PRESS RELEASE OF KA FINANZ AG

Portfolio run-down successfully continued – Advantages through merger

KA Finanz publishes its 2015 results

- Total assets after merger EUR 14.4 billion
- Higher quality of total portfolio – Average rating improved to A
- Risk positions in the amount of EUR 1.2 billion eliminated
- Sound total capital ratio of 19.8% – Common equity tier 1 ratio of 15.3%

(Vienna, 1 April 2016) – Today KA Finanz AG (KF) presented its results for 2015. The most important event of the past business year was the merger with the non-privatised part of Kommunalkredit Austria AG (KA Old) on 26 September 2015. Through the merger, a high-quality portfolio of approx. EUR 5.8 billion was transferred to KF. As at 31 December 2015, KF's portfolio of risk positions, after the merger, amounted to EUR 10.6 billion. Following the take-over of the portfolio of KA Old, the average rating improved to A, and the non-performing-loan (NPL) ratio decreased from 2.7% to 1.7%. Thus, the quality of the entire new portfolio has improved, above all through the addition of loans to territorial authorities in Austria, Germany and Switzerland to KF's original, securities-dominated portfolio.

After the transfer of eligible capital in the amount of EUR 119.76 million from KA Old, KF has a sound capital base of EUR 620.2 million, including EUR 481.0 million in common equity tier-1 capital according to Basel III. This corresponds to a total capital ratio of 19.8% and a CET 1 ratio of 15.3%, the improvement of the latter being due to the merger. Thus, KF's capital ratios continue to be significantly above the regulatory minimum criteria.

Moreover, the merger has also led to an improvement of the funding structure, with assets of EUR 3.7 billion, eligible for the cover pool, transferred to KF. Thus, besides the covered bonds taken over by KF in a volume of EUR 2.7 billion on the liabilities side, there is sufficient potential for new capital market issues. The fact that the covered bonds have been rated AA- by Standard & Poor's further strengthens KF's position. Approx. 30% of the assets transferred to KF qualify as collateral for funding from the European System of Central Banks and thus constitute and additional funding source.

Result for the year 2015

The **after-tax result for the year**, pursuant to the Austrian Company Code/Austrian Banking Act, is **negative** at **EUR 29.3 million**; besides one-off effects in interest income/expenses, this is due, in particular, to guarantee fees paid by KF to the Republic of Austria for liquidity guarantees (EUR -25.4 million) as well as contributions to the Bank Resolution Fund payable for the first time in 2015 (EUR -4.1 million). After costs for early portfolio run-down and the valuation result, risk provisions pursuant to § 57 (1) and § 57 (3) of the Austrian Banking Act stand at EUR 30.0 million and EUR 122.5 million, respectively, constituting a risk buffer in a total amount of EUR 152.5 million. **As a result of the merger, KF's total assets doubled** and amounted to **EUR 14.4 billion** at the end of the year.

Capital measures and guarantee fees

As in the previous year, KF did **not require any capital support from the Republic of Austria** in 2015. Through the payment of guarantee fees in the amount of EUR 25.4 million in the reporting year and the reduction of a government surety by EUR 0.4 million to its current level of EUR 4.3 million, the total volume of capital support measures by the Republic of Austria was reduced by EUR 25.7 million to a net amount of EUR 2.1 billion in 2015.

Guarantee fees in a gross amount of **EUR 706.7 million** were paid by KF over the period from its take-over by the Republic of Austria until 31 December 2015. After deduction of the restructuring contributions in the amount of EUR 210.0 million made by the Republic of Austria up to the end of 2011, **net guarantee fees paid** amount to a total of **EUR 496.7 million**. Guarantee fees in a total amount of EUR 25.4 million were paid by KF in 2015.

Portfolio structure and run-down

KF's **risk portfolio** in a **total volume of EUR 10.6 billion** comprises loans of EUR 5.0 billion, securities of EUR 4.0 billion, CDS/guarantees of EUR 0.6 billion (remaining CDS exposure to Austria only), and interest-rate and currency hedging derivatives of EUR 1.0 billion. Overall, KF's portfolio has an **average rating of A** (rating scale according to Standard & Poor's/Fitch), with EUR 9.4 billion or **88.3%** of the total portfolio rated **investment grade** (BBB- or higher) and EUR 5.2 billion or **49.3%** rated **AAA/AA-**. The **non-performing-loan** (**NPL) ratio** has dropped from 2.7% to **1.7%**. Hidden burdens as at 31 December 2015 amounted to EUR 1.2 billion.

In the course of 2015, **risk positions in a total amount of EUR 1.2 billion were eliminated**, including EUR 690 million through active run-down measures and another EUR 508 million through scheduled and early redemptions. Whereas in recent years the main focus had been on the elimination of concentration risks, above all in the peripheral countries of the EU, portfolio optimisation was the main priority in 2015. At the same time, active run-down measures were taken on a purely opportunistic basis. Altogether, KF has succeeded in **eliminating risk positions in a total amount of EUR 24.8 billion** since the beginning of the restructuring process.

Liquidity

As at 31 December 2015, KF had a **funding volume** (excluding own funds) of **EUR 13.2 billion**, of which EUR 8.1 billion or 62% was raised independent of government support measures. KF's own contribution to funding remained stable after the merger. In general, since the second quarter of the reporting year, Austrian financial institutions have been confronted with more difficult conditions in the capital market as a result of the transposition of the EU Bank Recovery and Resolution Directive (BRRD) into national law and the debt moratorium imposed on Heta Asset Resolution AG. In order to improve its funding structure, which has a predominantly short-term orientation in line with the EU restructuring plan, KF issued a **five-year government-guaranteed bond in the amount of EUR 1.0 billion** in August 2015. As a further liquidity-supporting measure, the Republic of Austria's guarantee for the commercial paper (CP) programme, which facilitates access to the favourably priced CP market, was increased by EUR 500 million to EUR 3.5 billion.

Outlook

KF will continue its active portfolio management throughout 2016. Besides scheduled maturities and redemptions, targeted run-down measures will be taken, always with a view to the potential for value recovery and a minimum outflow of capital resources. However, KF's portfolio structure has changed as a result of the merger with the non-privatised part of KA Old, which will require adaptations in KF's run-down priorities. Whereas run-down measures taken in recent years were targeted, above all, at high-volume securities and CDS positions in international markets, more than 50% of the portfolio now consists of loans, mostly with small nominal amounts, for which there is no liquid secondary market.

Previously, the primary goal was to eliminate risk concentrations in the peripheral countries of the EU; the geographic focus of the portfolio has now shifted to Austria, the core countries of the EU, and Switzerland.

For reasons of cost efficiency, KF will continue to raise short-term funding primarily in the money market and/or through commercial paper placements. At the same time, current and future regulatory conditions – the liquidity coverage ratio (LCR) since the autumn of 2015, the net stable funding ratio (NSFR) to be reported from 2018, and the leverage ratio – will have to be taken into consideration, which require that financial institutions adapt their funding structures and their liquidity management. Most recent developments in the European capital markets have shown that banks will primarily resort to the use of secured funding to meet their long-term needs. Depending on market developments and placement opportunities, KF will therefore continue to rely on covered bonds for long-term funding.

In view of the interest rate policy pursued by central banks and the impact of negative interest on the interest result, as well as the guarantee fees payable to the Republic of Austria, KF again expects to close 2016 with a negative operating result. However, from today's point of view and assuming stable market conditions, KF will not require any additional capital support from the Republic of Austria.

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BALANCE SHEET OF KA FINANZ AG
(Austrian Banking Act)

	Assets In EUR		31-12-2015*	31-12-2014
1.	**Cash and balances with central banks**		**647,634,690.25**	**430,631,829.15**
2.	**Public-sector debt instruments eligible as Collateral for central bank funding**		**470,661,762.74**	**637,482,838.26**
	Public-sector debt instruments and similar securities	470,661,762.74		637,482,838.26
3.	**Loans and advances to banks**		**2,228,169,082.54**	**2,026,336,175.57**
	a) repayable on demand	2.128.657.491.01		1,946,188,773.55
	b) other receivables	99.511.591.53		80,147,402.02
4.	**Loans and advances to customers**		**7,160,349,731.47**	**2,235,619,174.75**
5.	**Bonds and other fixed-income Securities**		**3,566,750,294.17**	**1,771,748,211.21**
	a) of public issuers	858,848,018.43		674,243,140.92
	b) of other issuers	2,707,902,275.74		1,097,505,070.29
	of which:			
	own bonds	*1,560,690,836.07*		*0.00*
6.	**Participations**		**70.00**	**23,070.00**
	of which:			
	in banks	*0.00*		*0.00*
7.	**Property, plant and equipment**		**70,801.44**	**70,801.44**
8.	**Other assets**		**241,245,633.08**	**149,541,723.63**
9.	**Accruals**		**76,191,901.18**	**33,937,661.52**
	Total assets		**14,391,073,966.87**	**7,285,391,485.53**

	Off-balance-sheet items			
1.	Foreign assets		8,971,481,397.02	6,625,978,621.70

* Not fully comparable with 2014 due to the merger

Liabilities In EUR			31-12-2015*	31-12-2014
1.	**Amounts owed to banks**	.	**3,883,911,686.26**	**2,120,953,788.11**
	a) repayable on demand	244,046,814.51		218,862,772.88
	b) with agreed maturity or period of call	3,639,864,871.75		1,902,091,015.23
2.	**Amounts owed to customers**		**1,050,101,076.61**	**890,031,088.35**
	Other liabilities			
	of which:			
	aa) repayable on demand	*18,347,051.60*		*200,025.82*
	bb) with agreed maturity or period of call	*1,031,754,025.01*		*889,831,062.53*
3.	**Securitised liabilities**		**8,374,165,106.28**	**3,425,962,925.14**
	a) bonds issued	4,484,131,106.04		185,016,644.69
	b) other securitised liabilities	3,890,034,000.24		3,240,946,280.45
4.	**Other liabilities**		**277,754,647.00**	**150,259,153.38**
5.	**Deferrals**		**51,377,678.70**	**39,706,144.09**
6.	**Provisions**		**136,657,457.06**	**111,224,793.41**
	a) Provisions for severance pay	0.00		0.00
	b) Provisions for pensions	4,679,182.91		0.00
	c) Provisions for taxes	0.00		0.00
	d) Other	131,978,274.15		111,224,793.41
6.A	**Fund for general banking risks**		**122,500,000.00**	**95,000,000.00**
7.	**Supplementary capital**		**136,064,397.19**	**143,655,166.26**
8.	**Subscribed capital**		**389,000,000.00**	**389,000,000.00**
9.	**Capital reserve**		**74,819,429.23**	**0.00**
	a) appropriated	65,845,802.70		
	b) unappropriated	8,973,626.53		
10.	**Statutory reserve pursuant to § 57(5) BWG**		**93,388,106.42**	**76,091,088.46**
10.	**Net loss**		**-198,665,617.88**	**-156,492,661.67**
	Total liabilities		**14,391,073,966.87**	**7,285,391,485.53**

	Off-balance-sheet items			
1.	Contingent liabilities		725,892,437.22	732,741,119.48
	of which:			
	a) Liabilities from sureties and guarantees from the assignment of collateral	*725,892,437.22*		*732,741,119.48*
2.	Credit risks		25,431,641.46	0.00
	of which:			
	Liabilities from repo transactions	*0.00*		*0.00*
3.	Eligible own funds pursuant to Part 2 of Regulation (EU) 575/2013		620,175,342.43	581,084,517.31
	of which:			
	Supplementary capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) 575/2013	*139,133,424.66*		*177,486,090.52*
4.	Own funds requirements pursuant to Art.92 of Regulation (EU) 575/2013		250,766,867.87	222,338,403.60
	of which:			
	Own funds requirements pursuant to Art.92.1.a of Regulation (EU) 575/2013 CET 1 capital ratio	*15.35 %*		*14.52 %*
	Own funds requirements pursuant to Art.92.1.b of Regulation (EU) 575/2013 core capital ratio	*15.35 %*		*14.52 %*
	Own funds requirements pursuant to Art.92.1.c of Regulation (EU) 575/2013 total capital ratio	*19.78 %*		*20.91 %*
5.	Foreign liabilities		8,657,745,710.95	5,962,352,325.75

***** Not fully comparable with 2014 due to the merger

INCOME STATEMENT OF KA FINANZ AG
(Austrian Banking Act)

in EUR			2015*	2014
1.	Interest and similar income		621,940,309.91	392,261,544.27
	of which:			
	from fixed-income securities	*84,026,287.71*		*118,659,879.69*
2.	Interest and similar expenses		-642,000.377.44	-380,986,974.25
I.	**Net interest result**		**-20,060,067.53**	**11,274,570.02**
3.	Fee and commission income		1,345,852.70	554,812.72
4.	Fee and commission expenses		-29,022,865.36	-22,298,024.88
5.	Income/expenses from financial transactions		193,318.68	6,010.47
6.	Other operating income		943,914.37	4,928.77
II.	**Operating income**		**-46,599,847.14**	**-10,457,702.90**
7.	General administrative expenses		-21,358,217.95	-13,813,702.57
	a) Personnel expenses of which:	-380,118.82		0.00
	aa) Salaries	*-160,564.19*		*0.00*
	bb) Expenses for statutory social-security contributions and salary-dependent charges	*-14,357.67*		*0.00*
	cc) Other social expenses	*.-1,014.64*		*0.00*
	dd) Expenses for pensions	*-642,561.35*		*0.00*
	ee) Appropriation to / release of pension provisions	*440,354.83*		*0.00*
	ff) Expenses for severance pay and contributions to pension fund	*-1,975.80*		*0.00*
	b) Other administrative expenses (non-personnel)	-20,978,099.13		-13,813,702.57
8.	Impairment of assets recognised under asset item 7		0.00	0.00
9.	Other operating expenses		-114,905.69	-265,444.42
III.	**Operating expenses**		**-21,473,123.64**	**-14,079,146.99**
IV.	**Operating result**		**-68,072,970.78**	**-24,536,849.89**
10.	Expenses from the impairment of receivables and appropriations to provisions for contingent liabilities and credit risks		0.00	-313,294.87
11.	Income from the impairment of receivables and appropriations to provisions for contingent liabilities and credit risks		17,302,819.30	0.00
12.	Expenses from the impairment of investment securities and from participations and investments in affiliated Companies		-12,289,186.07	0.00
13.	Income from the impairment of investment securities and from participations and investments in affiliated Companies		0.00	10,741,787.80
V.	**Profit on ordinary activities**		**-63,059,337.55**	**-14,108,356.96**
14.	Extraordinary income		34,345,218.31	14,113,591.80
	of which: *Drawings on the fund for general banking risks*		*4,500,000.00*	*0.00*
15.	**Extraordinary result**		**34,345,218.31**	**14,113,591.80**
16.	Taxes on income		-463,720.76	-5,209.84
17.	Other taxes not to be reported in item 16		-86,307.88	-25.00
VI.	**Net loss for the year**		**-29,264,147.88**	**0.00**
17.	Loss carryforward		-169,401,470.00	-156,492,661.67
VII.	**Net loss**		**-198,665,617.88**	**-156,492,661.67**

* Not fully comparable with 2014 due to the merger