

PRESS RELEASE OF KA FINANZ AG

Steinbichler: “Run-down of KF’s original risk portfolio 81% complete”

KA Finanz publishes its 2014 results

- Balanced result for the year 2014
- Risk portfolio reduced by EUR 3.1 billion or 35.4% in 2014
- 81% or EUR 24.3 billion of the original EUR 30 billion portfolio wound down
- Concentration risks eliminated
- High portfolio quality: 86.1% investment grade; non-performing-loan ratio 2.7%

(Vienna, 26 March 2015) – KA Finanz AG (KF) has today presented its result for the year 2014 according to Austrian GAAP. Taking advantage of favourable market conditions, KF succeeded in **reducing its risk portfolio by EUR 3.1 billion** or 35.4% to EUR 5.7 billion in 2014. The remaining portfolio of EUR 5.7 billion has a balanced risk profile, with EUR 4.9 billion or **86.1% rated investment grade**, of which EUR 1.9 billion or 32.8% in the AAA/AA rating range. The non-performing-loan (**NPL**) ratio remains **low** at **2.7%**. Overall, KF’s original portfolio of EUR 30 billion was down by **81.0%** or **EUR 24.3 billion** by the end of 2014.

The portfolio run-down measures taken **significantly reduced the risk profile of the KF portfolio**; in particular, **concentration risks** to European peripheral states, which had a strong impact on KF’s risk position in the past, have been practically **eliminated**. The run-down measures benefitted substantially from the expansionary monetary policy of the European Central Bank (ECB) and the associated improvement of market conditions in the sovereign segment. Currently, KF’s biggest single exposure is to Austria in an amount of EUR 646 million, followed by Italy with EUR 385 million. The exposures to Spain and Ireland have been completely eliminated.

As at 31 December 2014, KF reported **total assets** of **EUR 7.3 billion** (2013: EUR 8.2 billion). With EUR 581.1 million, of which EUR 403.6 million in core capital, KF has a **sound capital base**. This corresponds to a **total capital ratio** of **20.9%** and a **core capital ratio** of **14.5%**, which is significantly above the regulatory minimum requirements.

The **after-tax result for the year 2014**, pursuant to the Austrian Company Code/Austrian Banking Act, is balanced (2013: EUR 0.0 million). Of the EUR 59.1 million risk provision pursuant to § 57.1 of the Austrian Banking Act, an amount of EUR 18.7 million was released. Thus, the remaining risk provisions pursuant to § 57.1 and § 57.3 of the Austrian Banking Act of EUR 40.5 million and EUR 95.0 million, respectively, constitute a risk buffer of EUR 135.5 million. Net impairment charges in 2014 were impacted by an EUR 11.5 million risk provision set up for a bond issued by Heta Resolution AG (HETA, formerly Hypo Alpe Adria), bought in 2005 in a nominal amount of EUR 30 million and covered by a surety of the Austrian Province of Carinthia pursuant to § 5.2 of the Carinthian Provincial Holding Act (*Kärntner Landesholdinggesetz*).

Impact of the partial sale of Kommunalkredit Austria (KA)

As announced by KF through an ad-hoc disclosure on 13 March 2015, an important milestone has been reached in the partial sale process launched through a public tender on 11 August 2014. The Financial Markets Holding Company of the Republic of Austria (FIMBAG) signed a purchase contract with a consortium of buyers consisting of the English Interritus Limited and the Irish Trinity Investments Limited. The contract provides, inter alia, for the remaining part of KA (KA Residual) with total assets of approximately EUR 7 billion to be merged into KF. In the course of this process, assets of high quality with an average rating of AA- will be transferred to KF. The transaction is expected to be closed by mid-2015; it is subject to approvals to be granted by the competent bodies of KA as well as the competent bank supervisory authorities, the EC and other authorities.

Portfolio run-down

As at 31 December 2014, KF held **risk positions** in the amount of **EUR 5.7 billion** in its portfolio. Since the beginning of the restructuring process, the following portfolio run-down measures have been taken:

Run-down of risk positions since November 2008	2008/ 2009 ¹⁾	2010	2011	2012 ²⁾	2013	2014	Total 2008 to 2014
Securities – sold	516	964	1,513	895	662	1,363	5,913
Loans – sold	0	115	539	90	58	0	802
CDS – sold	2,183	20	108	2,894	4,003	1,591	10,799
Total sold	2,699	1,099	2,160	3,878	4,723	2,955	17,514
Securities – redeemed	635	560	609	758	254	336	3,152
Loans – redeemed	870	816	203	130	77	67	2,163
CDS – redeemed	298	202	40	173	74	0	787
Total redeemed	1,803	1,578	852	1,061	405	403	6,102
Total sold / redeemed	4,502	2,677	3,012	4,939	5,129	3,358	23,616
Total exposure (year/month-end)	30,000 / 27,299	24,667	19,039	14,463	8,831	5,701	
<i>of which securities/loans</i>	<i>15,200 / 13,630</i>	<i>12,480</i>	<i>9,108</i>	<i>7,520</i>	<i>6,243</i>	<i>4,696</i>	
<i>of which CDS</i>	<i>12,200 / 10,737</i>	<i>11,100</i>	<i>9,286</i>	<i>6,185</i>	<i>2,013</i>	<i>399</i>	
<i>of which other (money market / derivatives)²⁾</i>	<i>2,600 / 2,932</i>	<i>1,087</i>	<i>645</i>	<i>758</i>	<i>575</i>	<i>606</i>	
Total assets pursuant to Austrian Company Code	n.a. / 17,657	16,492	14,901	10,970	8,194	7,285	
Hidden burden ³⁾	n.a.	-2,769	-3,105	-1,707	-920	-903	

¹⁾ Nominal reduction for 2008/2009

²⁾ Reduction in addition to sale/redemption

³⁾ from securities, loan and CDS exposures as well as hedging derivatives (figure for 2010 excluding loans)

Portfolio / Risk structure

As at 31 December 2014, KF's risk portfolio came to a total volume of EUR 5.7 billion, comprising securities of EUR 4.0 billion, loans of EUR 0.7 billion, CDS/guarantees of EUR 0.4 billion (net after hedges, remaining CDS exposure to Austria only), and interest-rate and currency hedging derivatives of EUR 0.6 billion. The portfolio includes an exposure of EUR 0.6 billion to the Republic of Austria. Overall, KF's portfolio has an average rating of A- (rating scale according to Standard & Poor's/Fitch). **86.1%** of the total portfolio, i.e. EUR 4.9 billion, had an **investment-grade** rating (BBB- or higher), of which 32.8% or EUR 1.9 billion rated AAA/AA. The **NPL ratio** remains **low** at **2.7%**. **Hidden burdens** as at 31 December 2014 stood at a net amount of **EUR 902.6 million**.

Of the ten biggest risk groups from sovereign exposure, territorial authorities and government-guaranteed positions in a total amount of EUR 2.4 billion, EUR 1.3 billion or 56.0% was accounted for by the euro area. The amount includes an exposure of EUR 107.4 million to Cyprus (31-12-2013: EUR 241.5 million), which is the only exposure to a state currently under an EU state aid measures. As at 31 December 2014, KF had no exposure to Ukraine; the exposure to Russia amounted to EUR 12.1 million and was reduced by EUR 96.8 million in the course of the year.

Table: The ten biggest risks from exposure to sovereigns, territorial authorities and government-guaranteed positions, in EUR 1,000

#	Counterparty	Exposure as at 31-12-2014	Share	of which sovereign	of which territorial authorities	of which government-guaranteed	of which securities	of which CDS / guarantees	of which loans
1	Austria	645,673	11.3%	540,852	0	104,820	107,041	538,631	0
2	Italy	384,821	6.8%	281,722	103,099	0	384,821	0	0
3	USA	347,117	6.1%	0	347,117	0	347,117	0	0
4	UK	274,255	4.8%	0	274,255	0	21,041	0	253,214
5	Poland	195,820	3.4%	195,820	0	0	195,820	0	0
6	Portugal*	179,513	3.1%	153,639	25,873	0	153,639	5,856	20,018
7	Cyprus**	107,447	1.9%	104,716	0	2,730	0	0	107,447
8	Canada	93,223	1.6%	0	93,223	0	93,223	0	0
9	Qatar	91,751	1.6%	91,751	0	0	91,751	0	0
10	Mexico	34,043	0.6%	34,043	0	0	34,043	0	0
Total Top 10		2,353,663	41.3%	1,402,544	843,568	107,551	1,428,498	544,487	380,678
Total portfolio		5,694,230	100.0%	1,708,209	967,488	155,821	4,018,587	398,524	670,952

* reduced to EUR 79.5 million in first quarter 2015

** under EU state aid measures

Balance-sheet structure

As at 31 December 2014, KF had **total assets** of **EUR 7.3 billion** (31-12-2013: EUR 8.2 billion), down by EUR 0.9 billion or 11.2% from the year before. The reduction in total assets is due to portfolio run-down measures and redemptions (EUR -1.8 billion); at the same time, collateral requirements were higher due to the lower interest rate level (EUR +0.3 billion), and higher liquidity reserves were held with the Austrian National Bank (EUR +0.3 billion).

Total capital

As at 31 December 2014, KF had **total capital** of **EUR 581.1 million** (2013: EUR 605.7 million); its **core capital** amounted to **EUR 403.6 million** (2013: EUR 403.6 million). With risk-weighted assets of EUR 2.7 billion (2013: EUR 3.6 billion), this corresponds to a **total capital ratio** of **20.9%** (2013: 16.3%) and a **core capital ratio** of **14.5%** (2013: 10.8%).

Capital measures taken by the Republic of Austria

In the business year 2014, KF did **not require any capital support from the Republic of Austria**. Through guarantee fees in the amount of EUR 19.0 million paid in the year under review and the reduction by EUR 1.0 million of an existing EUR 4.7 million government surety, the total volume of capital support granted by the Republic of Austria was reduced by EUR 20 million to a net amount of EUR 2,158.7 million. Altogether, capitalisation support received by KF can be broken down as follows:

Table: Overview of capital measures taken by the Republic of Austria (cumulative), in EUR million

Overview of capital measures taken by the Republic of Austria	31.12.2011	31.12.2012	31.12.2013	31.12.2014
Capitalisation agreement of 17-11-2009 with debtor warrant	1,093.2	1,137.1	1,140.1	1,140.1
Shareholder contribution / Government surety	860.8	825.6	1,140.4	1,139.4
Capital increase 2011	389.0	389.0	389.0	389.0
Total gross	2,343.0	2,351.7	2,669.5	2,668.5
Guarantee fees paid by KF 2008 – 12/2014	-540.0	-623.3	-662.3	-681.3
Return cash flows from guarantee fees 2008 – 12/2011	210.0	210.0	210.0	210.0
Guarantee fees paid by KA under debtor warrant structure 2009 – 7/2013	-23.4	-33.4	-38.5	-38.5
Total net	1,989.6	1,905.0	2,178.7	2,158.7

The Republic of Austria, having recapitalised KF via a debtor warrant structure within the framework of the restructuring of the former Kommunalkredit in 2009, is entitled to receive future annual surpluses (senior to profit participation rights and equity instruments) and/or future liquidation proceeds (senior to equity instruments), in an amount of EUR 1,242.6 million as at 31 December 2014, until full satisfaction of this recovery right.

Guarantee fees

Guarantee fees in a gross amount of EUR 681.3 million were paid by KF between the take-over by the Republic of Austria and 31 December 2014. 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 471.3 million**. Guarantee fees of EUR 19.0 million were paid by KF in 2014, comprising EUR 15.3 million for the government-guaranteed commercial paper programme, EUR 3.2 million for issue guarantees and EUR 0.5 million for the surety granted by the Republic of Austria counting toward KF's eligible capital. Thus, the guarantee fee paid corresponds to 10% of the nominal amount outstanding.

Liquidity

As at 31 December 2014, KF had a **funding requirement** (excluding own funds) of **EUR 6.1 billion** (31-12-2013: EUR 7.0 billion), of which EUR 4.0 billion (31-12-2013: EUR 3.8 billion) or **65%** (31-12-2013: 55%) was **raised independent of direct government support measures**. Thus, after the scheduled redemption of the remaining EUR 1.2 billion government-guaranteed bonds issued under the Interbank Markets Support Act (IBSG), KF's own contribution, relative to its funding volume, was significantly increased. The remaining liquidity guarantees for a commercial paper (CP) programme, which facilitate access to the favourably priced CP market, amount to EUR 3.0 billion.

Following the **scheduled redemption of bonds** in a volume of EUR 1.2 billion in the first half of 2014, all bonds guaranteed by the Republic of Austria under the Interbank Markets Support Act have been redeemed without guarantee call.

Table: Development of liquidity guarantees, in EUR million

Liquidity guarantees KA Finanz AG								
	31.12.2008	31.12.2009	31.12.2010	31.12.2011	31.12.2012	31.12.2013	30.6.2014	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
Guarantees under Financial Markets Stability Act	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's income showed a positive development in 2014. For the first time since the demerger in 2009, **net interest income** was **positive** at EUR 11.3 million. At the same time, **guarantee fees** were reduced on account of the scheduled redemption of government liquidity guarantees by EUR 20.0 million to EUR 19.0 million (2013: 39.0 million). **General administrative expenses** declined by EUR 2.9 million or 17.4% to EUR 13.8 million. Restructuring measures generated material income components, which made it possible for KF to continue its portfolio run-down effort. As in the previous year, the **result for the year 2014 according to Austrian GAAP**, after the release of a EUR 18.7 million risk provision, is **balanced**.

Inclusion in the government sector

On account of the transition from the European System of Accounts (ESA) 1995 to ESA 2010, the Statistical Office of the European Union retroactively re-allocated 1,400 public entities, including KF, to the government sector, which are now included in the calculation of government debt. It is important to underline that KF, as stated above, does not receive direct financial aid from the Republic of Austria, but benefits from liquidity support in the form of the aforementioned EUR 3 billion CP guarantee. Nevertheless, KF counts towards the government sector with its entire funding volume.

Rating

KF has **Fitch** ratings of **A+** (negative outlook) in the long-term segment and **F1+** in the short-term segment. The negative rating outlook relates to the transposition of the Bank Recovery and Resolution Directive (BRRD) into national law. In Austria, the Directive was transposed through adoption of the Federal Act on the Reorganisation and Resolution of Banks (BaSAG), which entered into force as of 1 January 2015.

On 13 March 2015, **Standard and Poor's** (S&P) downgraded KF's long-term rating from A to **A-** and its short-term rating from A-1 to **A-2** in the wake of the decision on a debt moratorium for HETA under the Federal Act on the Reorganisation and Resolution of Banks. The outlook for all S&P ratings is stable. The measure taken reflects the rating agency's assumption that continued support by the Republic of Austria may be needed.

The ratings of the government-guaranteed commercial paper programme remain unchanged at A-1+ by S&P and F1+ by Fitch.

Outlook

The portfolio structure has improved significantly in the course of 2014, with risk positions down by 35.4%. This development was supported by positive market trends as a result of the expansionary monetary policy of the ECB and in anticipation of a programme of securities purchases (quantitative easing), which was implemented at the beginning of March 2015 through a government bond buying programme. The interest rate environment is expected to remain favourable, but given the positive developments of the recent past, market conditions should not be expected to improve to the same extent as in 2014. KF will continue to manage its residual portfolio with prudence throughout 2015, with a view to value recovery and the possibility of realising gains.

Developments will also be influenced by the partial sale of KA. Upon closing of the transaction, KF's total assets will increase by approximately EUR 7 billion, reaching up to EUR 14 billion. It is important to stress that the portfolio to be transferred to KF has an equally high asset quality, i.e. an average rating of AA-. Since funding and a positive net present value will also be transferred, KF's capital position remains stable. From today's point of view, assuming stable market conditions, no additional capital support by the Republic of Austria is expected as a result of this transfer.

As in previous years, KF expects to close 2015 with a negative operating result. Thus, no dividend payments to holders of profit-sharing rights will be made in future, as was already communicated through an ad-hoc disclosure pursuant to § 48d of the Stock Exchange Act on 17 November 2009, the content of which still applies.

For enquiries please contact:

KA Finanz AG
Marcus Mayer (Communication & Marketing)
Tel.: +43 (0)1/31 6 31-593 or +43 (0)664/80 31631 593
<mailto:m.mayer@kafinanz.at>; www.kafinanz.at

BALANCE SHEET OF KA FINANZ AG (Austrian Banking Act)

Assets in EUR		31.12.2014	31.12.2013
1. Cash and balances with central banks		430,631,829.15	127,982,117.34
2. Public-sector debt instruments eligible as collateral for central bank funding		637,482,838.26	1,521,098,806.98
Public-sector debt instruments and similar securities	637,482,838.26		1,521,098,806.98
3. Loans and advances to banks		2,026,336,175.57	1,760,819,945.89
a) repayable on demand	1,946,188,773.55		1,620,616,475.98
b) other receivables	80,147,402.02		140,203,469.91
4. Loans and advances to customers		2,235,619,174.75	2,301,127,475.48
5. Bonds and other fixed-income securities		1,771,748,211.21	2,261,286,686.01
a) of public issuers	674,243,140.92		969,129,729.43
b) of other issuers	1,097,505,070.29		1,292,156,956.58
<i>of which:</i>			
<i>own bonds</i>	<i>0.00</i>		<i>0.00</i>
6. Participations		23,070.00	23,070.00
<i>of which:</i>			
<i>in banks</i>	<i>0.00</i>		<i>0.00</i>
7. Plant, property and equipment		70,801.44	70,801.44
8. Other assets		149,541,723.63	184,433,666.94
9. Accruals		33,937,661.52	37,318,096.48
Total assets		7,285,391,485.53	8,194,160,666.56
Off-balance-sheet items			
1. Foreign assets		6,625,978,621.70	7,750,382,479.81

Liabilities in EUR		31.12.2014	31.12.2013
1. Amounts owed to banks		2,120,953,788.11	1,576,868,689.98
a) repayable on demand	218,862,772.88		116,243,848.85
b) with agreed maturity or period of call	1,902,091,015.23		1,460,624,841.13
2. Amounts owed to customers		890,031,088.35	421,229,097.99
Other liabilities			
of which:			
aa) repayable on demand	200,025.82		24,572,959.53
bb) with agreed maturity or period of call	889,831,062.53		396,656,138.46
3. Securitised liabilities		3,425,962,925.14	5,115,132,107.35
a) bonds issued	185,016,644.69		1,397,895,986.84
b) other securitised liabilities	3,240,946,280.45		3,717,236,120.51
4. Other liabilities		150,259,153.38	201,818,971.60
5. Accruals		39,706,144.09	137,556,441.67
6. Provisions		111,224,793.41	194,293,991.59
Other	111,224,793.41		194,293,991.59
6.A Fund for general banking risks		95,000,000.00	95,000,000.00
7. Supplementary capital¹⁾		143,655,166.26	143,662,939.59
8. Subscribed capital		389,000,000.00	389,000,000.00
9. Statutory reserve pursuant to § 57(5) Austrian Banking Act		76,091,088.46	76,091,088.46
10. Net result		-156,492,661.67	-156,492,661.67
Total liabilities		7,285,391,485.53	8,194,160,666.56

Off-balance-sheet items			
1. Contingent liabilities		732,741,119.48	2,565,075,190.08
of which:			
a) liabilities from sureties and guarantees from the assignment of collateral	732,741,119.48		2,565,075,190.08
2. Credit risks		0.00	0.00
of which:			
liabilities from repo transactions	0.00		0.00
3. Eligible own funds pursuant to Part 2 of EU Regulation 575/2013		581,084,517.31	622,868,342.24
of which:			
supplementary capital pursuant to Part 2, Title I, Chapter 4 of EU Regulation 575/2013	177,486,090.52		219,269,915.45
4. Own funds required pursuant to Art. 92 of EU Regulation 575/2013		222,338,403.60	260,500,950.19
of which:			
Own funds required pursuant to Art. 92.1(a) of EU Regulation 575/2013 – CET 1 capital ratio	14.52 %		12.39 %
Own funds required pursuant to Art. 92.1(b) of EU Regulation 575/2013 – tier 1 capital ratio	14.52 %		12.39 %
Own funds required pursuant to Art. 92.1(c) of EU Regulation 575/2013 – total capital ratio	20.91 %		19.13 %
5. Foreign liabilities		5,962,352,325.75	7,021,519,733.50

- 1) In the context of the adaptation of the Austrian Banking Act to CRR, the balance-sheet classification form in Annex 2 of § 43, Part 1, Austrian Banking Act, was amended, which resulted in the reclassification of "subordinated liabilities" into "supplementary capital" and "securitised liabilities".
- 2) On 31-12-2013 Basel II applied to items 3 and 4.

INCOME STATEMENT OF KA FINANZ AG (Austrian Banking Act)

in EUR		2014	2013
1.	Interest and similar income	392,261,544.27	480,966,600.85
	<i>of which:</i>		
	<i>from fixed-income securities</i>	118.659,879.69	150,464,352.45
2.	Interest and similar expenses	-380,986,974.25	-494,132,187.70
I.	Net interest income	11,274,570.02	-13,165,586.85
3.	Fee and commission income	554,812.72	10,716,580.72
4.	Fee and commission expenses	-22,298,024.88	-63,464,228.58
5.	Income/expenses from financial transactions	6,010.47	15,786,769.22
6.	Other operating income	4,928.77	4,036.39
II.	Operating income	-10,457,702.90	-50,122,429.10
7.	General administrative expenses	-13,813,702.57	-16,730,392.08
	a) other administrative expenses (non-personnel)	-13,813,702.57	-16,730,392.08
8.	Impairments of assets recognised under asset item 7	0.00	-339.02
9.	Other operating expenses	-265,444.42	-753,000.00
III.	Operating expenses	-14,079,146.99	-17,483,731.10
IV.	Operating result	-24,536,849.89	-67,606,160.20
10.	Expenses from impairments of receivables and additions to provisions for contingent liabilities and credit risks	-313,294.87	-244,015,097.42
11.	Income from impairments of investment securities as well as participations and investments in associates	10,741,787.80	0.00
12.	Expenses from impairments of investment securities as well as participations and investments in associates	0.00	-20,925,264.92
V.	Result of ordinary activities	-14,108,356.96	-332,546,522.54
13.	Extraordinary income	14,113,591.80	332,581,689.89
14.	Extraordinary result	14,113,591.80	332,581,689.89
15.	Taxes on income	-5,209.84	-35,160.35
16.	Other taxes not to be reported under item 15	-25.00	-7.00
VI.	Result for the year	0.00	0.00
16.	Loss carried forward	-156,492,661.67	-156,492,661.67
VII.	Net result	-156,492,661.67	-156,492,661.67