued through Pfandbriefbank (Österreich) AG.

(26) Deferred liabilities

The sum total of deferred liabilities as at 30 June 2016 is EUR 0 thousand (2015: EUR 6,135 thousand), and includes received upfront payments from derivative transactions. For the most part, deferred liabilities consists of an item in the amount of EUR 0 thousand (2015: EUR 5,419 thousand), which results from the unwinding of swaps (through profit or loss) forming part of a valuation unit.

(27) Supplementary/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 by 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 were applied in accordance with section 23 (7) BWG (applicable version), which resulted in the complete removal of these liabilities. Therefore the statutory loss allocations implemented in previous years do not have any further effects during the first six months of 2016. There were no supplementary capital bonds in the portfolio as at 30 June 2016.

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

Heta placed a subordinate bond of EUR 1.0 billion with institutional investors on 6 December 2012. This bond has a term of ten years and a coupon of 2.375 % on the nominal value. To this end, the Republic of Austria submitted an unconditional and irrevocable guarantee, which was conclusively approved by the European Commission (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 European Commission (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 issue is covered by Emergency Administrative Decision II and was reduced to zero.

No subordinated loans were obtained during the first half of 2016.

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 entered 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 related to the 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 issue 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 30 June 2016 were still expected to be paid 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.

(28) 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. 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 "common equity tier 1 capital" pursuant to section 50 (1) (1) in connection with section 74 (2) (4) in connection with section 90 (1) (1) in connection with section 73 (2) (1) Federal Act on the Recovery and Resolution of Banks (BaSAG) was set to zero.

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

(29) Reserves

There are no reserves on 30 June 2016 (2015: EUR 0 thousand).

V. OFF-BALANCE-SHEET ITEMS

(30) Derivative financial instruments

The following transactions were not yet settled by 30 June 2016:

	EUR thousand			
	Nominal purchase contracts	Nominal sales contracts	Fair value positive	Fair value negative
a) Interest-related business				
OTC-products	1,846,929	1,846,929	196,475	104,089
Interest rate swaps	1,827,127	1,827,127	196,463	104,077
Interest swaptions	0	0	0	0
Forward rate agreements	0	0	0	0
Cap, Floor	19,802	19,802	12	12
Exchange-traded products	0	0	0	0
Future bond	0	0	0	0
b) Currency-related business				
OTC-products	311,893	312,194	-6	105,034
Currency swaps	264,735	264,735	0	104,743
Cross currency swaps	46,675	46,977	0	287
Forward exchange contracts	483	482	-6	4
Currency swaptions	0	0	0	0
Exchange-traded products	0	0	0	0
c) Shares and index-linked transactions				
OTC-products	0	0	0	0
Put option	0	0	0	0
d) Other				
OTC-products	0	0	0	0
Credit Default Swaps	0	0	0	0
Total Return Swaps	0	0	0	0
Exchange-traded products	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 assets 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 relationship no longer being effective. For securities and loans shown as assets that have a remaining maturity of more than 5 years, no effective hedging relationship has been assumed for such cases since 31 December 2014, and hence also for the 30 June 2016 semi-annual financial statements.

A pending loss provision was created with regard to the negative market value of derivatives as at 30 June 2016 in the amount of EUR 12,759 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
a) Interest-related business				
OTC-products	8,146,277	8,146,277	579,259	323,921
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
Exchange-traded products	0	0	0	0
Future bond	0	0	0	0
b) Currency-related business				
OTC-products	596,812	601,239	16,974	156,306
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
Exchange-traded products	0	0	0	0
c) Shares and index-linked transactions				
OTC-products	0	0	0	0
Put option	0	0	0	0
d) Other				
OTC-products	0	0	0	0
Credit Default Swaps	0	0	0	0
Total Return Swaps	0	0	0	0
Exchange-traded products	0	0	0	0

(31) Liability for commitments issued through Pfandbriefbank (Österreich) AG

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). On 27 June 2014, the Pfandbriefstelle submitted an application to the Austrian Financial Markets 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.

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

Pursuant to a notification from the Pfandbriefbank in terms of liability law, the volume of liabilities included under the liability of the guarantors is EUR 2.3 billion (as at 31 December 2015 on the basis of the audit report under liability law: EUR 3.3 billion) as at the semi-annual financial statements date of 30 June 2016 (2015: EUR 3.3 billion). Taking into account the funds obtained by the Pfandbriefbank and forwarded to Heta in the amount of EUR 0.5 billion (2015: EUR 0.6 billion), the value that must be reported according to section 237 (8a) 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 the proceeds from issues that the Pfandbriefbank implemented on Heta's behalf. As a result of Emergency Administrative Decision II, Heta is also no longer required to pay the quarterly administration fees prescribed by the Pfandbriefbank. Furthermore, the Pfandbriefbank demands that Heta reimburse it

for certain costs that were incurred as a result of Emergency Administrative Decision I. Heta disputes any obligation to reimburse such costs; if there was such an obligation, these claims would also be subject to a haircut and deferred as a result of Emergency Administrative Decision II.

(32) Other off-balance-sheet financial obligations

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

	EUR thousand	
	30.06.2016	31.12.2015
Contingent liabilities	7,513,317	105,143
Guarantees and other collateral securities	2,950	105,143
Letters of credit	0	0
Due to application of the "bail-in" of creditors reduced liability	7,510,367	0
Loan exposures	137,780	185,655

Credit risks exist in the form of not yet utilised credit lines in the amount of EUR 137,780 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.

Therefore there are other financial obligations in the form of a joint and several liability for all issues by the Pfandbriefbank (see note (31) Liability for commitments issued through Pfandbriefbank (Österreich) AG).

The obligations from the use of property, plant, and equipment not reported in Heta's balance sheet (rent and lease obligations) for the 30 June 2016 semi-annual financial statements amount to EUR 790 thousand (previous year's value relating to 2015: EUR 1,586 thousand) and a total of EUR 7,932 thousand for the financial years 2017 to 2020 (previous year's information relating to 2016 to 2019: EUR 7,898 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 companies such as 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 material risk of loss is transferred to the lending institution. If 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 provision is entered with regard to the affected refinancing line.

The liabilities that were reduced on the basis of the application of the "bail-in" of creditors instrument according to the Federal Act on the Recovery and Resolution of Banks (BaSAG) are shown as other major financial obligations under contingent liabilities. During the calculation of this amount, the entire carrying amount of the "eligible liabilities" as at 9 April 2016 (the day before the effective date of Emergency Administrative Decision II) including accrued interest was calculated and compared to the reduced carrying amount for these liabilities as at 30 June 2016. The resulting amount of 9,634,079 thousand represents the reduced portion of these liabilities. Following the deduction of the provision of EUR 2,123,713 thousand, which was already entered separately for future creditor claims as a provision pursuant to contingent liabilities related to resolution procedures, this results in a net contingent liability of EUR 7,510,367 thousand. 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; interests starting from 10 April 2016 are not calculated or taken into account.

(33) Fiduciary transactions

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

	EUR thousand	
	30.06.2016	31.12.2015
Loans and advances to credit institutions	0	0
Loans and advances to customers	73,257	73,257
Securities and shares in associated companies	0	0
other trust assets	0	0
Trust assets	73,257	73,257
Liabilities to credit institutions	23,797	23,797
Liabilities to customers	49,460	49,460
other fiduciary liabilities	0	0
Fiduciary liabilities	73,257	73,257

Trust income and expenses are as follows:

	EUR thousand	
	1.1.-30.06.2016	1.1.-31.12.2015
Trust income	54	54
Trust expenses	0	0

VI. NOTES REGARDING THE INCOME STATEMENT

(34) Regional breakdown of income and expenses

Interest income and expenses are shown as a regional breakdown, with allocation to a region dependent on the location of the registered office of the company.

	EUR thousand	
	1.1.-30.06.2016	1.1.-31.12.2015
Interest and similar income		
Loans and advances to credit institutions and customers	27,205	98,792
of which Austria	8,294	34,929
of which International	18,911	63,863
Fixed-income securities	5,893	14,209
of which Austria	3,221	6,589
of which International	2,672	7,620
Other assets	43,069	311,764
of which Austria	42,853	310,772
of which International	216	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 entered as an interest expense. As of 10 April 2016, no interest (interest rate 0 %) is recognised for these liabilities.

	EUR thousand	
	1.1.-30.06.2016	1.1.-31.12.2015
Interest and similar expenses		
Liabilities to credit institutions and customers	63,115	199,473
of which Austria	456	5,163
of which International	62,659	194,310
Debt evidenced by certificates	72,035	265,993
of which Austria	72,035	265,993
of which International	0	0
Other liabilities	21,010	110,821
of which Austria	21,010	106,975
of which International	0	3,846

(35) Income from securities and participations

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

	EUR thousand	
	1.1.-30.06.2016	1.1.-31.12.2015
Dividends received		
HBInt Credit Management Limited, Jersey	0	1,005
Other	0	735
Total	0	1,005

Reductions in the carrying amount of participations or other expenses and income related to participations, which occur during the 1 January to 30 June 2016 period, are shown in the item net gain/loss from the disposal and remeasurement of securities treated as financial investments, and from investments in associated and affiliated companies.

(36) Net fee and commission income

The development of commission income and expenses is as follows:

	EUR thousand	
	1.1.-30.06.2016	1.1.-31.12.2015
From the lending business	-14,244	-90,623
Fee and commission income	309	1,748
Fee and commission expenses	-14,553	-92,371
From the securities business	-331	-550
Fee and commission income	0	7
Fee and commission expenses	-331	-557
From other transactions	-66	-148
Fee and commission income	5	37
Fee and commission expenses	-71	-185
Total	-14,641	-91,321

Fee and commission expenses for the first six months of 2016 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.

(37) Other administrative expenses (material costs)

The breakdown of other administrative expenses is as follows:

	EUR thousand	
	1.1.-30.06.2016	1.1.-31.12.2015
Legal and consultancy costs	13,663	68,345
Advertising expenses	344	905
Rental and leasing expenses	2,083	4,463
IT costs	1,666	3,520
Data centre costs	1,298	2,651
Training expenses	271	316
Issue costs	109	175
Travel expenses	215	488
Fleet costs	195	411
Insurance	1,043	2,741
Telephone/postage costs	196	494
Costs in connection with company legal structure	305	308
Office/stationery costs	23	69
Miscellaneous operating expenses	238	471
Total	21,649	85,357

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.

(38) Other operating income

Other operating income is as follows:

	EUR thousand	
	1.1.-30.06.2016	1.1.-31.12.2015
Income from rental and leasing contracts	261	491
Income from release of provisions	3,820	13,038
Group internal charging	1,667	5,736
Income from selling real estates	22	235
Other operating income	32,859	9,005
Total	38,629	28,505

(39) Other operating expenses

This item of EUR 82 thousand (2015: EUR 35 thousand) includes expenses of EUR 0 thousand (2015: EUR 11 thousand) due to investment disposals, and EUR 82 thousand (2015: EUR 24 thousand) for other expenses.

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

This item totalling EUR +386,437 thousand (2015: EUR +3,579,981 thousand) includes results from the reversal and allocation of risk provisions in the amount of EUR +75,397 thousand (2015: EUR +2,864,205 thousand) for the period 1 January to 30 June 2016, which result from the reversal of provisions for refinancing lines to subsidiaries. These reversals are due to the recapitalisation of subsidiaries that were implemented during the first half of 2016, which increased the recoverability of the remaining refinancing lines accordingly. Credit risk provisions for third-party customers were reversed in the amount of EUR +34,774 thousand (2015: reversal of EUR +555,451 thousand). This item also includes income in the amount of EUR +193,460 thousand (2015: EUR +64,720 thousand) from the reversal of derivative positions.

This item also includes reversals of provisions in the amount of EUR +55,800 thousand (2015: EUR +84,693 thousand pursuant to section 57 (1) Austrian Banking Act (BWG), which are connected to lower provisions for foreign currency risks.

Income and expenses in connection with the securities classified as current assets amounted to EUR +25,550 thousand (2015: EUR -29,444 thousand).

(41) Net gain/loss from the remeasurement and disposal of securities treated as financial assets and from investments in associated and affiliated companies

This item totalling EUR +21,761 thousand (2015: EUR -3,118,181 thousand) includes the negative measurement effects from the participation in AAP (Alpe Adria Privatbank AG in Liquidation) in the amount of EUR -793 thousand (2015: EUR -568 thousand) und EUR -67,483 thousand (2015: EUR -3,097,168 thousand) relating to other subsidiaries for the time period 1 January to 30 June 2016. In addition, this item also includes provisions for reversals related to obligations from sales transactions in the amount of EUR +90,036 thousand (2015: EUR -20,446 thousand).

The income in connection with securities classified as non-current assets in the banking book amount to EUR 0 thousand (2015: EUR 0 thousand).

(42) Extraordinary result

The extraordinary result item amounts to EUR 7,152,624 thousand (2015: EUR -655,564 thousand) and is the result of extraordinary income of EUR 9,445,514 thousand (2015: EUR 1,087,908 thousand) and extraordinary expenses in the amount of EUR -2,292,890 thousand (2015: EUR -1,743,472 thousand).

Extraordinary income from the previous year (entire year of 2015) included EUR 902,343 thousand in income from the reversal of a provision as a result of the need in the previous year to create a provision with regard to the judgement by the court of first instance from 8 May 2015 in connection with the financing of Bayerische Landesbank (BayernLB), which in Heta's view had to be considered as substituting for equity, as well as EUR 11,069 thousand in income from the reversal of provisions and also from settlement payments that were paid to Heta in line with the activities for the forensic investigation of the past. This previous year's item also included income of EUR 163,000 thousand resulting from the reversal of the provision created in the year before for the internal and external costs pertaining to the wind-down of Heta. The extraordinary expenses from the previous year (entire year of 2015) related to EUR -4,375 thousand in provisions for additional costs in line with the full wind-down of the workforce, and EUR -30,000 thousand for provisions in connection with a statutory cost compensation right. This previous year's item also included expenses of EUR -1,709,088 thousand as a result of the re-recognition of liabilities to Bayerische Landesbank (BayernLB) and subordinated debt instruments vis-a-vis creditors, since the Hypo Alpe Adria Restructuring Act (HaaSanG), which went into force in August 2014, was declared unconstitutional pursuant to the finding by the Constitutional Court of Austria (VfGH) from 3 July 2015 (which was announced on 28 July 2015), and was repealed in its entirety.

The extraordinary income from the first half of 2016 is the result of the 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 posted out at the corresponding amount (53.89 % and 100 %). This reduction in liabilities and provisions results in extraordinary income of EUR 9,445,514 thousand. Extraordinary expenses from the first six months of 2016 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. This item also includes expenses of EUR -2,123,713 thousand, which result from the allocation to the provision for claims pursuant to contingent liabilities related to resolution procedures.

VII. OTHER DISCLOSURES

(43) Important proceedings

43.1. Information regarding Bayerische Landesbank (BayernLB)

43.1.1. MEMORANDUM OF UNDERSTANDING (MOU) BETWEEN THE REPUBLIC OF AUSTRIA AND THE FREE STATE OF BAVARIA AND REVIEW OF THE MOU BY HETA

On 7 July 2015, the Austrian and Bavarian ministries of finance announced the signing of a Memorandum of Understanding (MoU) between the Republic of Austria and the Free State of Bavaria, which would form the basis for the settlement of all pending cases between Bayerische Landesbank (BayernLB) and Heta on the one hand, and between Bayerische Landesbank (BayernLB) and the Republic of Austria and the Kärntner Landesholding (KLH) on the other hand.

By signing the Memorandum of Understanding (MoU), the Republic of Austria and the Free State of Bavaria have initiated a process, during the course of which Heta was also invited to examine and decide whether it wished to participate in a general settlement of the existing legal disputes with Bayerische Landesbank (BayernLB) on the basis of this Memorandum of Understanding (MoU). Therefore the executive bodies of the company were asked to review whether they are able to conclude a settlement regarding the proceedings that affect Heta - as outlined in the Memorandum of Understanding (MoU) - particularly with regard to the termination of Heta's Austrian Equity Substituting Capital Act (EKEG) proceedings with Bayerische Landesbank (BayernLB), and the termination of the action for misrepresentation pursued by the Republic of Austria against Bayerische Landesbank (BayernLB) and Heta. The Memorandum of Understanding (MoU) provided for a settlement amount of EUR 2.4 billion with regard to the Austrian Equity Substituting Capital Act (EKEG) proceedings (plus interest starting from 1 March 2015), at which Bayerische Landesbank (BayernLB) would participate in the wind-down of Heta (whether pursuant to the Federal Act on the Recovery and Resolution of Banks (BaSAG) or in the course of insolvency proceedings) at the same rank and in the same manner as all other non-subordinated creditors.

The executive bodies of Heta, with the aid of Austrian and German legal experts, including the current barristers, performed a comprehensive review of the conditions for a settlement and the associated impact on Heta. On 21 September 2015, Heta announced that it would be prepared to conclude a settlement - as outlined in the MoU - with Bayerische Landesbank (BayernLB). But in the end, Bayerische Landesbank (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 Upper Regional Court (OLG) on 1 February 2016, in compliance with the deadlines.

However, Bayerische Landesbank (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 Bayerische Landesbank (BayernLB) in the form of a written settlement declaration, and can be summarised as follows: Even if Bayerische Landesbank 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 % points p.a. above the respective base rate, at minimum 5.0 % p.a. This declaration was submitted with the provision that Bayerische Landesbank's claim participates in a wind-down procedure according to the Federal Act on the Recovery and Resolution of Banks (BaSAG), insolvency proceedings 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, Bayerische Landesbank (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 Bayerische Landesbank (BayernLB) from the counterclaims. If Heta is able to legally enforce its claims, Bayerische Landesbank 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 Bayerische Landesbank and Heta, all mutual claims were settled by way of the corresponding declarations by Bayerische Landesbank (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 statute of limitation from the Republic of Austria in order to protect its potential claims; it expires at the end of the year.

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

- enforcement action by Bayerische Landesbank with regard to Heta's assets was thus prevented;

- the claims of Bayerische Landesbank against Heta totalling EUR 2.8 billion (as at 1 March 2015) will most likely be reduced to EUR 2.4 billion; and
- Bayerische Landesbank 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 Bayerische Landesbank as at 30 June 2016 can only be reduced to the settlement value of approximately EUR 2.4 billion once it has been determined that the Financial Markets Authority (FMA) recognises Bayerische Landesbank'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 Bayerische Landesbank reported as at 30 June 2016 are also covered by the credit participation measures of the Financial Markets Authority (FMA) according to the Emergency Administrative Decision from 10 April 2016. Finally, the extent of the haircut will depend on the outcome of the proceedings before the Higher Regional Court Munich

43.1.2. JUDGEMENT OF THE MUNICH I REGIONAL COURT REGARDING EQUITY SUBSTITUTION LOANS FROM BAYERISCHE LANDESBANK

At the end of 2012, the former majority shareholder of Hypo Alpe-Adria-Bank International AG, Bayerische Landesbank (BayernLB), sought a declaratory judgement from the Munich I Regional Court - which was later converted to an action for performance - 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. Heta submitted a comprehensive statement of defence against the claim and contested the order sought in its entirety; it also contested, in the form of five counterclaims, the repayments submitted to Bayerische Landesbank (BayernLB) totalling EUR 4.8 billion.

The Munich I regional court issued the judgement of the court of first instance at the hearing of 8 May 2015. The written ruling was submitted to Heta's lawyers in this case on 2 June 2015. In a not yet binding judgement, the court admitted almost the entire order sought by Bayerische Landesbank (BayernLB), and ordered Heta to pay (i) EUR 1.03 billion plus associated interest in the amount of EUR 17.1 million, along with interest of 5.0 % percentage points 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 EUR 15.2 million, along with interest of 5.0 % percentage points 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 did the court find that it did not have jurisdiction. In addition, it was found that Bayerische Landesbank (BayernLB) must be compensated for all damages that it incurred due to the non-payment or non-timely payment of the loan amounts. Bayerische Landesbank (BayernLB) would still have to sue for performance in order to obtain an enforceable decision regarding the action for damages. The declaratory judgement regarding the action for damages, which was issued with the decision of the Munich I regional court, does however limit the court's scope of review during a subsequent action for performance to whether the asserted damages are such in terms of this declaration, and whether their amounts were calculated properly.

In general, the reason 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 the Financial Markets Authority (FMA) emergency administrative decision issued on 1 March 2015 on the basis of the Federal Act on the Recovery and Resolution of Banks (BaSAG), which had the effect of deferring in particular Bayerische Landesbank's claims that formed the subject of the proceedings until 31 May 2016.

To comply with the deadlines, the appeal was submitted to the Higher Regional Court Munich on 19 June 2015. The deadline for submitting the grounds of appeal was extended to 1 February 2016 with the agreement of Bayerische Landesbank (BayernLB). Heta submitted timely its grounds of appeal. Bayerische Landesbank (BayernLB) also submitted grounds of appeal in compliance with the deadlines. A decision by the Court of Appeal is still outstanding. It is noted that in the proceedings before the Higher Regional Court Munich, Bayerische Landesbank (BayernLB) can continue to assert the current amount of its claims, regardless of the agreement that in the event of a legally-binding decision in favour of Bayerische Landesbank (BayernLB) the receivables will generally be reduced to EUR 2.4 billion (plus interest as of 1 March 2015) (see note (43.1.1) Memorandum of Understanding (MoU) between the Republic of Austria and the Free State of Bavaria and Review of the MoU by Heta). On 18 May 2016, Heta received an order from the Higher Regional Court Munich 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 Markets 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 due to the Memorandum of Understanding (MoU) concluded between the Republic of Austria and the Free State of Bavaria. Both Heta and Bayerische Landesbank (BayernLB) have objected to an interruption of the proceedings. The further progress of the proceedings remains to be seen.

43.2. 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). Anadi Financial Holdings Pte. has expanded on its claim and now demands in particular damage compensation of EUR 97,763 thousand and also (assessed at approximately EUR 63.0 million according to its own information) a declaration of 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. The total value in dispute (including the action for declaratory judgement) amounts to EUR 151,355 thousand.

In the purchase agreement concluded by Heta and Anadi Financial Holdings Pte. Ltd. with regard to the sale of its shares in the former Hypo Alpe-Adria-Bank AG, it was agreed that the Vienna International Arbitral Centre (VIAC) according to the Vienna Rules would have jurisdiction over disputes between the parties. 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 arbitration tribunal has since been formed, and the schedule for the proceedings has been finalised. As of today, it is expected that the proceedings will be completed at the earliest during the first quarter of 2017. The proceedings are not public.

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

43.3. Other proceedings

43.3.1. CLAIMS REGARDING THE CONDITIONS OF THE LOAN AGREEMENTS

Customers and representatives of customers in Serbia, Croatia, Bosnia and Herzegovina and Montenegro 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 leasing companies that remained in Heta and the local wind-down units in the aforementioned countries are also 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 leasing 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 are 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 wind-down unit of Heta in Montenegro is not affected in the sense that it had already converted the existing CHF exposures before the legislation went into effect.

A few weeks later, the same law was also adopted and subsequently went into force in Croatia. The Croatian Heta unit is only minimally affected by this law, since it does not cover legal entities. But the affected loan volume is relatively small. Similar legal measures were also announced in Serbia. In Bosnia (federation), a decision by the Constitutional Court was released in May 2016. It states that loan agreements in CHF, which were concluded between a natural person and a bank, are deemed contracts with a currency clause, and not loans denominated in foreign currency. This refers to those contracts in which it was agreed that the loan (both annuities and interest) would be repaid in the local currency. The local law regarding foreign currency transactions in the federation allows for the option to conclude these types of contracts between a natural person and a bank, so that this type of contract cannot be viewed as null and void pursuant to the law. In view of the issues surrounding the change in interest rates, however, the court is of the opinion that the change in interest rate must be defined and specified. It is expected that the issue of sufficient certainty with respect to the interest change clause will be at the forefront of future court proceedings.

According to the purchase agreement concluded with the buyer of Addiko Bank AG, Heta was required to compensate, under certain conditions, the damages from the CHF portfolios of the former banking subsidiaries that result from such legal measures. 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 subsidiary Heta Asset Resolution Italia S.r.l., 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 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 contain derivative instruments, which

leads to additional information and audit obligations under Italian law. The first judgements were in favour of Heta's subsidiary, but negative judgements of the first instance were issued in 2015. Even though current judicature has classified the leasing agreements as non-derivative, the more recent decisions argue in favour of such a classification. The Italian subsidiary of Heta has appealed the negative decisions. The corresponding provision was already created in the annual financial statements for 31 December 2015.

43.3.2. PROCEEDINGS INVOLVING FORMER SHAREHOLDERS

During the course of the forensic investigation of the past, civil lawsuits were filed against former shareholders 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 (members of the Executive and Supervisory Board). It asserted 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 was not justified from Heta's point of view. In the proceedings themselves, the preliminary hearing took place in the first quarter of 2014; evidentiary proceedings began in the first quarter of 2014. A settlement of approximately EUR 19 million (around 75 % of the defendant's amount in dispute) for Heta was agreed in July 2014 with three defendant original shareholders and two former members of the executive bodies. Due to the initiation of the criminal proceedings, the civil proceedings were suspended on 1 December 2014 until the end of the criminal proceedings. In the middle of January 2016, Heta's legal representative received the report by the expert in the criminal proceedings, which depicted the 2007 annual financial statements as correct. This result must be viewed as a negative factor for future outcomes in civil and criminal proceedings. Therefore Heta had the report scientifically analysed by experts, and reached an entirely different conclusion. The preliminary proceedings have been suspended in the meantime. Heta will submit an application to continue the proceedings in compliance with the deadlines. Therefore the progress of the criminal and civil proceedings remains to be seen.

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 has 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 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 two defendants. Other settlement talks continue. The proceedings have in the meantime been continued against the remaining ten defendants.

43.3.3. 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. Another objective of the Legal Quality Review (LQR) was to investigate the proceedings with regard to the strategic direction, and to obtain an independent recommendation for future process steps and adjustments to the legal strategy. Approximately 850 reviewed passive court proceedings are pending in the jurisdictions of Austria, Bosnia, Bulgaria, Croatia, Germany, Hungary, Italy, Serbia, Montenegro and Slovenia. The result of the Legal Quality Review also provides important information for the development of a strategy for the efficient and advantageous completion of these proceedings - a strategy that will be required during the wind-down process for Heta. After the end of the Legal Quality Review (LQR), the decision was made to conduct a semi-annual review of all already pending and new passive proceedings, so that possible changes with regard to the strategy and estimates regarding the chance of success can be considered during the strategy definition process. In the months of June and July 2016, another 800 passive court proceedings were reviewed in the entire group.

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 liquidate was not validly registered. In Croatia, a Croatian 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. Many lawsuits are also filed by third parties that

have acquired property rights to allegedly 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 assumed assets from the former banking companies 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.

(44) Guarantee by the State of Carinthia

The statutory liability of the State of Carinthia is fashioned as a deficiency guarantee pursuant to section 1356 of the Austrian Civil Code (Allgemeines Bürgerliches Gesetzbuch), and includes all liabilities assumed by Heta before 3 April 2003, as well as all liabilities that were incurred from 3 April 2003 to 1 April 2007 and whose term 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 and repeals the Kärntner Landesholding Act (K-LHG); 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 one per mill 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 (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 the company to date. The company submitted a waiver of statute of limitation ending in 31 December 2015 to the state, which was extended to 31 December 2016 in 2015. In turn, the State of Carinthia committed to not file suit against the company for the time being.

Based on item II.2. in the Emergency Administrative Decision II issued by the Financial Markets 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 (covering loans) 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 development of state-guaranteed liabilities is shown as follows:

	EUR thousand	
	30.06.2016	31.12.2015
Heta Asset Resolution AG	4,632,560.7	11,133,754.1

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 acceptance quorum. Heta responded to the request for information submitted by the State of Carinthia in connection with this offer regarding its debt instruments secured by the state guarantee in line with its existing obligations to provide information pursuant to section 5 K-LHG (old), and also does so in line with the now intended public offer from the Kärntner Ausgleichszahlungs-Fonds (K-AF).

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 time the Kärntner Landesholding Act (K-LHG) was repealed (4 May 2016). For further information, please refer to note (4) Repurchase offers from the State of Carinthia.

(45) Main agreements

45.1. 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 of 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 other already existing receivables of the bank, while the maximum guarantee amount was left unchanged at EUR 200.0 million. Furthermore, the drawdown modalities were 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 Markets Authority (FMA). Based on the 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.

Drawdowns from the guarantee totalled EUR 60.7 million by 30 June 2016. Additional drawdowns for a volume of EUR 6.4 million took place at the beginning of August 2016.

In December 2015, the Republic of Austria for the first time recognised the existence of the drawdown preconditions in one instance, and made a payment of EUR 11.2 million in the same month. In Heta's view, this meant that the Austrian government is also of the opinion that the Emergency Administrative Decision I and the associated wind-down measures regarding the obligation to pay the commission did not have the effect of changing the general validity and continued existence of the guarantee. Since, on the basis of the situation as it was described, it could be assumed that the guarantee would be acknowledged, it had to be considered as a recoverable item in the annual financial statements for 31 December 2015. Therefore the provisions created in connection with the receivables "subject to the guarantee" were reversed in the amount that is secured by the guarantee, and a recoverable cash flow will be assumed when calculating the risk provisions for those loan cases that are secured with the guarantee.

A separate receivable from the Republic of Austria is added to the balance sheet for those cases that were drawn and not yet serviced. On 30 June 2016, this receivable is nominal EUR 49.5 million (31. December 2015 EUR 49.5 million). The payment for the remaining already drawn cases, or possible future utilisation cases, is based on the existence of the defined drawdown preconditions, whereby Heta expects that it will meet the required conditions. At the end of 2015, the Republic of Austria agreed that already drawn but not yet serviced cases would be reviewed promptly. The review process to be performed by the Republic of Austria in advance of a payment regarding the already drawn cases has turned out to be more protracted than expected. However, Heta plans to arrange a mechanism for accelerating the review process by concluding a third addendum to the guarantee agreement.

The assumptions regarding the inflow of funds from the guarantee agreement, which were established for 31 December 2015, had not changed by 30 June 2016.

45.2. 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.

45.3. 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-Bundesholdinggesetz, 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. In addition to temporarily maintaining the existing financing for Heta in favour of HBI in the amount of approximately EUR 1.7 billion (nominal amount of the refinancing lines), Heta also committed, in line with the carve-out process, to provide an emergency liquidity facility of up to EUR 300.0 million in the event of the outflow of HBI deposits.

As a result of the BaSAG (Federal Act on the Recovery and Resolution of Banks) moratorium that went into force on 1 March 2015, Heta was no longer able to meet its obligation to provide an emergency liquidity facility, which resulted in the steady deterioration of HBI's liquidity situation, since it was not able to compensate for the continued outflow of deposits without external support. In addition, HBI, in its local annual financial statements for 31 December 2014, which were submitted in June 2015, had also applied considerable additional provisions to financing that had been provided, which caused the company to fall below the minimum tier 1 capital ratio. The share purchase agreement concluded with HBI-BH included a provision that HBI-BH would be responsible for maintaining the tier-1 minimum capital ratio for HBI (currently 11.5 %) as required by the regulatory authority as of the closing of the agreement; however, in view of the increased risk provisions at HBI, HBI-BH asserted warranty claims from the share purchase agreement against Heta. In addition, it also referred to the failure to meet the obligation to provide the "Emergency Liquidity Facility".

The fact that HBI-BH itself does not have sufficient funds and no conclusive assessment could be made whether and at which amount the owner of HBI-BH - the Republic of Austria - would institute capital measures to provide HBI-BH with the corresponding resources created a situation in which the Banca d'Italia was likely to commence regulatory proceedings due to the failure to comply with the equity capital requirements and liquidity provisions.

In order to avoid additional damages to Heta as a result of the official measures in Italy, the Republic of Austria, HBI-BH and Heta concluded a term sheet regarding the financing and equity capitalisation of HBI on 29 June 2015. According to this agreement, HBI-BH provided HBI with EUR 196.0 million in liquidity in 2015, including EUR 100.0 million in the form of equity capital and EUR 96.0 million in the form of subordinated loans. In turn, Heta agreed to provide a new loan of EUR 100.0 million for the possible financing of outflows of customer deposits, and to waive up to EUR 630.0 million in existing receivables, of which a waiver for a partial amount of EUR 280.0 million was already implemented during the first six months of 2015. In return, HBI-BH promised to deliver to Heta each financial benefit from its relationships with HBI up to the amount of the proclaimed waiver, in line with a recovery agreement. To secure Heta's claims, HBI-BH committed to pledge its shares in HBI in favour of Heta.

During the second half of 2015, HBI repaid receivables of approximately EUR 140.0 million to Heta, and a revised wind-down plan for HBI was submitted by HBI-BH. The revised wind-down plan identified additional capital requirements for the time until the end of 2017 in order to comply with Italian capital provisions, which leads to the requirement of additional waivers of receivables in the amount of EUR 96.0 million on the part of HBI-BH, and up to EUR 350.0 million on the part of Heta. The purpose of the waivers provided by Heta 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.

HBI repaid another EUR 143.0 million to Heta during the course of the first six months of 2016. Beyond that, no material financial changes occurred at HBI. The assessment of the recoverability of the refinancing lines approved by Heta in the past, which was carried out on 30 June 2016, continues to be mainly based on the wind-down plan for HBI as submitted by HBI-BH in December 2015. Compared to the provisions created for 31 December 2015, reversals of EUR 23 million could be applied during the first half of 2016.

45.4. Sale of the SEE network: Implementation of the settlement achieved in March 2016 and the agreed portfolio transfer

In March 2016, Heta and the buyer of the former group-affiliated banking network in south-east Europe (SEE network) agreed on an extensive compromise regarding the full settlement of all CHF exemption claims set out in the sale agreement for the SEE network (credit and legal risks), as well as other outstanding issues in connection with the share purchase agreement for Addiko Bank AG. As a result of the settlement, the contractual liability limits that applied to the remaining guarantees and exemptions were reduced accordingly. The maximum liability of the Republic of Austria under the hedging instrument with the buyer (and thus also the fee that Heta must pay to the Republic of Austria) was also reduced. The maximum liability by the Republic of Austria under the hedging instrument with the buyer now amounts to approximately EUR 1.27 billion. In turn, Heta waived credit lines (CHF denominated) of EUR 325.0 million vis-a-vis Addiko Bank AG. This did not result in any income-related effects during the first six months of 2016 because the entire waiver was already allocated to a provision in the 31 December 2015 financial statements.

On the basis of the sale agreement, the buyer of the SEE network had the right to transfer to Heta or Heta group companies certain assets, consisting of loan and leasing receivables, land and other real assets from the disposal of collaterals, as well as non-strategic participations, on the basis of the net carrying amount on 31 December 2014 ("buyer brush" option). These re-transfers had to be completed no later than 31 March 2016 either in the form of true asset transfers ("true sale") or by payment of the IFRS risk provisions ("P&L settlement amount") that was of relevance to the result in the year 2015 at the level of the 2015 consolidated financial statements for Addiko Bank AG. In this vein, Heta assumed assets at a net carrying amount of approximately EUR 275.0 million (at 2014 carrying amounts), and approximately EUR 62.0 million were compensated with/offset against the existing refinancing line as compensation for risk provisions for non-transferable assets to Addiko Bank AG. The assets re-transferred in line with true sale transactions in Slovenia, Croatia, Serbia, Montenegro and Bosnia and Herzegovina were subjected to a revaluation in the first six months of 2016 on the basis of Heta's own directives (Asset Quality Review (AQR) directive). Taking into account the expenses for the true sale and the P&L settlement amount, which were already placed in provisions in the 31 December 2015 consolidated financial statements; this resulted in a positive effect on income statement for the first six months of 2016 in the amount of approximately EUR 62.0 million.

Additional costs that Heta is obliged to assume were reimbursed; additional charges from the share purchase agreement (cost reimbursements, exemptions, warranties, credit risks), which are expected to be incurred in the future, are allocated to provisions in the 30 June 2016 semi-annual financial statements at the full amount.

For the purpose of implementing the settlement, the buyer ensured that EUR 150.0 million (denominated in CHF) was repaid to Heta as early as March 2016.

(46) Assets submitted as collateral pursuant to section 64 (1) (8) Austrian Banking Act (BWG)

According to section 64 (1) (8) BWG, current assets of EUR 443,137 thousand (2014: EUR 476,626 thousand) were transferred as collateral for liabilities to credit institutions and customers.

The relevant assets, which consist mainly of cash collaterals and securities deposited at the European Investment Bank (EIB), continue to be reported in Heta's balance sheet.

	EUR thousand	
	30.06.2016	31.12.2015
Loans and advances to customers	1,699	3,696
Loans and advances to credit institutions	367,995	399,487
Securities	73,443	73,443
Total	443,137	476,626

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 is 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 30 June 2016 have been pledged 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.

(47) 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 issued 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.

(48) Group situation

The former Hypo Alpe-Adria-Bank International AG has been wholly owned by the Republic of Austria since 30 December 2009. The name of the company was changed to Heta Asset Resolution AG (in short: Heta) as of 31 October 2014. The Financial Markets 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 ultimate 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 (-> Investor Relations -> Financial reports & presentations).

(49) Audit expenses

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (Vienna/Austria) (EY) and KPMG Austria GmbH (Vienna/Austria) were selected to audit the semi-annual financial statements for 30 June 2016. The semi-annual financial statements for 30 June 2016 take into account both the costs for the audit of the semi-annual financial statements pursuant to the Austrian Commercial Code (UGB)/Austrian Banking Act (BWG) as well as the aliquot costs for the audit of the annual and consolidated financial statements; the relevant provisions total EUR 640 thousand (excluding ancillary costs and VAT) as at 30 June 2016. An amount of EUR 18 thousand is expected for other audit services that must be rendered by the auditors; the corresponding provision has been created.

In addition, the KPMG network also provides Heta with consulting services in the area of tax advice and in connection with the implementation of sale agreements.

In the previous year (2015), expenses for the audit of the annual financial statements in the amount of EUR 672 thousand and expenses for other services in the amount of EUR 200 thousand were recognised for Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (Vienna/Austria) (EY). An amount of EUR 729 thousand in expenses for the audit of the annual financial statements and EUR 1,309 thousand for other services were incurred for KPMG Austria GmbH (Vienna/Austria) in the previous year (2015).

(50) Other supplementary information

Existing investments in the leasing business according to section 64 (1) (1) Austrian Banking Act (BWG) include EUR 0 thousand (2015: EUR 1,500 thousand) of wholly provisioned shares in HETA Asset Resolution d.o.o. (Ljubljana), along with also wholly provisioned shares in HETA ASSET RESOLUTION Bulgaria OOD (Sofia) and HETA ASSET RESOLUTION Auto Bulgaria 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: EUR 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 +7,766 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 in 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	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Public sector mortgage bonds	0	230,734	0	767,090	0	545,965

(51) Related Parties

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

On the balance sheet date of 30 June 2016, these relationships result in the following situations that are relevant in terms of the financial statements:

EUR thousand

	fees paid to date	accrual basis	Balance	Amount in	Treatment pursuant to emergency administrative decision as of 10 April 2016	Reported in balance sheet
			Sheet value 30 June 2016	balance sheet (in %)		
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	23.3	46.02 %	eligible	Provisions
Fee Phoenix 10 % p.a. for non-drawn cases	76,677.3	2015 –2017	11,747.4	46.02 %	eligible	Other liabilities - provisions
Penalty in connection with alleged breach of agreement in principle	0.0	2008/2009	469.4	46.02 %	eligible	Provisions
ADRIA hedging instrument	17,924.0	2016 –2022	108,338.0	100.00 %	non-eligible	Provisions
Settlement cost	1,412.1	2015 –2023	22,551.9	100.00 %	non-eligible	Provisions
TOTAL payments and liabilities	209,807.9		335,818.3			
Drawn Phoenix guarantees	n.a.		-49,459.7	n.a.	n.a.	Other assets
Republic of Austria	n.a.		-50,000.0	n.a.	n.a.	Loans and advances to customers
TOTAL Receivables			-99,459.7			

In December 2015, the federal government 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 Austrian government are shown under other assets and amount to EUR 49,460 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 Austrian government 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 (45.1) Guarantee agreement with the Republic of Austria.

Moreover, on 30 June 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 (54) 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.

(52) Employees

The average number of employees (by capacities) during the year for the purposes of section 239 (1) (1) UGB was as follows:

	2016	2015
Salaried employees	388	441
Hourly-paid employees	0	0
Total	388	441

(53) Severance and pension payments

These expenses as defined in section 239 (1) (3) Austrian Commercial Code (UGB) are broken down as follows:

	1.1.-30.06.2016		1.1.-31.12.2015	
	Severance pay	Pensions	Severance pay	Pensions
Members of Executive Board	14	105	22	63
Key management personnel	51	131	542	21
Other employees	207	365	579	181
Total	272	601	1,143	266

The expenditures for severances and payments to employee retirement funds break down into expenses for severances in the amount of EUR 177 thousand (2015: EUR 714 thousand) and payments to employee retirement funds of EUR 192 thousand (2015: EUR 429 thousand).

(54) Information about executive bodies

The executive bodies that were active during the financial year are shown in Annex 2 to the notes.

54.1. Advances, loans and guarantees for executive bodies

All transactions with executive bodies were implemented with the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG, Klagenfurt am Wörthersee, until the bank was sold. Hypo Alpe-Adria-Bank AG was sold to an international investor in May of 2013; the closing of the transaction took place on 19 December 2013. All existing relationships with this bank as at 30 June 2016 are therefore classified as relationships with a third-party bank.

Thus Heta does not maintain any direct business relations with the company's executive bodies.

54.2. Remuneration for the executive bodies

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

	EUR thousand	
	1.1.-30.06.2016	1.1.-31.12.2015
Executive Board	955	2,090
of which on-going payments	955	2,090
Supervisory Board	135	323
Remuneration paid to former members of the Executive and Supervisory Board and their surviving dependants	0	0
thereof payments after termination	0	0
thereof related to termination	0	0
Total	1,090	2,413

The remuneration for Board members until 30 June 2016 does not include any variable elements.

(55) Events after the balance sheet date

The sale of 100 % of the shares in Heta Asset Resolution Leasing DOOEL Skopje (Heta Macedonia) was successfully completed with the closing on 27 July 2016. With this transaction, Heta no longer undertakes any operating activities in Macedonia, and therefore no longer has any exposure with respect to Heta Macedonia.

On 5 August 2016, an agreement was signed for the sale of 100 % of shares in Heta Asset Resolution Italia S.r.l. (HARIT) and all of the financing provided by Heta to HARIT. The portfolio managed by HARIT and its 90 employees consists mainly of repossessed real estate and other assets, as well as performing and non-performing leasing contracts. Following the closing, Heta no longer carries out any operating activities in Italy.

The Financial Markets Authority (FMA), which exercises all owner's rights in Heta since the Emergency Administrative Decision II from 10 April 2016, appointed Dr. Karl Engelhart as a new member of the Supervisory Board at the extraordinary shareholders' meeting on 18 August 2016.

(56) Outlook for the second half of 2016 (forecast)

During the second half of 2016, Heta Asset Resolution AG's efforts will be mainly focused on the effective and value-preserving disposal of its existing assets. The significant increase in cash reserves for the entire year of 2016, as intended under the medium-term plan, is making good progress, as evidenced by the result for the first six months of the year. Additional large sales procedures are expected for the second half of the year following the successful sale of the real estate subsidiary Centrice Real Estate GmbH (Centrice) to Lone Star Real Estate Fund IV in June 2016. The relevant public tender processes have already been started.

The sales procedure for a portfolio of investments for renewable energies at Heta Asset Resolution Germany GmbH is already in its final phase. In addition, sales negotiations for various national subsidiaries are also about to be completed.

In the loan segment, the bundling and marketing of attractive loan portfolios continue, as the relevant tenders have also been initiated. Due to the considerable level of interest, the phase requiring the submission of binding offers has already been initiated in the case of the two "Pathfinder" credit portfolios, which consists of performing and non-performing loans in Croatia.

On the cost side, efforts continue to focus on the further reduction of expenditures. Employee numbers will be adjusted in the coming months in view of the significant progress in the wind-down process. Even now, naturally occurring vacancies are only filled on a selective basis.

All of these developments are expected to generate a positive contribution to results in the second half of 2016, both at the holding and group levels.

This positive result is particularly due to Emergency Administrative Decision II issued by the Financial Markets Authority (FMA) on 10 April 2016, with which the authority ordered a haircut of 53.98 % for Heta's "eligible liabilities" including accrued interest until 28 February 2015, and amended the due date for the affected liabilities to the date on which a resolution on dissolution is adopted pursuant to section 84 (9) Federal Act on the Recovery and Resolution of Banks (BaSAG), or 31 December 2023 at the latest. The "eligible liabilities" were also exempted from interest as of 1 March 2015.

Heta's management has taken a positive view of the decisions handed down by the Frankfurt Regional Court from 21 June 2016, as well as the decision by the Vienna Commercial Court (from 13 May 2016) and the Federal Administrative Court to submit the question whether Heta, as a wind-down unit, falls under the regime of the Bank Recovery and Resolution Directive (BRRD) and the Federal Act on the Recovery and Resolution of Banks (BaSAG) to the European Court of Justice (ECJ). It is expected that the proceedings before the European Court of Justice (ECJ) will take on average 16 to 18 months.

In the event a plaintiff is victorious in one of the proceedings, there is the possibility that Heta's orderly wind-down according to Federal Act on the Recovery and Resolution of Banks (BASAG) may be put at risk due to the requirement of the equal treatment of creditors pursuant to the Federal Act on the Recovery and Resolution of Banks (BASAG). It remains to be seen if and how the European Court of Justice (ECJ) will make a decision on the general questions regarding the interpretation of the Bank Recovery and Resolution Directive (BRRD) and hence the assessment of the applicability of the Federal Act on the Recovery and Resolution of Banks (BaSAG) to Heta.

The risks associated with the macro-economic conditions may rise during the second half of the year: While the Commission of the European Union (EU Commission), in its May 2016 spring forecast, still projected economic growth of 1.8 % for the European Union (EU), the decision by the United Kingdom to leave the EU raises the spectre of a significant decline in economic performance. The 23 June 2016 vote created a lot of uncertainty regarding the general environment, especially in the financial industry: Political debates regarding the timing of the exit application, and future relations with the European Union are creating a persistent phase of instability. Because of the importance of London as a financial centre, these developments

could lead to delays in asset disposals in the Heta Group at least during the second half of 2016, as business activities by potential business partners become more complicated.

Heta's Executive Board believes that the agreement in principle reached by the Federal Ministry of Finance, the Kärntner Ausgleichszahlungs-Fonds (K-AF) and numerous creditors regarding an out-of-court settlement for the dispute over Heta's liabilities makes a significant contribution towards increased legal certainty. The agreement in principle was signed by 72 creditors who represent a nominal amount of approximately EUR 4.9 billion or 48.7 % of the debt instruments held by senior creditors. A two-thirds majority of the total nominal amount is required for the offer to be accepted. On 27 June 2016, the State of Carinthia amended the law for the Kärntner Ausgleichszahlungs-Fonds (K-AF) to enable another offer submission for Heta bonds guaranteed by the State of Carinthia pursuant to section 5 of the Kärntner Landesholding Act (K-LHG) (old). According to the schedule announced by the Carinthian government, the offer is to be submitted starting in September 2016 for a period of eight weeks; a settlement is planned for October 2016.

The Hypo investigation committee under way in the Austrian National Council is also expected to be completed in October 2016. The hearings of numerous witnesses, which were reported in the media, greatly influenced public perception regarding the investigation of the past activities of Heta's predecessor Hypo Group Alpe Adria. The final report is expected to be discussed during the plenary session on 12 October 2016.

Finally, it will be up to a supervisory body, which will include some new members, to supervise the best possible wind-down process for Heta in the future. The supervisory body consists of the incumbent Chairman of the Supervisory Board Dipl.-Kfm. Michael Mendel, as well as the new members Dr. Stefan Schmittmann, Mag. Regina Ovesny-Straka and Dr. Karl Engelhart. The company would like to thank its former members Mag. Alois Hochegger, Mag. Regina Friedrich, DI Bernhard Perner and Mag. Christine Sumper-Billinger, who left the supervisory committee effective 29 June 2016, for supporting Heta with its reorganisation into a wind-down unit.

Klagenfurt/Wörthersee, 25 August 2016
Heta Asset Resolution AG

THE EXECUTIVE 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 of the semi-annual financial statements

Asset	Acquisition costs			
	01.01.2016	Addition 2016	Disposals 2016	Reclassifications 2016
2. Treasury bills				
Financial investments	0.00	0.00	0.00	0.00
3. Loans and advances to credit institutions				
Financial investments	0.00	0.00	0.00	0.00
4. Loans and advances to customers				
Financial investments	0.00	0.00	0.00	0.00
5. Bonds and other fixed income securities	0.00	0.00	0.00	0.00
6. Financial investments	0.00	0.00	0.00	0.00
7. Shares in associated companies	1,665,832.70	0.00	0.00	0.00
8. Shares in affiliated companies	5,518,644,674.65	52,250,800.00	-1.00	0.00
9. Intangible fixed assets	16,474,361.30	666,404.27	0.00	0.00
10. Tangible fixed assets	9,995,213.91	106,772.05	-98,875.25	0.00
Total	5,546,780,082.56	53,023,976.32	-98,876.25	0.00

Acquisition costs 30.06.2016	Accumulated depreciation	Accumulated write-ups	Carrying amount 30.06.2016	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
1,665,832.70	-1,665,830.70	0.00	2.00	2.00	0.00	0.00
5,570,895,473.65	-5,541,359,956.19	39,814,681.31	69,350,198.77	85,375,263.51	200,000.00	-68,475,864.74
17,140,765.57	-14,803,172.57	0.00	2,337,593.00	2,482,674.13	0.00	-811,485.40
10,003,110.71	-5,816,173.33	0.00	4,186,937.38	4,378,064.30	0.00	-280,027.05
5,599,705,182.63	-5,563,645,132.79	39,814,681.31	75,874,731.15	92,236,003.94	200,000.00	-69,567,377.19

Management bodies of the company Annex 2 to the notes of the semi-annual financial statements

1 January to 30 June 2016

Supervisory Board

Chairman of the Supervisory Board:

Dipl.-Kfm. Michael MENDEL, Member from 7 November 2014, Chairman from 7 November 2014

Deputy Chairman of the Supervisory Board:

Mag. Alois HOCHEGGER, Deputy Chairman until 29 June 2016

Dr. Stefan Josef Peter Heinrich SCHMITTMANN, Deputy Chairman from 29 June 2016

Members of the Supervisory Board:

Mag. Regina FRIEDRICH, until 29 June 2016

Mag. Regina OVESNY-STRAKA, from 29 June 2016

DI Bernhard PERNER, until 29 June 2016

Mag. Christine SUMPER-BILLINGER, until 29 June 2016

Appointed to the Supervisory Board by the Works Council:

Erwin SUCHER, from 15 February 2015

Mag. Lisa TAUCHHAMMER, from 22 October 2015

Federal Supervisory Authorities

State Commissioner:

Mag. Alexander PESCHETZ, from 1 July 2012

Deputy State Commissioner:

Mag. Stefan WIESER, from 1 August 2014

Trustee

Trustee:

Mag. Alexander PESCHETZ, Federal Ministry of Finance, from 1 January 2011; re-appointed from 1 January 2016

Deputy Trustee:

HR Mag. Maria HACKER-OSTERMANN, from 1 September 2014

Executive Board

Mag. Martin HANDRICH, Member of the Executive Board from 16 March 2015

Wirt.-Ing. Sebastian Prinz von SCHOENAICH-CAROLATH, Chairman of the Executive Board from 16 April 2015

Mag. Alexander TSCHERTEU, Member of the Executive Board from 1 July 2015

Mag. Arnold SCHIEFER, Member of the Executive Board from 1 October 2015

List of shareholdings Annex 3 to the notes to the semi-annual financial statements

pursuant to section 238 UGB

1. Direct participations of Heta Asset Resolution AG

The following list shows the direct participations (greater than 20 %) of Heta Asset Resolution AG according to section 238 (2) UGB:

Name of enterprise	Registered office	Capital share ¹⁾	Equity in EUR thousand ²⁾	Profit/Loss in EUR thousand ³⁾	Date of closing
HBInt Credit Management Limited ⁴⁾	St. Helier - Jersey	51.000	544,800	16,176	31.12.2014
Norica Investments Limited ⁵⁾	St. Helier - Jersey	51.000	510,964	10,963	31.12.2014
IMPREGNACIJA - HOLZ d.o.o. Vitez ⁶⁾	Vitez	93.380	-	-	-
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	100.000	3,763	-27,841	31.12.2015
HYPO Consultants Holding GmbH	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
Alpe Adria Privatbank AG in Liquidation	Vaduz	100.000	3,023	-1,188	31.12.2015
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	100.000	-6,977	408	31.12.2015
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	44,748	44,735	31.12.2015
TCV d.o.o.	Ljubljana	100.000	1,973	1,973	31.12.2015
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD - U LIKVIDACIJI	Novi Beograd	100.000	2,534	-277	31.12.2015
HETA ASSET RESOLUTION Bulgaria OOD	Sofia	100.000	-1,230	-1,468	31.12.2015
HETA ASSET RESOLUTION Auto Bulgaria OOD ⁷⁾	Sofia	100.000	-	-	31.12.2015
HETA Asset Resolution d.o.o.	Ljubljana	100.000	10,230	-4,136	31.12.2015
Hypo Alpe-Adria (Jersey) II Limited	St. Helier - Jersey	100.000	-59	235	31.12.2015
REZIDENCIJA SKIPER d.o.o.	Savudrija	100.000	-64,549	43	31.12.2015
CEDRUS Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.000	71,442	-2,398,199	31.12.2015

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 provisions. 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

¹⁾ Calculated percentage portion from the viewpoint of Heta Asset Resolution AG, minority shareholders at the fourth decimal points are now longer shown

²⁾ Equity = total equity capital of the company; proportionate equity (corresponding to the direct shareholdings) is not shown

³⁾ Result = net profit/loss prior to reserves and non-controlling interest; the proportionate result (corresponding to the direct shareholding) is not shown

⁴⁾ HBInt Credit Management repatriated its capital in 2015 and will be dissolved in 2016

⁵⁾ Norica Investments Limited repatriated its capital in 2015 and will be dissolved in 2016

⁶⁾ Die IMPREGNACIJA - HOLZ d.o.o. is inactive and does not draw up accounts

⁷⁾ 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 International Financial Reporting Standards (IFRS)

As an issuer of debt instruments pursuant to the Stock Exchange Act (BörseG), Heta Asset Resolution AG prepares its interim consolidated financial statements for 30 June 2016 according to the International Financial Reporting Standards (IFRS). This separately published interim consolidated financial statements are based on the group of consolidated companies according to IFRS and include the following:

company	Registered office	Capital share ¹⁾		Date of Closing
		direct	indirect	
Alpe Adria Privatbank AG in liquidation	Vaduz	100.0	100.0	31.12.2015
Alpe-Adria poslovodstvo d.o.o.	Zagreb	100.0	100.0	31.12.2015
BORA d.o.o. Banja Luka	Banja Luka	100.0	100.0	31.12.2015
CEDRUS Handels- und Beteiligungs GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
DOHEL d.o.o.	Sesvete	100.0	100.0	31.12.2015
H-ABDUKO d.o.o.	Zagreb	100.0	100.0	31.12.2015
HAR GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
HETA ASSET RESOLUTION Auto Bulgaria OOD	Sofia	(99.8/0.2)	100.0	31.12.2015
HETA ASSET RESOLUTION Bulgaria OOD	Sofia	(99.9/0.1)	100.0	31.12.2015
HETA Asset Resolution d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2015
HETA ASSET RESOLUTION D.O.O. BEOGRAD	Beograd	100.0	100.0	31.12.2015
HETA ASSET RESOLUTION d.o.o. PODGORICA	Podgorica	100.0	100.0	31.12.2015
HETA Asset Resolution Germany GmbH	Munich	100.0	100.0	31.12.2015
HETA Asset Resolution Hrvatska d.o.o.	Zagreb	100.0	100.0	31.12.2015
Heta Asset Resolution Italia S.r.l.	Tavagnacco (UD)	100.0	100.0	31.12.2015
HETA ASSET RESOLUTION Leasing d.o.o. PODGORICA	Podgorica	100.0	100.0	31.12.2015
HETA ASSET RESOLUTION LEASING DOOEL Skopje	Skopje	100.0	100.0	31.12.2015
HETA Asset Resolution Leasing GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
HETA Asset Resolution Magyarország Zrt.	Budapest	100.0	100.0	31.12.2015
HETA CENTER –2 d.o.o.	Ljubljana	100.0	100.0	31.12.2015
HETA d.o.o. Sarajevo	Sarajevo	100.0	100.0	31.12.2015
HETA Grund- und Bau-Leasing GmbH	Klagenfurt am Wörthersee	(99.9/0.1)	100.0	31.12.2015
HETA HOUSE D.O.O. - PODGORICA	Podgorica	100.0	100.0	31.12.2015
HETA Immobilien- und Bauconsult GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2015
HETA LEASING D.O.O. BEOGRAD	Beograd	100.0	100.0	31.12.2015
HETA Leasing Kärnten GmbH & Co KG	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
HETA Luftfahrzeuge Leasing GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2015
HETA REAL ESTATE D.O.O. BELGRAD	Beograd	100.0	100.0	31.12.2015
HETA Real Estate GmbH	Klagenfurt am Wörthersee	(99.0/1.0)	100.0	31.12.2015
HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
Hypo Alpe-Adria-Immobilien GmbH	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
HETA ASSISTANCE d.o.o. Sarajevo	Sarajevo	100.0	100.0	31.12.2015
HYPO Vermögensverwaltung Gesellschaft m.b.H.	Klagenfurt am Wörthersee	100.0	100.0	31.12.2015
Malpensa Gestioni Srl	Tavagnacco (Udine)	100.0	100.0	31.12.2015
O-CENTER d.o.o.	Ljubljana	100.0	100.0	31.12.2015
REZIDENCIJA SKIPER d.o.o.	Savudrija	(75.0/25.0)	100.0	31.12.2015
SKIPER HOTELI d.o.o.	Savudrija	100.0	100.0	31.12.2015
SKIPER OPERACIJE d.o.o.	Savudrija	100.0	100.0	31.12.2015
SPC SZENTEND Ingatlanforgalmazó és Ingatlanfejlesztő Kft.	Budapest	100.0	100.0	31.12.2015
TCK d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2015
TCV d.o.o.	Ljubljana	(75.0/25.0)	100.0	31.12.2015
Tridana d.o.o.	Ljubljana	100.0	100.0	31.12.2015
X TURIST d.o.o.	Umag	100.0	100.0	31.12.2015
Y TURIST d.o.o.	Umag	100.0	100.0	31.12.2015
ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD - U LIKVIDACIJI	Novi Beograd	100.0	100.0	31.12.2015

Major holdings Annex 4 to the notes to the semi-annual financial statements as at 30 June 2016

HETA ASSET RESOLUTION AG			
FINANCIALS		OTHERS	
Austria:		Austria:	Croatia:
HAR GmbH, Klagenfurt/WS		CEDRUS Handels- und Beteiligungs GmbH, Klagenfurt/WS ¹	REZIDENCIJA SKIPER d.o.o., Savudrija ¹
HETA Asset Resolution Leasing GmbH, Klagenfurt/WS	Bosnia and Herzegovina:	HYPO ALPE-ADRIA BETEILIGUNGEN GMBH, Klagenfurt/WS	X TURIST d.o.o., Umag
HETA Real Estate GmbH, Klagenfurt/WS	HETA d.o.o., Sarajevo	Hypo Alpe-Adria-Immobilien GmbH, Klagenfurt/WS ¹	Y TURIST d.o.o., Umag
HETA Luftfahrzeuge Leasing GmbH, Klagenfurt/WS	BORA d.o.o., Banja Luka		
HETA Grund- und Bau-Leasing GmbH, Klagenfurt/WS	Serbia:		Serbia:
HETA Leasing Kärnten GmbH & Co KG, Klagenfurt/WS	HETA LEASING D.O.O., BEOGRAD	HYPO Vermögensverwaltung Gesellschaft m.b.H., Klagenfurt/WS ¹	ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD – U LIKVIDACIJI ¹
HETA Immobilien- und Bauconsult GmbH, Klagenfurt/WS	HETA ASSET RESOLUTION D.O.O., BEOGRAD		
	HETA REAL ESTATE D.O.O., BELGRAD		
	Bulgaria:		
	HETA ASSET RESOLUTION Bulgaria OOD, Sofia ¹		
	HETA ASSET RESOLUTION Auto Bulgaria OOD, Sofia ¹		
Italy:			
Heta Asset Resolution Italia S.r.l., Udine	Montenegro:		
	HETA ASSET RESOLUTION Leasing d.o.o. PODGORICA		
	HETA ASSET RESOLUTION d.o.o. PODGORICA		
Slovenia:			
HETA Asset Resolution d.o.o., Ljubljana ¹	Macedonia:		
TCV d.o.o., Ljubljana ¹	HETA ASSET RESOLUTION LEASING DOOEL Skopje		
TCK d.o.o., Ljubljana ¹			
	Hungary:		
	HETA Asset Resolution Magyarország Zrt., Budapest		
Croatia:			
HETA Asset Resolution Hrvatska d.o.o., Zagreb	Germany:		
HETA Asset Resolution Ulaganja d.o.o., Zagreb	HETA Asset Resolution Germany GmbH, München		
H-ABDUCO d.o.o., Zagreb			

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 and indirect 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.

Statement of all legal representatives

„We confirm to the best of our knowledge that the separate semi-annual financial statements for Heta Asset Resolution AG give a true and fair view of the assets, liabilities, financial position and profit or loss of the business as required by the applicable accounting standards.“

Klagenfurt/Wörthersee, 25 August 2016
Heta Asset Resolution AG

THE EXECUTIVE BOARD

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

Mag. Martin Handrich
(Member)

Mag. Arnold Schiefer
(Member)

Mag. Alexander Tscherteu
(Member)

Auditor's report ^{*)}

Report on the semi-annual financial statements

We have audited the accompanying semi-annual financial statements of HETA ASSET RESOLUTION AG, Klagenfurt am Wörthersee. These semi-annual financial statements comprise the balance sheet as of June 30, 2016, the income statement for the period 1 January 2016 to 30 June 2016, and the notes.

Our responsibility and liability vis-a-vis the company and third parties is limited to an amount totalling EUR 2 million.

Management's Responsibility for the semi-annual financial statements

The company's management is responsible for the preparation and fair presentation of these semi-annual financial statements in accordance with the Austrian Generally Accepted Accounting Principles and the regulations of the Austrian Banking Act, and also for the internal controls that are deemed necessary by the statutory representatives to facilitate the preparation of semi-annual financial statements that are free of material misstatement - whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these semi-annual financial statements based on our audit. We conducted our audit in accordance with the Austrian Standards on Auditing. Those standards require the application of the International Standards on Auditing. According to these standards, we are required to comply with the professional code of conduct and that we plan and perform the audit to obtain reasonable assurance whether the semi-annual financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain evidence about the valuations and other disclosures in the semi-annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the semi-annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the semi-annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the semi-annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the semi-annual financial statements give a true and fair view of the financial position of the company as of June 30, 2016 and of its financial performance from 1 January 2016 to 30 June 2016 in accordance with the Austrian Generally Accepted Accounting Principles and the regulations of the Austrian Banking Act.

Without qualifying the audit opinion, we refer

- a. to the information provided by the company's Executive Board in the notes for the semi-annual financial statements in note (2.4) "Financial Markets Authority's (FMA) emergency administrative decision pursuant to the Federal Act on the Recovery and Resolution of Banks (BASAG), which describes the legal risks from the lawsuits in connection with the Financial Markets Authority's (FMA's) emergency administrative decision, the Austrian Equity Substituting Capital Act (EKEG) proceedings and the proceedings before the European Court of Justice (ECJ);
- b. the information provided by the company's Executive Board in the notes for the semi-annual financial statements in note (3) "Effects of haircut on the semi-annual financial statements (UGB/BWG)", which explains the effects of the wind-down measures pursuant to the Federal Act on the Recovery and Resolution of Banks (BASAG) on the semi-annual financial statements for 30 June 2016;
- c. to the information provided by the company's Executive Board in the notes to the semi-annual financial statements in note (10) "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 the Company'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 an asset 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, the company's owner, the Republic of Austria, announced on 1 March 2015 that no further measures would be taken for the company under the Federal Act on Financial Market Stability (FinStaG). 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 the Emergency Administrative Decision I under the Federal Act on the Recovery and Resolution of Banks (BaSAG) issued by the Financial Markets Authority (FMA), the Executive Board no longer had a basis for continuing to prepare the financial statements on the basis of the going concern assumption. The semi-annual financial statements for June 30, 2016, which were prepared in consideration of the 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 the company 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;

- d. to the information provided by the company's Executive Board in the notes to the semi-annual financial statements in note (12) "Use of estimates and assumptions/main estimate uncertainties", which advises that in view of the persistent economic weakness in south-eastern Europe, it is possible that additional impairments may have to be applied to the existing loan portfolio in the future;
- e. to the information provided by the company's Executive Board in the notes to the semi-annual financial statements in note (45.3) "Development of the credit engagement vis-a-vis the former Italian subsidiary bank Hypo Alpe-Adria-Bank S.p.A.", which refers to the risks faced by the company as a result of the sale agreement and the refinancing of Hypo Alpe-Adria-Bank S.p.A. (HBI). The assessment of the recoverability of the refinancing lines approved by the company in the past, which was carried out on 30 June 2016, continues to be mainly based on the wind-down plan for Hypo Alpe-Adria-Bank S.p.A. as submitted by HBI-Bundesholding AG (HBI-BH) in December 2015;
- f. to the information provided by the company's Executive Board in the notes to the semi-annual financial statements in note (45.4) "Sale of the SEE network: Implementation of the settlement achieved in March 2016 and the agreed portfolio transfer", which refers to the risks faced by the company as a result of the sale agreement and the refinancing of Hypo Group Alpe Adria (the SEE network). In March 2016, the company and the buyer of the SEE network agreed on an extensive compromise regarding the full settlement of all CHF exemption claims set out in the sale agreement for the SEE network (credit and legal risks), as well as other outstanding items in connection with the share purchase agreement for Addiko Bank AG. As a result of the settlement, the contractual liability limits that applied to the remaining guarantees and exemptions were reduced accordingly;

Vienna, 25 August 2016

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Ernst Schönhuber eh
Auditor

Mag. Friedrich O. Hief eh
Auditor

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Walter Reiffenstuhl eh
Auditor

*) The semi-annual financial statements containing our audit opinion may only be published or forwarded in the version that has been approved by us. This audit opinion refers solely to the German-language and full version of the semi-annual financial statements for June 30, 2016. Please note that the provisions of section 281 (2) Austrian Commercial Code (UGB) must be observed with regard to versions that deviate from the above.

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 semi-annual report was prepared (25 August 2016). Changes after this date could influence the facts and forecasts provided in the semi-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 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.

The semi-annual report was produced using FIRE.sys.