KA FINANZ AG

## PRESS RELEASE OF KA FINANZ AG

### Business year 2017: Significant structural changes

- Risk exposure reduced by EUR 1.7 billion to EUR 7.9 billion
- Transformation into wind-down unit (de-banking)
- Funding through ABBAG
- Wind-down horizon shortened from 2040 to 2026

(Vienna, 15 March 2018) – For KA Finanz AG (KF) the business year 2017 was marked by two major structural changes: In a first step, a framework agreement on the refinancing of KF was concluded with ABBAG (*Abbaumanagementgesellschaft des Bundes*), a company wholly owned by the Republic of Austria and responsible for the management of wind-down entities. The agreement provides for refinancing facilities to be made available to KF in a total volume of EUR 8.2 billion, which are to fully replace KF's current funding raised in the money and capital markets. Subsequently, the Financial Market Authority (FMA) approved the application to operate KF as a run-off company pursuant to § 162 of the Austrian Bank Recovery and Resolution Act ("de-banking"). As of the effective date of the corresponding administrative notice issued by FMA, KF's banking license lapsed.

#### *KA Finanz to be operated as a run-off company*

Operation as a run-off company enables KF to create an efficient and less costly structure in a changed regulatory environment. Credit institutions in the European Union are confronted with increasingly stringent regulatory conditions and own funds requirements, which are designed to be met by active commercial banks, but are difficult and expensive to comply with for run-off companies, such as KF.

The transformation into a run-off company also shortens the wind-down horizon for KF's portfolio. Originally, complete wind-down by 2040 was provided for in the restructuring plan. As a run-off company, KF now aims to reach this target according to the wind-down plan already in 2026. KF will make every effort to take advantage of market opportunities and utilise any potential for the recovery of asset values in the course of the run-off.

#### *Portfolio structure and run-off*

KF's risk exposure amounts to a total of EUR 7.9 billion, comprising EUR 0.4 billion in loans, EUR 3.1 billion in securities, EUR 0.1 billion in CDS/guarantees, and EUR 0.7 billion in interest and currency hedging derivatives.

The portfolio has an average rating of A+ (rating scale according to Standard & Poor's/Fitch), with EUR 7.4 billion or 93.4% rated investment grade (BBB- or higher) and EUR 4.0 billion or 51.3% rated AAA/AA. The non-performing-loan (NPL) ratio stands at 0.1%. As at 31 December 2017, hidden burdens amounted to EUR 0.99 billion.

In the course of 2017, KF's risk positions were reduced by a total of EUR 1.7 billion, including EUR 0.5 billion through active wind-down measures and another EUR 0.9 billion through scheduled and early redemptions; the rest of the reduction was due to the termination of derivative contracts and foreign exchange effects. Altogether, KF has wound down risk positions in a total amount of EUR 27.4 billion since the beginning of the restructuring process.

### *Result for the year 2017*

The after-tax result according to Austrian GAAP is negative at EUR -301.4 million, which is primarily due to the de-banking process and the related reclassification and valuation effects of EUR -360.9 million. Other factors accounting for the negative result include guarantee fees payable to the Republic of Austria, which have in the meantime been reduced through new funding obtained, contributions to the Bank Resolution Fund, and the low-interest environment. KF's total assets dropped by 18% to EUR 9.8 billion in 2017.

### *Outlook*

In 2018, KF will continue to actively pursue the wind-down of its portfolio. The wind-down plan provides for a portfolio reduction by approx. EUR 0.9 billion, above all through active asset sales, but also through maturities and redemptions. The main emphasis will be on eliminating positions outside the DACH region (Austria, Germany, Switzerland). Moreover, KF will use every opportunity within the framework of its active portfolio management to eliminate individual securities or loan exposures, always considering the potential for the recovery of asset values and the need to minimize costs, or sell entire sub-portfolios with a view to de-risking.

KF's funding structure has in the meantime been almost completely transformed through the implementation of the framework agreement concluded with ABBAG. A covered bond with a volume of EUR 500 million, maturing in September 2018, will also be replaced by funds from the ABBAG facilities.

The Annual Report is available for download at https://www.kafinanz.at/finanzberichte/jahresberichte/.

***For enquiries please contact*:**

KA Finanz AG
Helmut Urban, Chairman of the Executive Board
Tel.: +43 (0)1/310 06 06-600
mailto:info@kafinanz.at; www.kafinanz.at