

## PRESS RELEASE OF KA FINANZ AG

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### **Result for the year 2016: Active portfolio wind-down continued**

- Portfolio of risk positions reduced by EUR 1.1 billion to EUR 9.6 billion
- Average rating unchanged at A, non-performing-loan ratio down to 0.1%
- Solid capital base: total capital ratio 20.7%, CET 1 ratio 17.2%

(Vienna, 3 April 2017) – KA Finanz AG (KF) continued to actively manage its portfolio throughout 2016. Apart from scheduled maturities and redemptions, KF continued to focus on targeted wind-down measures, always with a view to a potential reversal of impairments and a minimum outflow of capital resources. In the course of the year, KF succeeded in reducing its risk positions by EUR 1.1 billion to EUR 9.6 billion as at 31 December 2016. The average rating of the portfolio remained unchanged at A, while the non-performing-loan (NPL) ratio dropped to 0.1%.

As in previous years, KF's funding structure had a predominantly short-term orientation; a EUR 500 million covered bond was redeemed on schedule in February 2016. The liquidity guarantees provided by the Republic of Austria under the Financial Markets Stability Act remained unchanged at EUR 4.5 million, covering 41% of the senior funding volume at the end of the year.

KF has a solid capital base of EUR 545.0 million, including EUR 453.0 million in common equity tier 1 according to Basel III. In comparison with 2015, this corresponds to a slightly improved total capital ratio of 20.7% and a CET 1 ratio of 17.2%. Thus, KF's capital ratios continue to be significantly above the regulatory minimum criteria.

### ***Result for the year 2016***

The after-tax result for the year, pursuant to the Austrian Company Code/Austrian Banking Act, was negative at EUR -28.0 million, which was due, in particular, to guarantee fees paid by KF to the Republic of Austria for liquidity guarantees (EUR -40.9 million), as well as contributions to the Bank Resolution Fund (EUR -3.7 million). After costs incurred for early portfolio runoff and taking into account the result of re-valuations, KF's risk provisions constitute a risk buffer in a total amount of EUR 146.3 million. KF's total assets were reduced to EUR 11.9 billion in 2016.

### ***Guarantee fees***

As in the previous year, KF did not require any capital support from the Republic of Austria in 2016. The total volume of capital support measures by the Republic of Austria was reduced by EUR 41.1 million to a net amount of EUR 2.09 billion in 2016. This reduction was due to guarantee fees in the amount of EUR 40.9 million paid by KF in 2016 for the guaranteed commercial paper programme and a government-guaranteed bond in the reporting year, as well as the reduction of a government surety by EUR 0.2 million to its current level of EUR 4.2 million.

Guarantee fees in a gross amount of EUR 747.6 million were paid by KF over the period from its take-over by the Republic of Austria until 31 December 2016. 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 537.6 million.

## ***Portfolio structure and wind-down***

KF's risk portfolio in a total volume of EUR 9.6 billion comprises EUR 4.7 billion in loans, EUR 3.6 billion in securities, EUR 0.5 billion in CDS/guarantees (remaining CDS exposure exclusively to Austria), and EUR 0.7 billion in interest-rate and currency hedging derivatives.

Overall, KF's portfolio has an average rating of A (rating scale according to Standard & Poor's/Fitch), with EUR 8.8 billion or 92.0% of the total portfolio rated investment grade (BBB- or higher) and EUR 4.9 billion or 51.0% rated AAA/AA. The non-performing-loan (NPL) ratio has dropped from 1.7% to 0.1%. Hidden burdens as at 31 December 2016 amounted to EUR 1.15 billion.

In the course of 2016, risk positions in a total amount of EUR 1.1 billion were eliminated, including EUR 161.4 million through active wind-down measures and another EUR 728.7 million through scheduled and early redemptions; the rest of the reduction was due to the termination of derivative contracts. Altogether, KF has succeeded in winding down risk positions in a total amount of EUR 25.7 billion since the beginning of the restructuring process.

## ***Liquidity***

As at 31 December 2016, KF had a funding volume (excluding own funds) of EUR 10.9 billion; EUR 6.4 billion or 59% thereof was raised independently and without recourse to government support measures. Although conditions for Austrian banks in the capital market improved slightly in the second half of the year after the Republic of Austria came to an arrangement with the creditors of Heta Asset Resolution AG, KF refrained from further bond issues for the time being and raised money primarily in the money market and through short-term commercial paper issues.

## ***Outlook***

Considering the high volatility of the financial markets, caused by the major political events of the past year (Brexit, presidential elections in the USA), and the expectation that the atmosphere of uncertainty in the euro area will persist on account of the forthcoming elections in Germany and France, KF has already begun to analyse the impact of these political developments on the risk position of its entire portfolio. Consequently, KF's active wind-down measures will be focused on portfolio components outside the bank's former core markets (Austria, the EU core countries and Switzerland). Debt instruments in a total volume of approx. EUR 912 million will fall due and/or be redeemed on schedule in 2017. As in previous years, the potential reversal of impairments and a minimum outflow of capital resources will be essential criteria to be considered in the wind-down of risk positions.

KF will continue to raise short-term funding primarily in the money market and/or through commercial paper issues. At the same time, current and future regulatory requirements regarding the liquidity of banks have to be taken into account in the reorientation of KF's funding structure.

KF again expects to close 2017 with a negative operating result. However, given its solid capitalisation, KF does not expect to require any additional capital support from the Republic of Austria.

The Annual Report can be downloaded at <https://www.kafinanz.at/en/finanzberichte/jahresberichte/>.

### **For enquiries, please contact:**

KA Finanz AG  
Helmut Urban, CEO  
Tel.: +43 (0)1/310 06 06-600  
<mailto:info@kafinanz.at>; [www.kafinanz.at](http://www.kafinanz.at)

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

Assets in EUR	31/12/2016	31/12/2015
<b>1. Cash and balances with central banks</b>	<b>417,723,204.87</b>	<b>647,634,690.25</b>
<b>2. Public-sector debt instruments eligible collateral for central bank funding</b>	<b>453,492,707.47</b>	<b>470,661,762.74</b>
Public-sector debt instruments and similar securities	453,492,707.47	470,661,762.74
<b>3. Loans and advances to banks</b>	<b>2,307,268,481.41</b>	<b>2,228,169,082.54</b>
a) repayable on demand	2,191,570,894.76	2,128,657,491.01
b) other receivables	115,697,586.65	99,511,591.53
<b>4. Loans and advances to customers</b>	<b>6,780,769,723.14</b>	<b>7,160,349,731.47</b>
<b>5. Bonds and other fixed-income securities</b>	<b>1,731,937,905.10</b>	<b>3,566,750,294.17</b>
a) of public issuers	777,174,428.74	858,848,018.43
b) of other issuers	954,763,476.36	2,707,902,275.74
<i>of which:</i>		
<i>own bonds</i>	0.00	1,560,690,836.07
<b>6. Participations</b>	<b>70.00</b>	<b>70.00</b>
<i>of which:</i>		
<i>in banks</i>	0.00	0.00
<b>7. Property, plant and equipment</b>	<b>70,801.44</b>	<b>70,801.44</b>
<b>8. Other assets</b>	<b>203,270,564.60</b>	<b>241,245,633.08</b>
<b>9. Accruals/deferrals</b>	<b>55,026,358.55</b>	<b>76,191,901.18</b>
<b>Total assets</b>	<b>11,949,559,816.58</b>	<b>14,391,073,966.87</b>
<b>Off-balance-sheet items</b>		
1. Foreign assets	8,651,714,718.17	8,971,481,397.02

Liabilities in EUR	31/12/2016	31/12/2015
<b>1. Amounts owed to banks</b>	<b>3,699,453,514.52</b>	<b>3,883,911,686.26</b>
a) repayable on demand	229,946,298.28	244,046,814.51
b) with agreed maturity or period of call	3,469,507,216.24	3,639,864,871.75
<b>2. Amounts owed to customers</b>	<b>1,036,976,979.09</b>	<b>1,050,101,076.61</b>
Other liabilities		
<i>of which:</i>		
aa) repayable on demand	11,638,528.57	18,347,051.60
bb) with agreed maturity or period of call	1,025,338,450.52	1,031,754,025.01
<b>3. Securitised liabilities</b>	<b>6,245,222,434.72</b>	<b>8,374,165,106.28</b>
a) bonds issued	2,197,746,109.92	4,484,131,106.04
b) other securitised liabilities	4,047,476,324.80	3,890,034,000.24
<b>4. Other liabilities</b>	<b>228,684,112.13</b>	<b>277,754,647.00</b>
<b>5. Accruals/deferrals</b>	<b>50,388,446.22</b>	<b>51,377,678.70</b>
<b>6. Provisions</b>	<b>99,768,185.37</b>	<b>136,657,457.06</b>
a) provisions for pensions	4,287,042.00	4,679,182.91
b) other	95,481,143.37	131,978,274.15
<b>6.A Fund for general banking risks</b>	<b>122,500,000.00</b>	<b>122,500,000.00</b>
<b>7. Supplementary capital</b>	<b>136,058,580.26</b>	<b>136,064,397.19</b>
<b>8. Subscribed capital</b>	<b>389,000,000.00</b>	<b>389,000,000.00</b>
<b>9. Capital reserve</b>	<b>74,819,429.23</b>	<b>74,819,429.23</b>
a) additional paid-in capital	65,845,802.70	65,845,802.70
b) unappropriated reserve	8,973,626.53	8,973,626.53
<b>10. Statutory reserve pursuant to § 57 (5) BWG (Austrian Banking Act)</b>	<b>93,388,106.42</b>	<b>93,388,106.42</b>
<b>11. Net loss</b>	<b>-226,699,971.38</b>	<b>-198,665,617.88</b>
<b>Total liabilities</b>	<b>11,949,559,816.58</b>	<b>14,391,073,966.87</b>
<b>Off-balance-sheet items</b>		
<b>1. Contingent liabilities</b>	<b>544,513,813.74</b>	<b>725,892,437.22</b>
<i>of which:</i>		
a) liabilities from sureties and guarantees and liabilities from the assignment of collateral	544,513,813.74	725,892,437.22
<b>2. Credit risk</b>	<b>17,089,312.48</b>	<b>25,431,641.46</b>
<i>of which:</i>		
liabilities from repo transactions	0.00	0.00
<b>3. Eligible own funds pursuant to Part 2 of Regulation (EU) No 575/2013</b>	<b>544,984,002.63</b>	<b>620,175,342.43</b>
<i>of which:</i>		
tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013	91,976,438.36	139,133,424.66
<b>4. Own funds requirements pursuant to Art. 92 of Regulation (EU) No 575/2013</b>	<b>2,630,985,700.06</b>	<b>3,052,092,063.03</b>
<i>of which:</i>		
own funds requirements pursuant to Art. 92.1.a of Regulation (EU) No 575/2013 CET 1 ratio	17.22%	15.35%
own funds requirements pursuant to Art. 92.1.b of Regulation (EU) No 575/2013 Tier 1 capital ratio	17.22%	15.35%
own funds requirements pursuant to Art.92.1.c of Regulation (EU) No 575/2013 Total capital ratio	20.71%	19.78%
<b>5. Foreign liabilities</b>	<b>7,466,499,286.46</b>	<b>8,657,745,710.95</b>

# INCOME STATEMENT OF KA FINANZ AG

## (pursuant to the Austrian Banking Act)

in EUR		2016	2015
1.	Interest and similar income	510,365,967.58	621,940,309.91
	<i>of which:</i>		
	<i>from fixed-income securities</i>	70,662,367.20	84,026,287.71
2.	Interest and similar expenses	-514,316,957.24	-642,000,377.44
I.	<b>Net interest result</b>	<b>-3,950,989.66</b>	<b>-20,060,067.53</b>
3.	Fee and commission income	1,253,953.65	1,345,852.70
4.	Fee and commission expenses	-41,810,047.44	-29,022,865.36
5.	Income/expenses from financial transactions	34,721.68	193,318.68
6.	Other operating income	1,677,686.16	943,914.37
II.	<b>Operating income</b>	<b>-42,794,675.61</b>	<b>-46,599,847.14</b>
7.	General administrative expenses	-21,433,879.31	-21,358,217.95
	a) Personnel expenses	-1,120,017.29	-380,118.82
	<i>of which:</i>		
	<i>aa) salaries</i>	-703,003.04	-160,564.19
	<i>bb) expenses for statutory social-security contributions and salary-dependent charges</i>	-77,829.08	-14,357.67
	<i>cc) other social expenses</i>	-2,713.67	-1,014.64
	<i>dd) expenses for pensions</i>	-717,905.68	-642,561.35
	<i>ee) appropriation to / release of pension provisions</i>	392,140.91	440,354.83
	<i>ff) expenses for severance pay and contributions to pension plans</i>	-10,706.73	-1,975.80
	b) other administrative expenses (non-personnel)	-20,313,862.02	-20,978,099.13
8.	Impairment of assets recognised under asset item 7	0.00	0.00
9.	Other operating expenses	-1,052,083.56	-114,905.69
III.	<b>Operating expenses</b>	<b>-22,485,962.87</b>	<b>-21,473,123.64</b>
IV.	<b>Operating result</b>	<b>-65,280,638.48</b>	<b>-68,072,970.78</b>
10.	Expenses from the impairment of receivables and appropriations to provision for contingent liabilities and credit risk	-11,118,063.07	0.00
11.	Income from the impairment of receivables and appropriations to provision for contingent liabilities and credit	0.00	17,302,819.30
12.	Expenses from valuation adjustments of investment securities and from participations and investments in affiliated companies	0.00	-12,289,186.07
13.	Income from valuation adjustments of investment securities and from participations and investments in affiliated companies	48,256,664.14	0.00
V.	<b>Profit on ordinary activities</b>	<b>-28,142,037.41</b>	<b>-63,059,337.55</b>
14.	Extraordinary income	0.00	34,345,218.31
	<i>of which:</i>		
	<i>drawings on the fund for general banking risks</i>	0.00	4,500,000.00
15.	<b>Extraordinary result</b>	<b>0.00</b>	<b>34,345,218.31</b>
16.	Taxes on income	110,939.85	-463,720.76
17.	Other taxes not to be reported in item 16	-3,255.94	-86,307.88
VI.	<b>Net loss for the year</b>	<b>-28,034,353.50</b>	<b>-29,264,147.88</b>
18.	Loss carryforward	-198,665,617.88	-169,401,470.00
VII.	<b>Net loss</b>	<b>-226,699,971.38</b>	<b>-198,665,617.88</b>