

PRESS RELEASE OF KA FINANZ AG

Interim result 2017: Portfolio runoff continued

- Total exposure reduced by EUR 0.9 billion to EUR 8.7 billion
- Average rating unchanged at A, non-performing-loan ratio 0.2%
- Solid capitalisation: total capital ratio 21.3% - common equity tier 1 ratio 17.6%
- Measures initiated to constitute KF as a “wind-down unit” pursuant to Bank Recovery and Resolution Act

(Vienna, 18 August 2017) – KA Finanz AG (KF) continued its active portfolio management throughout the first half of 2017. Besides scheduled maturities and redemptions, KF further pursued the focused runoff of its portfolio, with due consideration given to potential recoveries and minimising the input of capital resources. KF’s total exposure was reduced by EUR 0.9 billion to EUR 8.7 billion in the first half of 2017 (31/12/2016: EUR 9.6 billion). The average rating remained unchanged at A, with the non-performing-loan (NPL) ratio standing at 0.2%.

KF has a solid capital base of EUR 501.5 million, EUR 415.0 million of which qualifying as common equity tier 1 as defined by Basel III. Compared to 2016, the capital ratios have improved slightly. The total capital ratio increased to 21.3% (31/2/2016: 20.7%), and the common equity tier 1 ratio rose to 17.6% (31/12/2016: 17.2%). Thus, KF’s capital ratios continue to be significantly above the regulatory minimum criteria.

Interim result 2017

The after-tax result for the period according to Austrian GAAP came to EUR -38.0 million in the first half of 2017 (HY1 2016: EUR -15.7 million, after the release of EUR 26.0 million from provisions pursuant to § 57 (1) of the Austrian Banking Act). The negative result is due, in particular, to guarantee fees of EUR -16.4 million (HY1 2016: EUR -20.4 million) paid by KF to the Republic of Austria for liquidity guarantees and a government surety, contributions to the Bank Resolution Fund of EUR -7.7 million (HY1 2016: EUR -3.7 million), and personnel/other administrative expenses of EUR -12.7 million (HY1 2016: EUR -8.5 million). As compared to the 2016 year-end value, KF’s total assets declined by EUR 0.8 billion to EUR 11.2 billion in the first half of 2017 (31/12/2016: EUR 11.9 billion).

Guarantee fees

In the first half of 2017, KF paid guarantee fees of EUR 16.4 million to the Republic of Austria, including EUR 9.3 million for the government-guaranteed commercial paper (CP) programme, EUR 6.9 million for the EUR 1.0 billion government-guaranteed bond, and EUR 0.2 million for the surety of the Republic of Austria standing at EUR 4.0 million as at 30 June 2017. Overall, guarantee fees paid by KF between its takeover by the Republic of Austria and 30 June 2017 added up to a gross total of EUR 764.0 million. After deduction of the restructuring contributions of EUR 210.0 million made by the Republic of Austria up to the end of 2011, net guarantee fees paid come to a total of EUR 554.0 million.

Portfolio structure and runoff

Compared to the end of 2016, KF’s total exposure decreased by EUR 0.9 billion to EUR 8.7 billion in the first half of 2017 (31/12/2016: EUR 9.6 billion). It comprises EUR 4.4 billion in loans, EUR 3.4 billion in securities, EUR 0.3 billion in CDS/guarantees (the only remaining CDS exposure is to Austria), and EUR 0.7 billion in interest-rate and currency hedging derivatives.

KF has a portfolio of very high asset quality that is concentrated in the upper rating classes. As at 30 June 2017, EUR 7.9 billion or 91.3% of the total portfolio was rated investment grade (BBB- or higher), and EUR 4.3 billion or 49.6% was rated AAA/AA. The average rating has remained unchanged at A (rating scale according to Standard & Poor's / Fitch); the non-performing-loan (NPL) ratio (definition of default according to Basel III) stood at 0.2% as at 30 June 2017.

Liquidity

As at 30 June 2017, KF's funding volume (excluding own funds) totalled EUR 10.1 billion. Of this total, an amount of EUR 6.1 billion was accounted for by short-term debt, in particular commercial paper issues, ECB tender, money-market deposits and repo funding. The long-term funding volume amounted to EUR 4.0 billion, primarily including covered bond issues and the EUR 1.0 billion government-guaranteed bond issued by KF in August 2015.

Moreover, in accordance with a framework agreement concluded with ABBAG (*Abbaumanagementgesellschaft des Bundes* – a company wholly owned by the Republic of Austria and responsible for the management of wind-down entities) on 9 June 2017, new refinancing of EUR 1.4 billion was made available as at 30 June 2017. This framework agreement provides for refinancing facilities in a total volume of EUR 8.2 billion. These facilities are to fully replace the current refinancing of KF. Existing obligations under bonds and private placements issued by KF will continue to be satisfied and redeemed at their full nominal value upon maturity.

Measures initiated to constitute KA Finanz AG as a “wind-down unit” pursuant to the Bank Recovery and Resolution Act

On 8 June 2017, the General Shareholders' Meeting of KF resolved – subject to the required approval by the Financial Market Authority (FMA) – to operate the bank in future as a “wind-down unit” pursuant to § 162 of the Austrian Bank Recovery and Resolution Act. To this end, KF filed the corresponding application with FMA on 9 June 2017, requesting approval for KF to be operated as a “wind-down unit” pursuant to the Austrian Bank Recovery and Resolution Act.

Outlook

A decision by FMA on the application submitted on 9 June 2017, in which KA Finanz AG (KF) requested the authority's approval to be operated in future as a “wind-down unit” pursuant to § 162 of the Bank Recovery and Resolution Act, is expected for the third quarter of 2017. Upon approval of the application, KF's banking license will expire. When operated as a wind-down unit, KF would be able to create an efficient, low-cost structure adapted to a changing 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 a wind-down unit, such as KF.

The transformation of KF into a wind-down unit would also shorten the wind-down horizon for KF's portfolio. Originally, complete wind-down by 2040 was agreed upon with the European Commission. As a wind-down unit, KF would aim to reach this target within a period of about ten years. While winding down its portfolio, KF will make every effort to take advantage of market opportunities and utilise any potential for the recovery of asset values.

The Interim Report is available at <https://www.kafinanz.at/en/financial-reports/semi-annual-reports/>

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

Assets in TEUR	30/06/2017	31/12/2016
Cash and balances with central banks	343,363.3	417,723.2
Public-sector debt instruments eligible as collateral for central bank funding	457,813.0	453,492.7
Loans and advances to banks	2,183,169.2	2,307,268.5
Loans and advances to customers	6,305,491.3	6,780,769.7
Bonds and other fixed-income securities	1,601,609.6	1,731,937.9
Participations	0.1	0.1
Property, plant and equipment	70.8	70.8
Other assets	251,595.8	203,270.6
Accruals/deferrals	50,307.1	55,026.4
Total assets	11,193,420.1	11,949,559.8

Liabilities in TEUR	30/06/2017	31/12/2016
Amounts owed to banks	3,372,165.2	3,699,453.5
Amounts owed to customers	3,727,584.7	1,036,977.0
Securitised liabilities	3,248,121.4	6,245,222.4
Other liabilities	186,995.5	228,684.1
Accruals/deferrals	45,896.8	50,388.4
Provisions	101,200.2	99,768.2
Fund for General Banking Risks	122,500.0	122,500.0
Tier 2 capital (pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013)	96,472.5	136,058.6
Subscribed capital	389,000.0	389,000.0
Capital reserve	74,819.4	74,819.4
<i>additional paid-in capital</i>	65,845.8	65,845.8
<i>unappropriated reserve</i>	8,973.6	8,973.6
Statutory reserve pursuant to § 57 (5) Austrian Banking Act	93,388.1	93,388.1
Net loss	-264,723.7	-226,700.0
<i>of which loss carryforward</i>	-226,700.0	-198,665.6
<i>of which result for the period</i>	-38,023.7	-28,034.4
Total liabilities	11,193,420.1	11,949,559.8

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

in TEUR	01/01/2017 - 30/06/2017	01/01/2016 - 30/06/2016
Interest and similar income ¹⁾	213,649.9	257,135.1
Interest and similar expenses	-216,483.9	-260,369.9
Net interest result	-2,834.0	-3,234.8
Fee and commission result	-16,165.5	-20,125.7
<i>of which guarantee fees paid to the Republic of Austria</i>	-16,367.7	-20,370.2
Result from financial transactions	-0.4	50.7
Other operating income	70.3	982.6
Operating result	-18,929.5	-22,327.3
General administrative expenses	-20,450.7	-12,148.4
Personnel expenses	-546.3	-768.0
Other administrative expenses	-12,170.9	-7,699.4
Contributions the Bank Resolution Fund	-7,733.5	-3,681.0
Other operating expenses	-0.8	-1,052.1
Operating expenses	-20,451.5	-13,200.5
Operating result	-39,381.0	-35,527.8
Result from valuations and realisations	1,360.7	19,883.0
<i>of which change in provisions pursuant to § 57 (1) Austrian Banking Act</i>	0.0	26,000.0
<i>of which from portfolio runoff and valuations</i>	1,360.7	-6,117.0
Profit on ordinary activities	-38,020.3	-15,644.8
Taxes on income	-2.7	-3.3
Other taxes	-0.6	-3.3
Result for the period	-38,023.7	-15,651.4

¹⁾ Expenses for negative interest on credit balances with the Austrian National Bank amounted to TEUR 672.6 in the first half of 2017 (HY1 2016: TEUR 852.2).