

PRESS RELEASE OF KA FINANZ AG

Steinbichler: “81% reduction of EUR 30 billion risk portfolio achieved” KA Finanz publishes its 2015 interim result

- Balanced interim result 2015
- 81.3% or EUR 24.4 billion of the original EUR 30 billion risk portfolio eliminated
- High asset quality of remaining EUR 5.6 billion portfolio: 89.4% investment grade
- Sound capital position: total capital ratio 20.5%, common equity tier-1 ratio 14.8%

(Vienna, 28 August 2015) – KA Finanz AG (KF) published its 2015 interim result today. Taking advantage of favourable market conditions, KF succeeded in **reducing its exposure by another EUR 499 million** in the first half of 2015. The asset quality of the remaining portfolio of EUR 5.6 billion is high: **89.4%** of the portfolio is rated **investment grade**, including EUR 2.0 billion or 35.3% with AAA/AA ratings. The **NPL ratio** remains low at **2.7%**. Altogether, the original portfolio of EUR 30 billion was reduced by **81.3%** or **EUR 24.4 billion** by mid-2015. **Total assets** as at 30 June 2015 amounted to **EUR 6.6 billion**. KF has a very sound **equity base** of EUR 557.4 million. This corresponds to a **total capital ratio** of **20.5%** and a **common equity tier-1 ratio** of **14.8%**, which is well above the regulatory minimum requirements. After the release of a general risk provision pursuant to § 57 (1) of the Austrian Banking Act (BWG) of EUR 20.5 million, the after-tax **result for the year according to Austrian GAAP** (Austrian Company Code/Austrian Banking Act) is balanced. The remaining risk provision pursuant to § 57 (1) BWG in the amount of EUR 19.9 million, together with the risk provision pursuant to § 57 (3) BWG of EUR 95.0 million and valuation adjustments in an additional amount of EUR 75.4 million, constitute a conservative risk buffer of EUR 190.3 million as at 30 June 2015.

Effects of the partial sale of Kommunalkredit Austria (KA)

As notified through an ad-hoc disclosure on 13 March 2015, the Financial Markets Holding Company of the Republic of Austria (FIMBAG), holding 99.78% of the shares of KA in trust for the Republic of Austria, signed a purchase contract with a consortium of buyers – consisting of the English company Interritus Limited and the Irish company Trinity Investments Limited – on a partial sale of KA. The contract provides for the entire banking operation of KA, including all its subsidiaries, with total assets of EUR 4.5 billion to be transferred to a newly established company (KA New) by way of a proportionate demerger for new incorporation pursuant to § 1 (2.2) of the Demerger Act. The part of KA remaining after the demerger (KA Residual), with total assets of approx. EUR 6.7 billion, will be merged into KF.

The takeover of the portfolio of assets and liabilities of KA Residual within the framework of the merger of KA Residual into KF will retroactively increase KF's total assets according to Austrian GAAP from EUR 7.3 billion as at 31 December 2014 to approx. EUR 14 billion as at 1 January 2015. The takeover of the asset portfolio of KA Residual (average rating AA-) will improve the average rating of KF's portfolio from A- to A+. The demerger is required to comply with a condition imposed by the European Commission (EC) and is not based on asset quality criteria. On the liabilities side, covered bonds in a volume of EUR 2.7 billion will be transferred to KF, resulting in a broadening of KF's funding basis. At the same time, the transfer of capital will have a positive impact on KF's capital position, which will remain stable with a common equity tier-1 ratio of 15.4% and a total capital ratio of 20.1%; without the merger, KF has a common equity tier-1 ratio of 14.5% and a total capital ratio of 20.9%. The service level agreement, under which KF receives operational services from KA, remains in place and ensures KF's operational stability.

Portfolio run-down

After the portfolio run-down measures taken, KF's **exposure** amounted to **EUR 5.6 billion** as at 30 June 2015 (31-12-2014: EUR 5.7 billion). Exchange rate developments, in particular the appreciation of the US dollar, increased the exposure by EUR 0.4 billion between 31 December 2014 and 30 June 2015; thus, the total exposure, considering the run-down measures taken in the period under review, dropped by EUR 0.1 billion. The portfolio run-down measures taken since the beginning of the restructuring process can be broken down as follows:

Table: Run-down of risk positions, in EUR million

Run-down of risk positions since November 2008 in EUR million	2008/2009 ¹⁾	2010	2011	2012 ²⁾	2013	2014	01-01-2015 to 30-06-2015	Total 2008 to 30-06-2015
Securities – sold	516	964	1,513	895	662	1,363	330	6,243
Loans – sold	0	115	539	90	58	0	0	802
CDS – sold	2,183	20	108	2,894	4,003	1,591	0	10,799
Total sold	2,699	1,099	2,160	3,878	4,723	2,955	330	17,844
Securities – redeemed	635	560	609	758	254	336	139	3,291
Loans – redeemed	870	816	203	130	77	67	30	2,192
CDS – maturing	298	202	40	173	74	0	0	787
Total redeemed	1,803	1,578	852	1,061	405	403	169	6,270
Total sold/redeemed	4,502	2,677	3,012	4,939	5,129	3,358	499	24,115
Total exposure (end of year/month)	30,000 / 27,299	24,667	19,039	14,463	8,831	5,701	5,608	
<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>4,422</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>451</i>	
<i>of which other (money market / derivatives)³⁾</i>	<i>2,600 / 2,932</i>	<i>1,087</i>	<i>645</i>	<i>758</i>	<i>575</i>	<i>606</i>	<i>734</i>	
Total assets Austrian Company Code	- / 17,657	16,492	14,901	10,970	8,194	7,285	6,624	
Hidden burden ⁴⁾	-	-2,769	-3,105	-1,707	-920	-903	-857	

1) Nominal reduction for 2008/2009

2) Excluding effects of PSI Greece

3) Reduction in addition to sale/redemption

4) From securities, loan and CDS exposures as well as hedging derivatives; figure for 2010 excluding loans

Portfolio / Risk structure

KF's total risk portfolio of EUR 5.6 billion consists of EUR 3.8 billion in securities, EUR 0.7 billion in loans, EUR 0.5 billion in CDS/guarantees (net after hedges; the remaining CDS exposure exclusively consists of CDS relating to the Republic of Austria), and EUR 0.7 billion in other positions (mainly hedging derivatives). The total portfolio includes an exposure of EUR 0.7 billion to the Republic of Austria. Excluding the exposure to the Republic of Austria and the exposure from hedging derivatives, KF's risk positions as at 30 June 2015 totalled EUR 4.3 billion. As at 30 June 2015, EUR 5.0 billion or **89.4%** of KF's portfolio was rated **investment grade**; EUR 2.0 billion or 35.3% of the total exposure had ratings in the AAA/AA range. The capital-weighted average rating was A (according to Standard & Poor's rating scale). The non-performing-loan (**NPL**) ratio remains low at **2.7%**. **Hidden burdens decreased** from the 2014 year-end value of EUR 902.6 million by **EUR 45.7 million** or 5.1% to EUR 856.8 million as at 30 June 2015.

The ten biggest exposures to sovereigns, other territorial authorities and government-guaranteed positions amounted to EUR 2.3 billion as at 30 June 2015, accounting for 41.1% of the total exposure (31-12-2014: EUR 2.4 billion or 41.3%); compared with the value reported as at 30 June 2014, the concentration of risks from the ten biggest exposures has been reduced by EUR 300 million or 12.0%.

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

# in TEUR	Counterparty	Exposure as at 30-06-2015	Percentage	of which sovereigns	of which territorial authorities	of which govern- ment- guaranteed	of which securities	of which CDS / guaran- tees	of which loans
1	Austria	689,546	12.3%	584,460	0	105,086	105,086	584,460	0
2	Italy	397,076	7.1%	291,381	105,695	0	397,076	0	0
3	USA	373,881	6.7%	8,550	365,331	0	373,881	0	0
4	UK	299,265	5.3%	0	299,265	0	22,083	0	277,182
5	Poland	201,270	3.6%	201,270	0	0	201,270	0	0
6	Qatar	99,365	1.8%	99,365	0	0	99,365	0	0
7	Canada	98,507	1.8%	0	98,507	0	98,507	0	0
8	Cyprus *)	81,331	1.5%	78,538		2,793	0	0	81,331
9	Mexico	36,078	0.6%	36,078	0	0	36,078	0	0
10	Switzerland	29,114	0.5%	0	29,114	0	0	0	29,114
Total Top 10		2,305,432	41.1%	1,299,641	897,911	107,879	1,333,346	584,460	387,626
Total portfolio		5,607,700	100.0%	1,558,908	986,208	154,719	3,753,967	451,352	668,397

*) under EU support measures

Balance sheet structure

Through active portfolio run-down measures and redemptions, KF's **total assets** dropped by EUR 0.7 billion or 9.1% from their 2014 year-end value to **EUR 6.6 billion** as at 30 June 2015 (31-12-2014: EUR 7.3 billion).

Own funds

KF's **own funds** total **EUR 557.4 million** (31-12-2014: EUR 581.1 million); **common equity tier-1 capital** stands at **EUR 403.6 million** (31-12-2014: EUR 403.6 million). As at 30 June 2015, this results in a **total capital ratio of 20.5%** (31-12-2014: 20.9%) and a **common equity tier-1 ratio of 14.8%** (31-12-2014: 14.5%).

Capital measures taken by the Republic of Austria

KF has received **no additional capitalisation support from the Republic of Austria** in the period under review. The net amount of all capital measures taken by the Republic of Austria between November 2008 and the reporting date of 30 June 2015 declined by EUR 8.3 million to EUR 2,150.4 million in the first half of 2015. The reduction is due to guarantee fees in the amount of EUR 8.1 million paid in the first half of 2015 and to the fact that the outstanding surety of the Republic of Austria was reduced through redemption by EUR 0.2 million to EUR 4.5 million without guarantee call.

Table: Overview of capital measures taken by the Republic of Austria as at 30-06-2015, in EUR million

Overview of capital measures taken by the Republic of Austria in EUR million	30-06-2014	31-12-2014	30-06-2015
Capitalisation agreement of 17-11-2009 with debtor warrant	1,140.1	1,140.1	1,140.1
Shareholder contributions / Government surety	1,138.9	1,139.4	1,139.2
Capital increase 2011	389.0	389.0	389.0
Total gross	2,669.0	2,668.5	2,668.3
Guarantee fees paid by KF 2008 – 6/2014	-673.2	-681.3	-689.4
Return cash flows 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	-38.5
Total net	2,167.3	2,158.7	2,150.4

For the capital measures taken, a value recovery right entitles the Republic of Austria to receive future annual surpluses (senior to profit-sharing rights and equity instruments) and/or future liquidation proceeds (senior to equity instruments, but junior to all other obligations) in the amount of EUR 1,268.3 million (as at 30 June 2015).

Guarantee fees

In the first half of 2015, KF paid EUR 8.1 million in guarantee fees, including EUR 7.9 million for the government-guaranteed commercial paper programme and EUR 0.2 million for a surety of EUR 4.5 million granted by the Republic of Austria as at 30 June 2015 for a single loan exposure. As at 30 June 2015, amounts paid by KF since the take-over by the Republic of Austria add up to a **gross total of EUR 689.4 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 479.4 million**.

Liquidity

As at 30 June 2015, KF's **funding volume** (excluding own funds) totalled **EUR 5.4 billion** (31-12-2014: EUR 6.1 billion), including EUR 5.2 billion (31-12-2014: EUR 6.0 billion) in short-term funding, in particular commercial paper issues, ECB tender, money-market deposits and repo funding. The long-term funding volume amounted to EUR 0.2 billion (31-12-2014: EUR 0.2 billion). As at 30 June 2015, EUR 3.1 billion (31-12-2014: EUR 4.0 billion) or 57.1% of the funding volume (31-12-2014: 65.2%) was raised in the free market **independent of direct government support**.

A new EUR 1 billion government-guaranteed bond with a maturity of five years and a coupon of 0.375% was issued on 11 August 2015. The success of the issue, which improves the maturity structure of KF's funding, is reflected in the fact that it was 1.6 times oversubscribed.

As at 30 June 2015, a EUR 3.0 billion framework guarantee of the Republic of Austria was in place for KF's commercial paper programme issued under the Financial Markets Stability Act (FinStaG). The guarantees in place do not qualify as equity and, consequently, do not count as capital measures; like previous liquidity guarantees, the guarantee is not expected to be called.

Table: Development of liquidity guarantees, in EUR million

Liquidity guarantees in EUR million	31-12-2008	31-12-2009	31-12-2010	31-12-2011	31-12-2012	31-12-2013	31-12-2014	30-06-2015
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	3,000.0²⁾

¹⁾ Based on foreign currency exchange rates at time of issuance

²⁾ as at 30-06-2015: before EUR 1 billion issue guarantee August 2015

Income position

For the first half of 2015, KF reports a **balanced after-tax result for the period** of EUR 0.0 million **according to Austrian GAAP** (HY 2014: EUR 0.0 million), after the release of a general risk provision pursuant to § 57 (1) BWG in the amount of EUR 20.5 million. The remaining risk provision pursuant to § 57 (1) BWG of EUR 19.9 million, together with the risk provision pursuant to § 57 (3) BWG of EUR 95.0 million and valuation adjustments in an additional amount of EUR 75.4 million, constitute a conservative risk buffer of EUR 190.3 million as at 30 June 2015. **Net interest income** was positive at EUR 1.3 million (HY 2014: EUR 4.7 million). The **fee and commission result** for the first half of 2015 stood at EUR -8.7 million (HY 2014: EUR -12.9 million), resulting, above all, from guarantee fees paid to the Republic of Austria for sureties and for the guaranteed commercial paper programme.

General administrative expenses amounted to EUR -7.9 million (HY 2014: EUR -7.0 million), the increase being due exclusively to contributions expected to be paid into the national Bank Resolution Fund for the full year 2015; pursuant to the Bank Reorganisation and Resolution Act, contributions to the fund are due as of 1 January 2015. Without this additional regulatory charge, general administrative expenses would amount to EUR -6.4 million (HY 2014: EUR -7.0 million), down by 9.4% from the first half of 2014. The net **valuation and realisation result** of EUR 13.4 million (HY 2014: EUR 12.9 million) is primarily due to the costs of portfolio run-down measures in the amount of EUR -8.5 million, booked against the positive effect of the release of EUR 20.5 million from general risk provisions pursuant § 57 of the Austrian Banking Act.

Rating

On account of the Bank Recovery and Resolution Directive (BRRD), applicable throughout Europe after its adoption by the EU and transposed into national law through the Federal Act on the Reorganisation and Resolution of Banks in force since 1 January 2015, Austrian Banks, including KF, were re-rated by Standard & Poor's (S&P) and Fitch. On 13 March 2015, KF's **S&P rating** was downgraded from A / A-1 (**long-term / short-term**) to **A- / A-2**. **Fitch** downgraded KF's rating on 19 May 2015 from previously A+ / F1+ to **BBB+ / F2**. The ratings by both agencies have a **stable outlook**.

Outlook

As a consequence of the partial sale of KA, as decided, and the resulting merger of KA Residual into KF, KF's total assets will increase to approx. EUR 14 billion. However, due to the quality of the assets transferred and the positive capital transfer value, the risk position and the capital base of KF New will not be negatively affected. The average rating of the KF portfolio will increase from A- to A+; its common equity tier-1 ratio will increase from 14.5% to 15.4%, and its total capital ratio will remain high at 20.1%, compared with 20.9%.

On the liabilities side, covered bonds in a volume of EUR 2.7 billion will be transferred, resulting in a broadening of KF's funding basis. KF will remain a wholly owned company of the Republic of Austria (held in trust by FIMBAG).

As a result of the decisions taken by the Supervisory Boards of KA and KF at their meetings on 26 June 2015 and by the General Meeting at its extraordinary meeting on 27 July 2015, all resolutions by the bodies of the banks required as conditions precedent for the implementation of the demerger of KA for new incorporation and for the merger of KA Residual into KF have been adopted. The closing of the transaction, subject to approval by the competent regulatory authorities, is expected for the second half of 2015.

KF does not expect to close 2015 with a positive result. Thus, no dividend payments to holders of profit-sharing rights will be made, 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. As communicated through an ad-hoc disclosure on 26 June 2015, within the framework of the merger, profit-dependent instruments are to be compensated for at their economic value pursuant to § 226 (3) of the Austrian Stock Corporation Act.

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BALANCE SHEET OF KA FINANZ AG (according to the Austrian Banking Act)

Assets in TEUR	30-06-2015	31-12-2014
Cash and balances with central banks	140,510.1	430,631.8
Public-sector debt instruments eligible as collateral for central bank funding	469,604.8	637,482.8
Loans and advances to banks (after provisions pursuant to § 57 (1) BWG of EUR -7.9 million (06/15) / EUR -26.9 million (12/14))	1,927,337.2	2,026,336.2
Loans and advances to customers (after provisions pursuant to § 57 (1) BWG of EUR -13.6 million (06/15) / EUR -13.6 million (12/14))	2,212,408.9	2,235,619.2
Bonds and other fixed-income securities	1,700,542.9	1,771,748.2
Participations	0.1	23.1
Property, plant and equipment	70.8	70.8
Other assets	137,884.3	149,541.7
Accruals	35,712.8	33,937.7
Total assets	6,624,071.9	7,285,391.5

Liabilities in TEUR	30-06-2015	31-12-2014
Amounts owed to banks	1,862,585.0	2,120,953.8
Amounts owed to customers	599,989.5	890,031.1
Securitised liabilities	3,322,934.4	3,425,962.9
Other liabilities	140,682.8	150,259.2
Accruals	36,985.6	39,706.1
Provisions	113,105.4	111,224.8
Fund for general banking risks	95,000.0	95,000.0
Supplementary capital (pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013)	144,190.9	143,655.2
Subscribed capital	389,000.0	389,000.0
Statutory reserve pursuant to § 57 (5) BWG	76,091.1	76,091.1
Net loss	-156,492.7	-156,492.7
<i>of which loss carried forward</i>	-156,492.7	-156,492.7
<i>of which result for the period</i>	0.0	0.0
Total liabilities	6,624,071.9	7,285,391.5

INCOME STATEMENT OF KA FINANZ AG (according to the Austrian Banking Act)

in TEUR	01-01-2015 - 30-06-2015	01-01-2014 - 30-06-2014
Interest and similar income	162,687.8	208,384.6
Interest and similar expenses	-161,358.4	-203,679.0
Net interest income	1,329.4	4,705.7
Net fee and commission income	-8,724.1	-12,875.4
<i>of which guarantee fees paid to the Republic of Austria</i>	-8,113.3	-10,880.5
Result from financial transactions	39.4	15.6
Other operating income	2.2	2.4
Operating income	-7,353.1	-8,151.6
General administrative expenses	-7,871.3	-7,031.7
Personnel expenses	0.0	0.0
Other administrative expenses (non-personnel expenses)	-6,371.3	-7,031.7
Contributions to the Bank Resolution Fund ¹⁾	-1,500.0	0.0
Other operating expenses	0.1	-54.4
Operating expenses	-7,871.2	-7,086.2
Operating result	-15,224.3	-15,237.8
Result from valuations and realisations	13,393.4	12,863.3
<i>of which change in provision pursuant to § 57 (1) BWG</i>	20,548.2	-14,317.6
<i>of which result from portfolio run-down</i>	-8,485.1	31,442.4
<i>of which valuations of securities held as current assets</i>	-1,420.5	1,284.2
<i>of which changes in specific loan loss provisions</i>	1,437.9	-4,603.0
<i>of which other</i>	1,312.9	-942.7
Result of ordinary activities	-1,830.9	-2,374.5
Extraordinary income ²⁾	2,443.6	2,377.0
Extraordinary result	2,443.6	2,377.0
Taxes on income	-612.7	-2.5
Result for the period	0.0	0.0

¹⁾ A provision of EUR 1.5 million has been set up for contributions expected to be paid into the national Bank Resolution Fund as of 1 January 2015 pursuant to the Bank Reorganisation and Resolution Act. The definitive amount to be contributed by KF is expected to be established in the fourth quarter of 2015.

²⁾ Comprises the earmarked use of the shareholder contribution received in 2013 for risk-minimising run-down measures.