



KF New

Company Profile

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Background on Merger

Merger of KA Residual into KA Finanz AG (KF New)

Demerger 2009

- Following the acquisition by the Republic of Austria in 2008, the former Kommunalkredit, in November 2009, was split into Kommunalkredit Austria AG (KA), repositioning itself as a centre of competence for municipal and public infrastructure project solutions, and KA Finanz AG (KF), being responsible for the structured run-down of the non-strategic portfolio

EC State Aid Decision / Amendment Decision

- The restructuring plan, as approved by the European Commission (EC) on 31 March 2011, provided for KA to be privatised by 30 June 2013, KF continuing its structured run-down
- As market conditions did not allow to conclude such privatisation, KA remained in the ownership of the Republic of Austria and, according to an Amendment Decision by the EC of 19 July 2013, no longer engaged in any new lending business

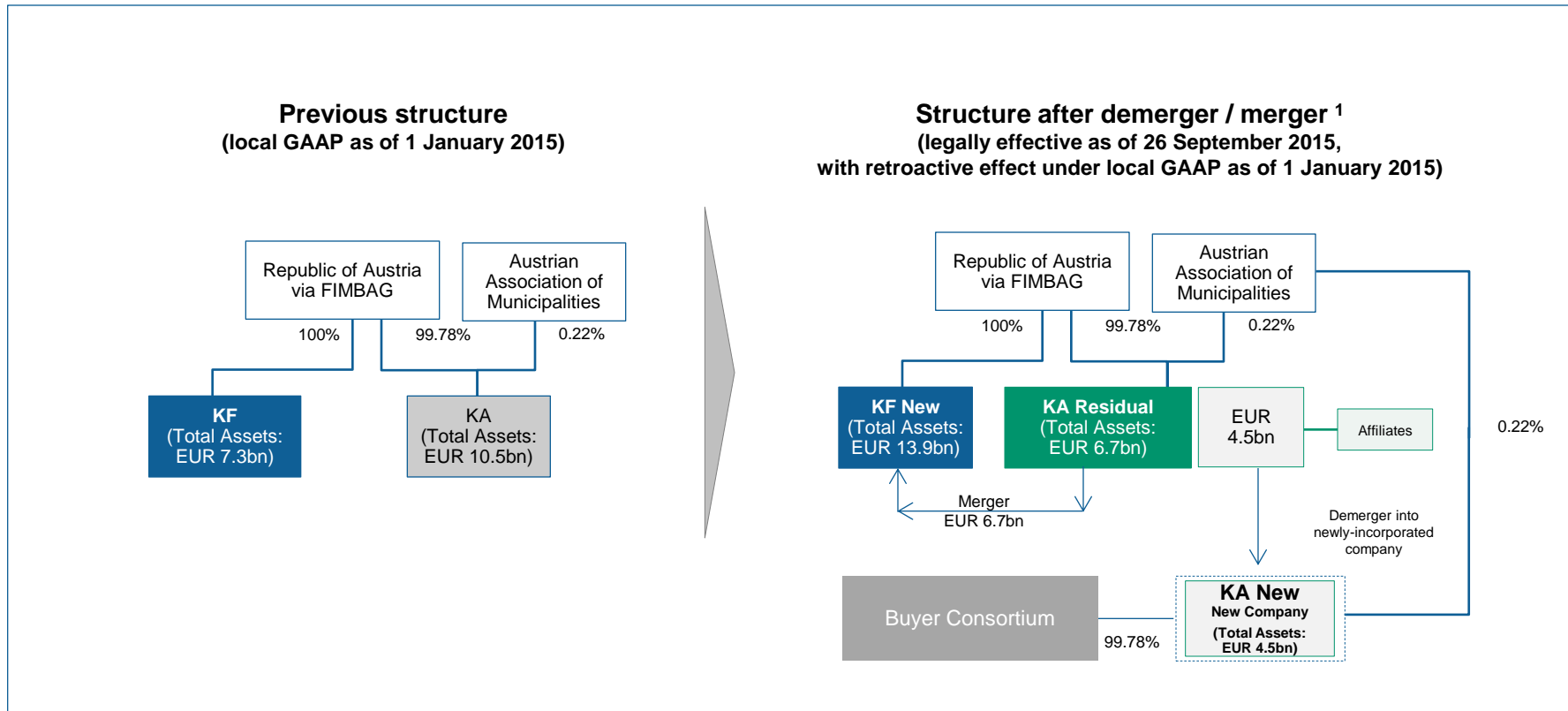
Partial Sale Process (KA) / Partial Absorption of Assets and Liabilities

- The EC Amendment Decision provided for a partial sale of KA's operations up to 50% of KA's total assets as at 19 July 2013, i.e. up to EUR 5.8bn
- As announced in an ad-hoc disclosure on 11 August 2014, FIMBAG Finanzmarkteteiligung Aktiengesellschaft des Bundes (FIMBAG), which held 99.78% of the shares of KA in trust for the Republic of Austria, launched a public sale process on 14 August 2014, inviting bids for KA
- KF simultaneously notified its consideration to absorb assets and liabilities of KA exceeding the volume of the partial sale by way of a demerger
- As announced in an ad-hoc disclosure on 13 March 2015, FIMBAG signed a sale and purchase agreement with a buyer consortium providing for a partial sale of KA and the possible absorption of parts of assets and liabilities of KA
- The closing of the transaction between FIMBAG and the consortium was implemented on 28 September 2015

Demerger / Merger

- As announced in an ad-hoc disclosure on 25 September 2015, the entire business operations of KA, including all its subsidiaries, were transferred into a newly incorporated company (KA New) by way of a proportionate demerger for new incorporation pursuant to the Austrian Demerger Act (Spaltungsgesetz), legally effective as of 26 September 2015
- The part of KA remaining after this restructuring step (KA Residual) was merged into KF, also legally effective as of 26 September 2015

KF New: Merger / Transaction Structure



Source: Company information, not audited

¹ Proportionate demerger according to §1.2.2 First Scenario of the Austrian Demerger Act (Spaltungsgesetz)

Purpose and Activities of KF New

Since 28 November 2009, KF has been responsible for the structured run-down of the non-strategic portfolio of the former Kommunalkredit. After the take-over of the KA Residual portfolio, KF New will continue the targeted reduction of risks, while minimizing the input of public resources.

The activities of KF New will remain limited to the following:

- Structured run-down of the portfolio
- Active risk management measures (hedging transactions to manage currency risks, interest-rate risks and credit risks)
- Funding of the existing assets (e.g. ECB tenders, commercial paper programs, money market, covered bonds)
- The bank will not be engaged in any new asset-side business

Merger Implications

1	Merger of KA Residual	<ul style="list-style-type: none">• The takeover of assets and liabilities of KA Residual results in an increase of KF's total assets from EUR 7.3bn by EUR 6.6bn to EUR 13.9bn (KF New) as of 1 January 2015
2	Improved asset quality	<ul style="list-style-type: none">• Following the takeover of KA Residual's assets, the average rating of the portfolio improved from A- to A+.• KF New will continue the targeted reduction of assets
3	Broadening of funding base	<ul style="list-style-type: none">• On the liability side, EUR 2.7bn covered bonds (as at 1 January 2015) were transferred together with the corresponding cover pool. This broadens KF's existing funding base.
4	Strong capital base	<ul style="list-style-type: none">• Total capital increased from EUR 581m to EUR 707m, Tier 1 capital from EUR 404m to EUR 541m• Strong capital base with a CET 1 ratio of 15.4% and a total capital ratio of 20.1% as at 1 January 2015
5	Operating stability	<ul style="list-style-type: none">• Operating stability through continuation of service level agreement (SLA) also under new ownership of KA New
6	Public ownership	<ul style="list-style-type: none">• FIMBAG continues to hold 100% of the shares of KF New in trust for the Republic of Austria

Key Indicators KF New

in EURm	KF as at 31.12.2014	Δ (KA Residual)	KF New as at 01.01.2015
Total assets	7,285.4	+6,632.9	13,918.3
Portfolio	5,694.2	+5,846.9	11,541.1
thereof securities	4,018.6	+649.7	4,668.3
thereof loans	671.0	+4,836.8	5,507.8
thereof CDS/guarantees	398.5	0.0	398.5
Average rating	A-	AA-	A+
NPL ratio	2.7%	-1.1%	1.6%
Volume funding	6,304.5	+6,143.9	12,448.4
thereof short-term funding (ECB, money market-/client deposits, repos, commercial papers)	6,159.5	+2,279.5	8,439.0
thereof senior funding	145.0	+1,131.7	1,276.7
thereof covered bond funding	0.0	+2,732.7	2,732.7
Capital structure			
Risk weighted assets (RWAs)	2,779.2	+731.8	3,511.1
Total capital	581.1	+125.2	706.3
thereof tier 1	403.6	+137.7	541.3
thereof tier 2	177.5	-12.6	164.9
Capital ratios			
Total capital ratio	20.9%	-0.7%	20.1%
Common equity tier 1 - ratio	14.5%	+0.9%	15.4%

Source: Company information, not audited

¹ The numbers shown do not take into consideration any changes or developments after 1. January 2015

Closing and Merger Balance Sheet

Following the merger, total assets and liabilities increased from EUR 7.3bn to EUR 13.9bn

Closing Balance Sheet KF Old

According to Local GAAP, as at 31 December 2014, in EURk

Assets in EURk	31.12.2014
1. Cash and balances with central banks Public-sector debt instruments eligible	430,631,829
2. as collateral for central bank funding	637,482,838
3. Loans and advances to banks	2,026,336,176
4. Loans and advances to customers	2,235,619,175
5. Bonds and other fixed-income securities	1,771,748,211
6. Participations	23,070
7. Investments in associates	0
8. Intangible non-current assets	0
9. Property, plant and equipment	70,801
10. Other assets	149,541,724
11. Accruals	33,937,662
Total assets	7,285,391,486

Liabilities in EURk	31.12.2014
1. Amounts owed to banks	2,120,953,788
2. Amounts owed to customers	890,031,088
3. Securitised liabilities	3,425,962,925
4. Other liabilities	150,259,153
5. Accruals	39,706,144
6. Provisions	111,224,793
6a. Fund for general banking risks	95,000,000
7. Supplementary capital pursuant to Part 2 Titel I Chapter 4 CRR	143,655,166
8. Participation capital	0
9. Subscribed capital	389,000,000
10. Capital reserves	0
11. Revenue reserves	0
12. Statutory reserve pursuant to § 23(6) Austrian Banking Act	76,091,088
13. Net loss / profit	-156,492,662
Equity	308,598,427
Total liabilities	7,285,391,486

Merger Balance Sheet KF New

According to Local GAAP, as at 1 January 2015, in EURk

Assets in EURk	01.01.2015
1. Cash and balances with central banks Public-sector debt instruments eligible	430,631,829
2. as collateral for central bank funding	788,694,056
3. Loans and advances to banks	3,205,524,940
4. Loans and advances to customers	6,996,376,471
5. Bonds and other fixed-income securities	2,198,193,621
6. Participations	23,070
7. Investments in associates	0
8. Intangible non-current assets	0
9. Property, plant and equipment	70,801
10. Other assets	241,080,934
11. Accruals	57,707,166
Total assets	13,918,302,888

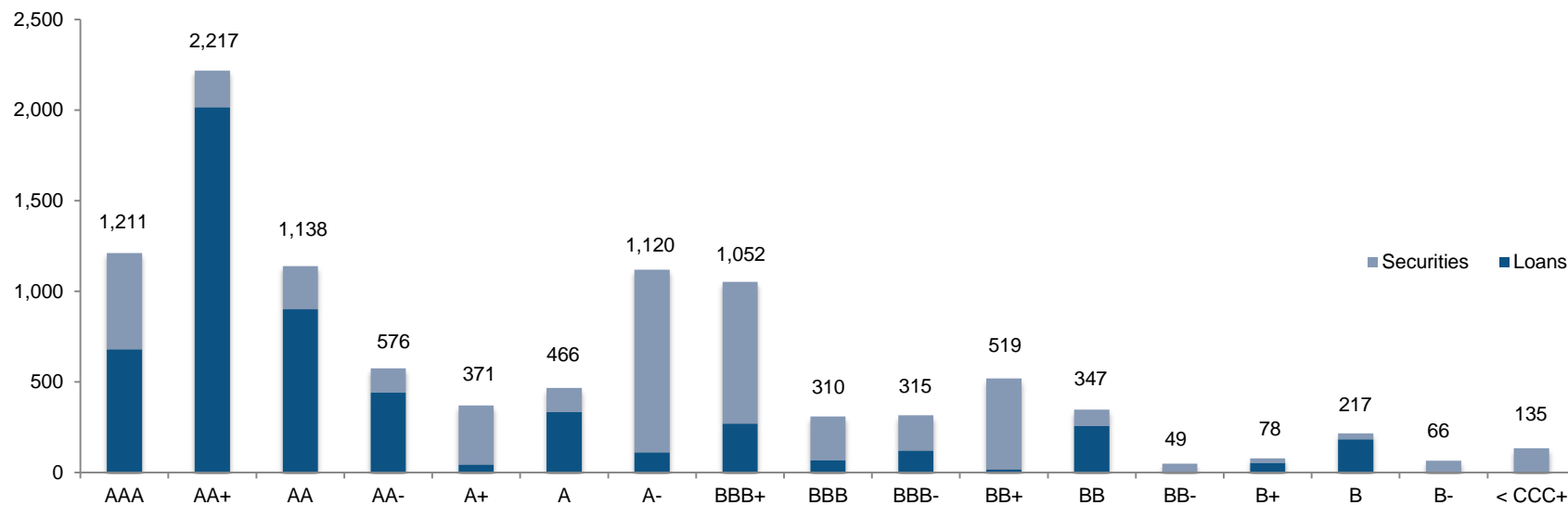
Liabilities in EURk	01.01.2015
1. Amounts owed to banks	4,483,937,058
2. Amounts owed to customers	1,697,888,906
3. Securitised liabilities	6,574,531,092
4. Other liabilities	296,902,189
5. Accruals	53,711,690
6. Provisions	133,913,220
6a. Fund for general banking risks	127,000,000
7. Supplementary capital pursuant to Part 2 Titel I Chapter 4 CRR	136,072,166
8. Participation capital	0
9. Subscribed capital	454,845,803
10. Capital reserves	8,973,627
11. Revenue reserves	0
12. Statutory reserve pursuant to § 23(6) Austrian Banking Act	93,388,106
13. Net loss / profit	-142,860,970
Equity	414,346,566
Total liabilities	13,918,302,888

Source: Company information, not audited

KF New's Portfolio (1/2)

Following the takeover of KA Residual's assets, the average rating of the portfolio improved from A- to A+. 90% of the KF New assets are rated investment grade and 51% AAA/AA, compared with 86% and 33% respectively in KF Old.

KF New loans and securities by S&P rating
as at 1 January 2015, in EURm

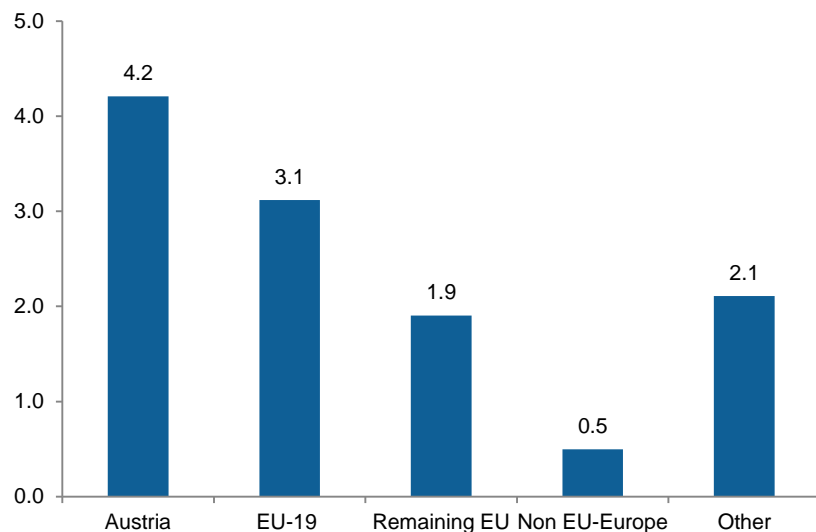


Source: Company information, not audited

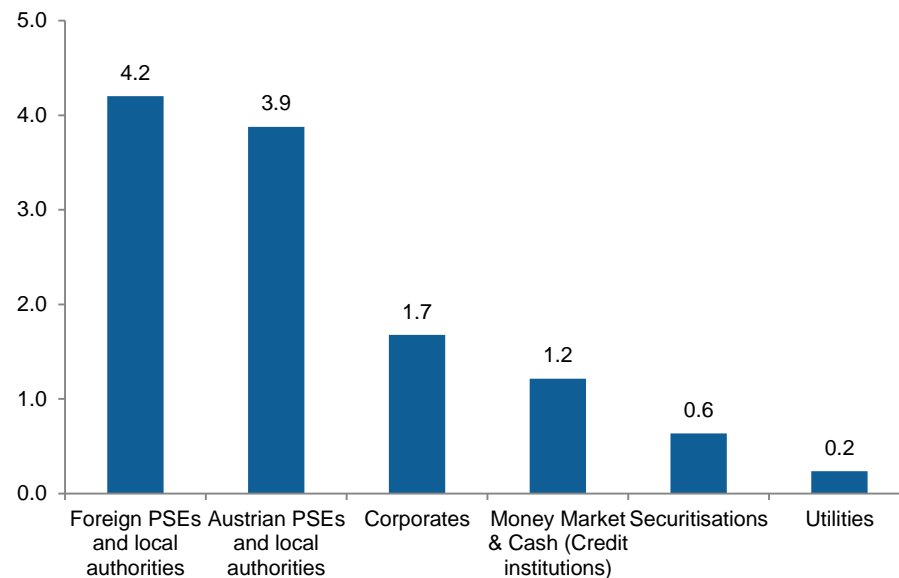
KF New's Portfolio (2/2)

EUR 4.2bn or 36% of KF New's portfolio is accounted for by Austria. The majority of the borrowers (EUR 8.1bn or 74%) are Foreign und Austrian local authorities and public sector entities (PSEs).

KF New portfolio by region
as at 1 January 2015, in EURbn



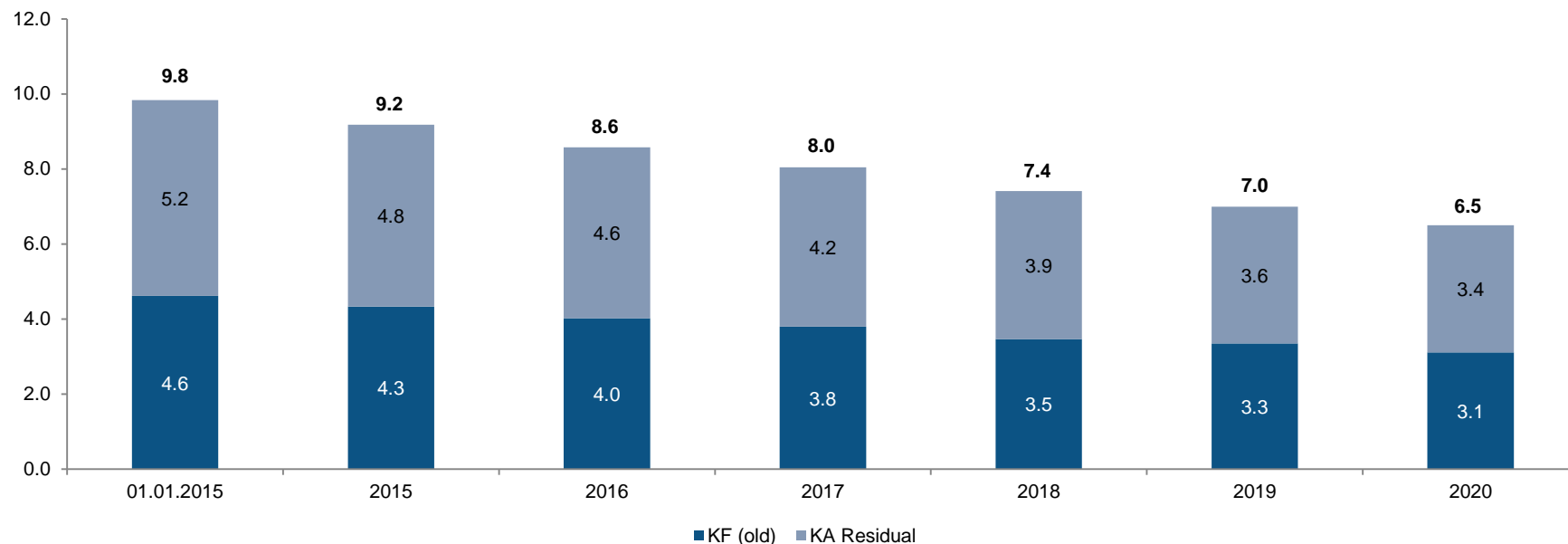
KF New portfolio by borrower type
as at 1 January 2015, in EURbn



Run-down of the KF New Portfolio

KF New will continue to actively manage the run-down of the portfolio.

Run-down of loans and securities ¹
2015 – 2020, in EURbn



Source: Company information, not audited

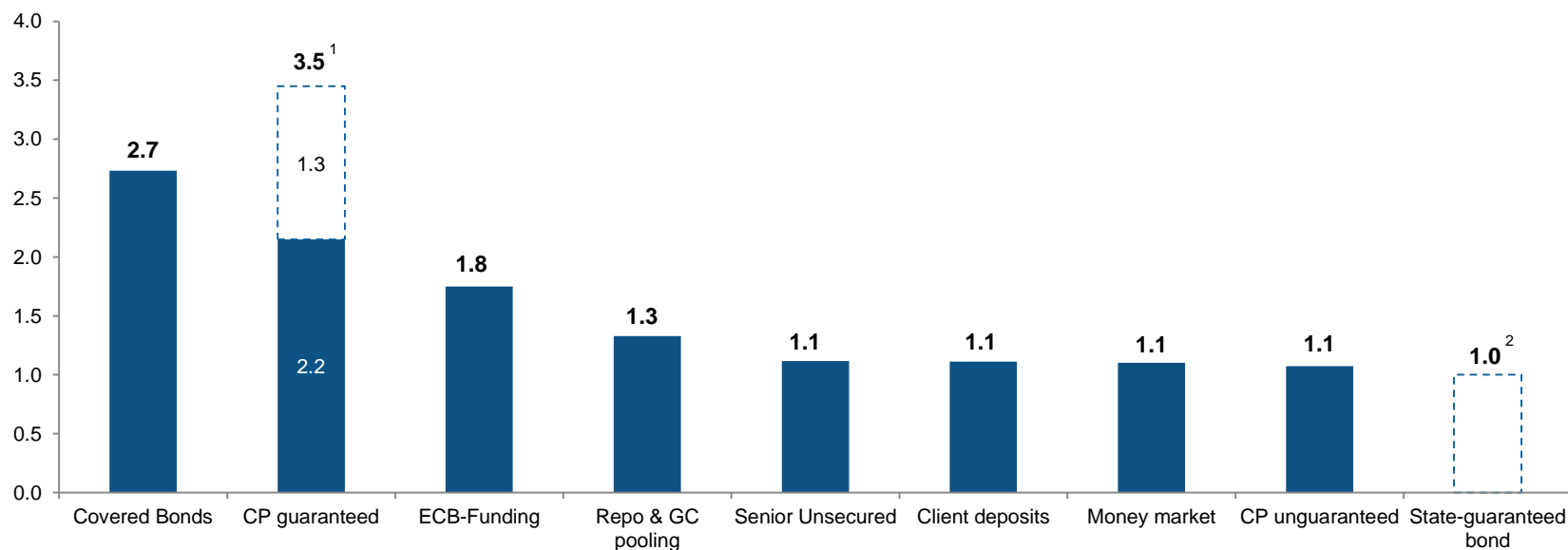
¹ Not including interest accrued / asset disposals

KF New's Funding Structure as of Merger

On the liability side, EUR 2.7 billion covered bonds were transferred together with the corresponding cover pool. This broadens KF's existing funding base.

Funding structure

EUR 12.4bn, as at 1 January 2015, in EURbn



Source: Company information, not audited

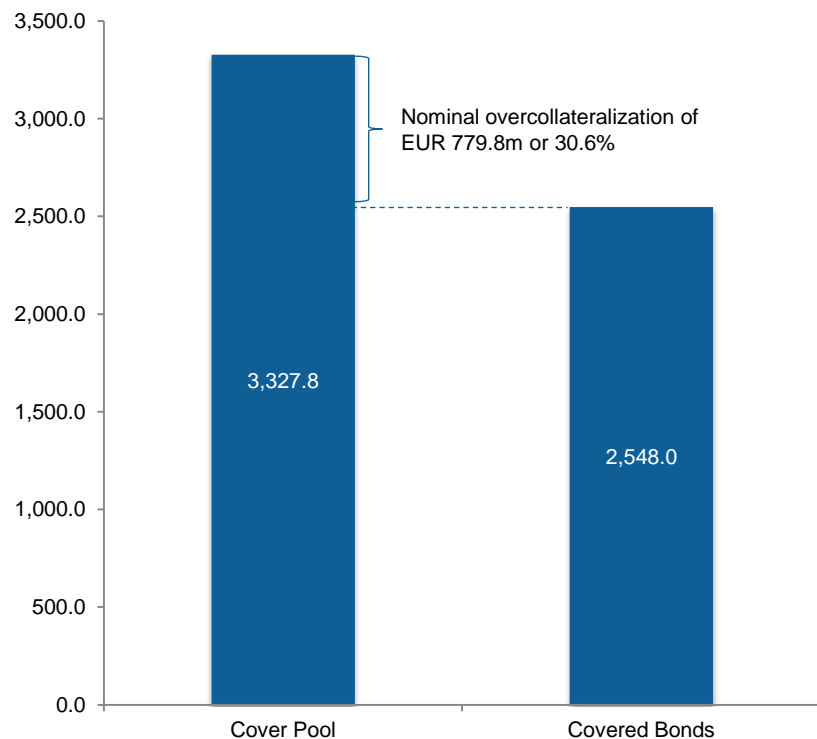
¹ Guaranteed Commercial Paper (CP) Facility increased from EUR 3.0bn by EUR 0.5bn to EUR 3.5bn as of 11 September 2015

² EUR 1.0bn state-guaranteed bond issued as of 11 August 2015

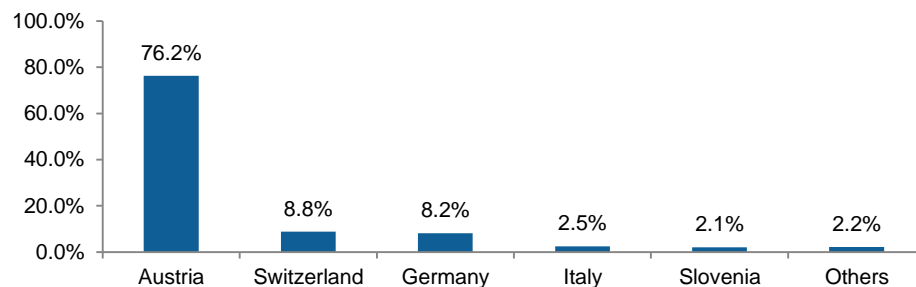
Cover Pool of KF New

The KF New portfolio includes a well-diversified pool of assets which are eligible for the public sector cover pool. As at 26 September 2015 the cover pool includes EUR 3,327.8m assets, covered bonds outstanding amount to EUR 2,548.0m

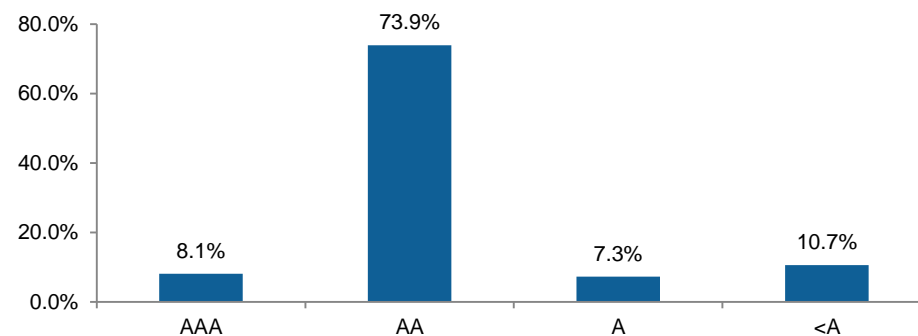
Cover pool and covered bonds outstanding
as at 26 September 2015, in EURm



Cover pool by region
as at 26 September 2015, in %



Cover pool by rating
as at 26 September 2015, in %

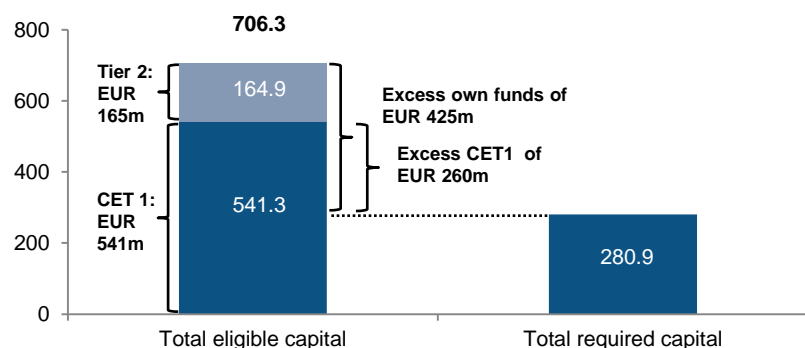


Source: Company information, not audited

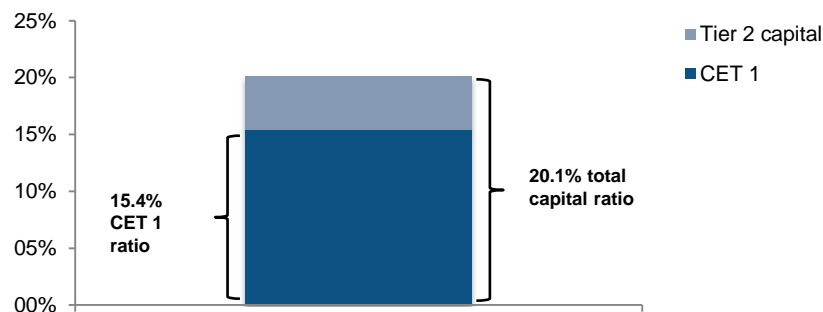
Capitalisation (Local GAAP/ UGB)

KF New shows a strong capital base with a common equity tier 1 (CET 1) ratio of 15.4% and a total capital ratio of 20.1% as at 1 January 2015

Eligible capital vs. required capital
as at 1 January 2015, in EURm



Capital ratios
as at 1 January 2015, in %

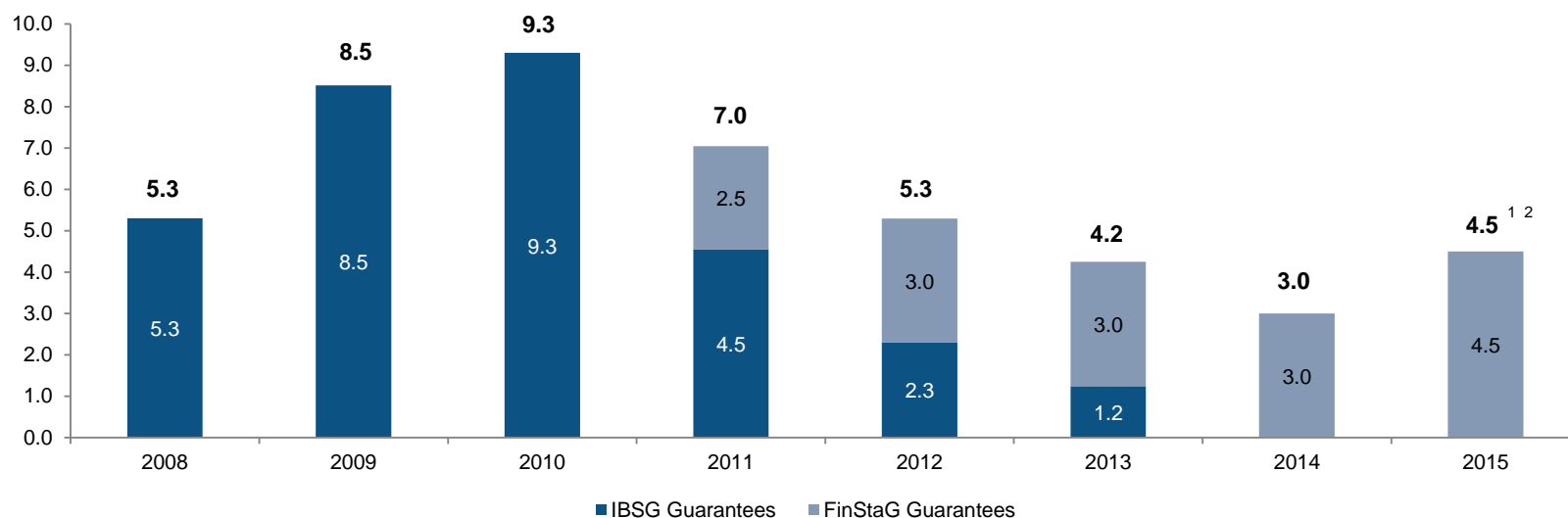


Source: Company information, not audited

Liquidity support measures of the Republic of Austria

Liquidity guarantees of the Republic of Austria currently amount to EUR 4.5bn, comprising a EUR 3.5bn guaranteed commercial paper program¹ and a EUR 1.0bn government-guaranteed bond². No additional liquidity guarantees were necessary as a result of the merger of the KA Residual portfolio.

Liquidity guarantees of the Republic of Austria as of September 2015, EURbn



Source: Company information, not audited

¹ Guaranteed Commercial Paper (CP) Facility increased from EUR 3.0bn by EUR 0.5bn to EUR 3.5bn as of 11 September 2015

² EUR 1.0bn state-guaranteed bond issued as of 11 August 2015



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