2014 MID-YEAR RESULT OF KA FINANZ AG

Steinbichler: “Risk portfolio run-off three quarters complete”
KA Finanz publishes its 2014 mid-year result

- Risk positions down by EUR 2.3 billion or 26.5% in the first half of 2014; total portfolio down to EUR 6.5 billion
- Original portfolio reduced to date by EUR 23.5 billion or 78.3%
- Improved asset quality of remaining portfolio: 84.2% investment grade
- Balanced mid-year result

(Vienna, 4 August 2014) – Today KA Finanz AG (KF) presented its 2014 mid-year result. During the first half of the year, KF took advantage of the favourable market environment to continue the run-down of its portfolio, **reducing its risk positions by a total of EUR 2.3 billion** or 26.5% from the 2013 year-end level. The run-down measures primarily concerned the CDS portfolio, which was reduced by EUR 1.6 billion. Except for an exposure of EUR 478.8 million to the Republic of Austria and EUR 13.0 million to an Italian province, the CDS portfolio, which amounted to EUR 12.2 billion when the restructuring process began, has been completely eliminated. Overall, the original portfolio of EUR 30 million has been **reduced** by **78.3% or EUR 23.5 billion** since the beginning of the restructuring process. The asset quality of the EUR 6.5 billion portfolio remaining as of 30 June 2014 is well balanced, with EUR 5.5 billion or **84.2% rated investment grade**, of which EUR 1.8 billion or 28.0% in the AAA/AA range.

Likewise, the **concentration risks** of the portfolio have been **significantly reduced** through the run-down measures taken; as at 30 June 2014, the biggest individual sovereign risk, besides Austria, is an exposure to Italy in the amount of EUR 303 million. Exposures to peripheral countries under EU bailout measures, some of which amounted to over EUR 1 billion at the beginning of the restructuring process, have been reduced substantially, the breakdown as at 30 June 2014 being as follows: Portugal EUR 175.3 million; Spain EUR 145.6 million; Cyprus EUR 130.0 million (after the scheduled redemption of EUR 33.3 million on 15 July 2014). The exposure to Ireland, which amounted to EUR 879 million at its highest, has been completely eliminated.

As at 30 June 2014, KF’s **total assets** amounted to **EUR 7.8 billion** (31-12-2013: EUR 8.2 billion; 30-06-2013: EUR 9.5 billion). After the capital contributions made in 2013 and the value recovery realised through restructuring measures, KF has a **sound capital base** of EUR 590.1 million, EUR 403.6 million of which being Common Equity Tier 1 capital, as at 30 June 2014. This corresponds to a **total capital ratio** of **19.9%** and a **core capital ratio** of **13.6%**. Thus, KF is on schedule in meeting the **Basel III criteria**. Assuming stable planning parameters and in the absence of renewed market turmoil, KF currently does not foresee any need for further capital injections.

Net of guarantee fees paid in the amount of EUR 10.9 million and after appropriation of EUR 14.3 million to a general risk provision pursuant to § 57 of the Austrian Banking Act, KF reports a **balanced mid-year result**.

Portfolio run-off

As at the mid-year reporting date, KF's **exposure from risk positions** amounted to a total of **EUR 6.5 billion**. The portfolio run-down measures taken since the beginning of the restructuring process can be broken down as follows:

Table: Run-off of risk positions since November 2008

Run-off of risk positions since November 2008 in million EUR	2008/ 2009[1)]	2010	2011	2012[2)]	2013	01-01-2014 to 30-06-2014	Total 2008 to 30-06-2014
Securities – sold	516	964	1,513	895	662	528	**5,078**
Loans – sold	0	115	539	90	58	0	**802**
CDS – sold	2,183	20	108	2,894	4,003	1,578	**10,786**
Total sold	2,699	1,099	2,160	3,878	4,723	2,106	**16,666**
Securities – redeemed	635	560	609	758	254	200	**3,016**
Loans – redeemed	870	816	203	130	77	34	**2,130**
CDS – matured	298	202	40	173	74	0	**787**
Total redeemed	1,803	1,578	852	1,061	405	234	**5,933**
Total sold/redeemed	**4,502**	**2,677**	**3,012**	**4,939**	**5,129**	**2,341**	**22,599**
Total exposure (year/month-end)	**30,000 / 27,299**	**24,667**	**19,039**	**14,463**	**8,831**	**6,490**	
of which securities/loans	*15,200 / 13,630*	*12,480*	*9,108*	*7,520*	*6,243*	5,508	
of which CDS and guarantees / net	*12,200 / 10,737*	*11,100*	*9,286*	*6,185*	*2,013*	370	
of which other (money market/derivatives)	*2,600 / 2,932*	*1,087*	*645*	*758*	*575*	612	
Total assets pursuant to Austrian Company Code	- / 17,657	16,492	14,901	10,970	8,194	7,793	
Hidden burden [3)]	-	-2,769	-3,105	-1,707	-920	-753	

1) Nominal reductions for 2008/2009
2) Excluding effects of PSI Greece
3) From securities, loans and CDS exposure and hedging derivatives

Portfolio/Risk structure

As at 30 June 2014, **84.2%** of KF's portfolio, i.e. EUR 5.5 billion, was **rated investment grade** (BBB or higher); EUR 1.8 billion or 28.0% of the total exposure was rated in the AAA/AA range. The high portfolio quality is also reflected in a low default rate: as at 30 June 2014, the **non-performing-loan ratio** (definition of default according to Basel III) was **2.1%.**

The ten biggest risk groups from exposures to sovereigns, other territorial authorities and government-guaranteed positions accounted for EUR 2.6 billion or 40.4% of the total portfolio as at 30 June 2014 (31-12-2013: EUR 3.7 billion). Compared with EUR 5.1 billion as at 30 June 2013, the positions have been reduced by 48.2%. This has resulted in a significant reduction of the concentration risk and the exposure to countries under EU bailout measures. As at 30 June 2014, the sovereign exposures to Portugal, Spain and Cyprus were down to EUR 175.3 million, EUR 145.6 million and EUR 130.0 million, respectively (after the scheduled redemption of a EUR 33.3 million government bond as at 15 July 2014). Portugal and Spain exited the EU bailout programme in May 2014 and November 2013, respectively. The formerly high exposure to Ireland has been completely eliminated. Moreover, direct negotiations between KF and the Republic of Cyprus, based on contractual clauses, led to a significant reduction of the residual term of the exposure. Other restructuring measures taken in the first half of 2014 resulted in further value recovery in the amount of approximately EUR 31.4 million, which in turn served to strengthen KF's equity base.

Table: The ten biggest risks from exposure to sovereigns, territorial authorities and government-guaranteed positions, in TEUR

#	Counterparty in EUR 1,000	Exposure as at 30-06-2014*	Share	of which sovereigns	sf which territorial authorities	of which government-guaranteed	of which securities	of which CDS / guaran-tees	of which loans
1	Austria	584,601	9.0 %	478,805	0	105,795	105,795	478,805	0
2	Italy	414,392	6.4 %	302,955	111,437	0	401,392	13,000	0
3	USA	309,446	4.8 %	7,005	302,442	0	309,446	0	0
4	UK**)	283,136	4.4 %	0	283,136	0	20,670	0	262,466
5	Poland	251,888	3.9 %	251,888	0	0	251,888	0	0
6	Portugal	201,426	3.1 %	175,274	26,151	0	150,274	31,081	20,070
7	Spain	172,817	2.7 %	145,589	27,228	0	145,589	0	27,228
8	Cyprus *) **)	168,336	2.6 %	163,358	0	4,978	33,342	0	134,993
9	Romania	120,642	1.9 %	95,421	25,220	0	120,226	0	416
10	Hungary	114,495	1.8 %	114,495	0	0	179,495	-65,000	0
	Total Top 10	**2,621,179**	**40.4 %**	**1,734,792**	**775,614**	**110,773**	**1,718,119**	**457,886**	**445,173**
	Total portfolio	**6,490,414**	**100.0%**	**2,433,852**	**959,139**	**176,470**	**4,778,544**	**370,409**	**729,950**

*) EU support received
**) EUR 33.3 million securities of the Republic of Cyprus were redeemed on schedule on 15 July 2014, the remaining exposure to Cyprus is EUR 135.0 million.

The **hidden burdens** of the portfolio have decreased by 18.2% to **EUR 753 million** as at 30 June 2014 and by EUR 638.0 million or 45.9% compared with 30 June 2013. Besides specific loan loss provisions in the amount of EUR 63.5 million and a receivable in the amount of EUR 5.3 million guaranteed by the Republic of Austria, general loan loss provisions pursuant to § 57(1) and § 57(3) of the Austrian Banking Act amounted to EUR 73.4 million and EUR 95.0 million, respectively, as at 30 June 2014. Portfolio loan loss provisions amounted to EUR 0.8 million. Overall, the risk buffer in place as at 30 June 2014 comprised a total of EUR 238.0 million.

Capital measures taken by the Republic of Austria

KF has received **no additional capitalisation support** from the Republic of Austria since the end of 2013. The net amount of all capital measures taken by the Republic of Austria between November 2008 and 30 June 2014 declined by EUR 11.4 million to EUR 2,167.3 million in the first half of 2014. The reduction is due to guarantee fees in the amount of EUR 10.9 million paid in the first half of 2014 (see below) and to the fact that the outstanding guarantee of the Republic of Austria was reduced through redemption by EUR 0.5 million to EUR 5.3 million without guarantee call.

Table: Overview of capital measures taken by the Republic of Austria as at 30-06-2014

Overview of capital measures taken by the Republic of Austria in EUR million	30-06-2014	31-12-2013	30-06-2013
Capitalisation agreement of 17 November 2009 with debtor warrant	1,140.1	1,140.1	1,140.0
Shareholder contributions / surety of the Republic of Austria	1,139.9	1,140.4	823.0
Capital increase 2011	389.0	389.0	389.0
Total – gross	**2,669.0**	**2,669.5**	**2,352.0**
Guarantee fees paid by KF 2008 - 6/2014	-673.2	-662.3	-645.9
Return cash flow from guarantee fees 2008 - 12/2011	210.0	210.0	210.0
Guarantee fees paid by KA – debtor warrant structure 2009 - 7/2013	-38.5	-38.5	-38.2
Total – net	**2,167.3**	**2,178.7**	**1,877.8**

For the capital measures taken under the capitalisation agreement of 17 November 2009, the Republic of Austria as at 30 June 2014 is entitled to receive future annual surpluses and/or future liquidation proceeds under its value recovery right in the amount of EUR 1,216.4 million, senior to any other profit-sharing rights and equity instruments.

Guarantee fees

In the first half of 2014, KF paid EUR 10.9 million in guarantee fees, including EUR 7.4 million for the government-guaranteed commercial paper programme, EUR 3.2 million for issue guarantees and EUR 0.3 million for the surety granted by the Republic of Austria. As at 30 June 2014, amounts paid by KF since the take-over by the Republic of Austria add up to a **gross total of EUR 673.2 million in guarantee fees**. After deduction of the restructuring contributions made by the Republic of Austria up to the end of 2011 in the amount of EUR 210.0 million**, net guarantee fees paid come to EUR 463.2 million**.

Liquidity

As at 30 June 2014, KF's **funding volume** (excluding own funds) totalled **EUR 6.5 billion** (31-12-2013: EUR 6.9 billion), of which EUR 4.6 billion (31-12-2013: EUR 3.8 billion) or **70.2%** (31-12-2013: 55.0%) was raised **independent of direct government support**. In accordance with the parameters of the restructuring plan, the main focus of KF's funding activities was on short-term funding. As of the reporting date, a total of EUR 6.2 billion (31-12-2013: EUR 5.2 billion) in short-term funding was outstanding, mainly commercial paper, ECB tenders, money-market deposits and repo funding. As at 30 June 2014, the long-term funding volume amounted to EUR 0.3 billion (31-12-2013: EUR 1.8 billion).

Government-guaranteed **bonds** in the amount of EUR 1.2 billion, which had been issued under the Interbank Markets Support Act (IBSG), were **redeemed on schedule** in the first half of 2014 without guarantee call. As of the mid-year reporting date, no ISBG bonds remain outstanding. The maximum bond volume at the time of issue had been EUR 8.5 billion. A EUR 3.0 billion guarantee facility for a commercial paper programme issued by KF under the Financial Market Stability Act (FinStaG) will remain in place, as it secures low-cost funding for KF and is therefore in the interest of both the company and its owners. This guarantee does not qualify as equity and, consequently, does not count toward the capital measures; like the previous liquidity guarantees, this guarantee is not expected to be called.

Table: Changes in liquidity guarantees

KA Finanz AG liquidity guarantees								
in million EUR	**31-12-2008**	**31-12-2009**	**31-12-2010**	**31-12-2011**	**31-12-2012**	**31-12-2013**	**30-06-2014**	**31-12-2014**
IBSG guarantees[1)]	0.0	8,514.7	7,547.2	4,547.2	2,297.2	1,246.2	0.0	0.0
Clearing bank line	0.0	0.0	1,750.0	0.0	0.0	0.0	0.0	0.0
FinStaG guarantees	5,300.0	0.0	0.0	2,500.0	3,000.0	3,000.0	3,000.0	3,000.0
Total	**5,300.0**	**8,514.7**	**9,297.2**	**7,047.2**	**5,297.2**	**4,246.2**	**3,000.0**	**3,000.0**

[1)] based on exchange rates at time of issue

Income

KF reports a **positive development of its results** for the first half of 2014. For the **first time** since the demerger in 2009, KF's **net interest income** was **positive** at **EUR 4.7 million** (HY 2013: EUR -11.1 million); this was mainly due to significantly improved funding costs, not least as a consequence of the expansionary monetary policy of the ECB.

The **fee and commission result** for the first half of 2014 stood at **EUR -12.9 million** (HY 2013: EUR -28.6 million), including the aforementioned guarantee fees of EUR -10.9 million (HY 2013: EUR -22.6 million) paid to the Republic of Austria for sureties and issue guarantees. Following the reduction of the government surety and the complete redemption of the liquidity guarantees issued by the Republic of Austria under the Interbank Markets Support Act, guarantee fees have been reduced by significant amount.

The **result from valuations and realisations** in a net amount of **EUR 12.9 million** is mostly due to value recovery in the course of portfolio run-off (EUR 31.4 million) and the appropriation of EUR 14.3 million to the provision for general banking risks pursuant to § 57 of the Austrian Banking Act.

With **general administrative expenses down** by EUR 0.9 million or 11.3%, KF closed the **first half of 2014** on a **result of zero**.

Rating

KF has been awarded a long-term rating of **A+** (negative outlook) and a short-term rating of F1+ by the **Fitch** rating agency. Fitch's rating outlook is based on an overall rating campaign covering 18 banks in the euro area, motivated by the progressive implementation of the Bank Recovery and Resolution Directive (BRRD), which is yet to be transposed into national law.

Standard & Poor's (S&P) rating of KF is **A** in the long-term segment and A-1 in the short-term segment. Both ratings are on CreditWatch negative status. Six other Austrian issuers have also been put on CreditWatch negative by S&P in the wake of a government-introduced bill – which has in the meantime been voted into law – concerning the subordinated liabilities of an Austrian credit institution.

The government-guaranteed commercial paper programme is rated A-1+ by Standard & Poor's and F1+ by Fitch.

Outlook

With the ECB's expansionary monetary policy foreseen to continue throughout the second half of 2014, the market situation is expected to remain favourable. At the same time, however, sluggish growth in the euro area, combined with increasing political risks, invokes potentially negative scenarios, which might have a negative impact on a market situation which is currently showing signs of significant improvement.

As in previous years, KF will continue its risk-minimising portfolio run-down activities, market conditions permitting, although it may not be possible to maintain the dynamic pace of the recent past. There will be less potential for value recovery and the volume of scheduled redemptions in the portfolio is insignificant. EUR 174 million will be due for redemption in the second half of 2014; further redemptions will amount to EUR 233 million in 2015, EUR 548 million in 2016, EUR 670 million in 2017 and EUR 712.7 million in 2018. Thus, without additional run-down measures taken, the portfolio of securities, loans, CDS and guarantees will be down to EUR 3.5 billion by the end of 2018.

Given stable market conditions and reduced funding costs, and in view of the significant value recovery seen in the first half of the year, KF expects to close the full year 2014 with a balanced result. Therefore, based on the requirement that any surplus is to be used to meet the obligation under the debtor warrant for the business year 2014, no dividend payments to holders of profit-sharing rights will be made in the foreseeable future, as was already communicated through an ad-hoc disclosure pursuant to § 48b of the Stock Exchange Act on 17 November 2009.

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Balance Sheet of KA Finanz AG according to the Austrian Banking Act (BWG)

Assets in TEUR	30-06-2014	31-12-2013
Cash and balances with central banks	315,232.1	127,982.1
Public-sector debt instruments eligible for central bank funding	1,048,719.4	1,521,098.8
Loans and advances to banks (after provision pursuant of § 57(1) BWG of EUR -59.9 million (6/14) / EUR -59.1 million (12/13))	1,969,771.2	1.760,819.9
Loans and advances to customers (after provision pursuant to § 57(1) BWG of EUR -13.6 million (6/14) / EUR 0.0 million (12/13)	2,226,871.0	2,301,127.5
Bonds and other fixed-income securities	2,066,029.4	2,261,286.7
Participations	23.1	23.1
Property, plant and equipment	70.8	70.8
Other assets	132,184.9	184,433.7
Deferrals	34,196.0	37,318.1
Assets	**7,793,097.8**	**8,194,160.7**

Liabilities and equity in TEUR	30-06-2014	31-12-2013
Amounts owed to banks	2,254,658.6	1,576,868.7
Amounts owed to customers	613,483.5	421,229.1
Securitised liabilities	4,053,874.4	5,115,132.1
Other liabilities	159,581.3	201,819.0
Accruals	56,168.3	137,556.4
Provisions	107,524.8	194,294.0
Fund for general banking risks	95,000.0	95,000.0
Supplementary capital	144,208.5	143,663.0
Subscribed capital	389,000.0	389,000.0
Statutory reserve pursuant to § 23(6) BWG	76,091.1	76,091.1
Net loss	-156,492.7	-156,492.7
of which loss carried forward	*-156,492.7*	*-156,492.7*
of which result for the period	*0.0*	*0.0*
Liabilities and equity	**7,793,097.8**	**8,194,160.7**

Income Statement of KA Finanz AG according to the Austrian Banking Act (BWG)

in TEUR	01-01-2014 - 30-06-2014	01-01-2013 - 30-06-2013
Interest and similar income	208,384.6	254,107.0
Interest and similar expenses	203,679.0	265,246.1
Net interest income	**4,705.7**	**-11,139.0**
Net fee and commission income	-12,875.4	-28,557.6
of which guarantee fees paid to the Republic of Austria	*-10,880.5*	*-22,585.5*
Result from financial transactions	15.6	3,473.1
of which provision for impending losses from CDS	*0.0*	*3,998.5*
Other operating income	2.4	1.2
Operating income	**-8,151.6**	**-36,222.4**
General administrative expenses	**-7,031.7**	**-7,927.6**
Personnel expenses	0.0	0.0
Other administrative expenses (non-personnel expenses)	-7,031.7	-7,927.6
Depreciation of tangible assets	0.0	-0.3
Other operating expenses	-54.4	-678.0
Operating expenses	**-7,086.2**	**-8,606.0**
Operating result	**-15,237.8**	**-44,828.4**
Result from valuations and realisations	12,863.3	26,146.5
of which change in provision pursuant to § 57(1) BWG	*-14,317.6*	*64,000.0*
of which result from portfolio run-off	*31,442.4*	*-41,781.6*
of which valuations of securities held as current assets	*1,284.2*	*-984.1*
of which changes in specific loan loss provisions	*-4,603.0*	*8,556.5*
of which other	*-942.7*	*-3,644.4*
Result of ordinary activities	**-2,374.5**	**-18,681.9**
Extraordinary income *	2,377.0	0.0
Extraordinary expenses	0.0	0.0
Extraordinary result	**2,377.0**	**0.0**
Taxes on income	-2.5	1.6
Result for the period	**0.0**	**-18,680.3**

* comprises earmarked use of shareholder contribution received in 2013 for risk-minimising run-down measures