PRESS RELEASE OF KOMMUNALKREDIT AUSTRIA AG

CEO Steinbichler: "Partial sale of Kommunalkredit successfully concluded – New start with business model fit for the future"

Kommunalkredit Austria reports successful conclusion of the partial sale process

- Transfer of ownership of 99.78% share from FIMBAG to Gesona executed
- Operational continuity in Kommunalkredit New and KA Finanz guaranteed
- Kommunalkredit's business policy fit for the future with continued and strengthened focus on infrastructure

(Vienna, 28/09/2015) – Kommunalkredit Austria AG (KA) is pleased to report that the privatisation of the bank with an asset volume of EUR 4.5 billion has been successfully concluded today. The respective steps in the privatisation process were announced through ad-hoc disclosures on 11 August 2014 and 13 March 2015 as well as 26 June 2015 and 25 September 2015. After all the necessary regulatory approvals have been granted, the closing of the sale, i.e. the transfer of ownership, was made today. The transaction has been implemented as follows:

- In a first step, the entire business operations of KA (including all its subsidiaries, such as Kommunalkredit Public Consulting/KPC) with total assets according to Austrian GAAP of approx. EUR 4.5 billion were transferred by way of a proportionate demerger to a newly incorporated company (***KA New***). The part of KA remaining after the demerger with total assets of approx. EUR 6.7 billion was merged into KA Finanz AG (***KF***). The corresponding entries in the Commercial Register took effect on 26 September 2015, 00:00.

- In a second step, the transfer of ownership has been executed today, 28 September 2015. The Financial Markets Holding Company of the Republic of Austria (FIMBAG), which held 99.78% of the shares in KA New in trust for the Republic of Austria, transferred its stake to the consortium of buyers of **Gesona** Beteiligungsverwaltung GmbH (Gesona). The remaining 0.22% of the shares continues to be held by the Association of Austrian Municipalities.

It is important to underline that this second demerger of the former KA has been implemented to meet a condition imposed by the European Commission/Directorate General for Competition (EC); for reasons of competition, the sale of KA was not allowed to exceed a maximum of 50% of its assets. However, all assets on KA's books were of high quality, with an average rating of AA-. The average rating of KF assets increased from A- to A+ after the transfer. The sellers do not in any way guarantee for the quality of the assets taken over by the buyer, nor does the seller cede any funding to the buyer. The profit generated by KA New up to the date of the closing is credited to the seller through an increase in the purchase price.

Owners of KA New

The consortium of buyers consists of the English company Interritus Limited, whose shareholders are family offices and private individuals with a long-term investment orientation, and the Irish company Trinity Investments Limited, which is managed by Attestor Capital LLP, a London-based asset management firm, whose capital is made available by a broad-based group of investors with an equally long-term orientation.

The consortium of buyers intends to continue and expand the banking business. As in the past, the main focus will be on advisory and structuring services as well as the provision of finance for infrastructure projects, such as the construction of roads and hospitals as well as investments in renewable sources of energy. KA will continue to operate as a reliable project partner for infrastructure measures, stimulating the banking market in Austria and in Europe through its attractive and well targeted offer. “Kommunalkredit’s business model is fit for the future. We look forward to operating as an active partner for our customers in the infrastructure project business” says Ulrich Sieber, the new Chairman of the Supervisory Board of KA.

Appointments to the Executive Board

In accordance with the provisions of the purchase contract, the change of control required the resignation of the current members of the Boards of KA (Executive Board and Supervisory Board). Alois Steinbichler, Chairman of the Executive Board of KA Old, was re-appointed Chairman of the Executive Board of KA; Wolfgang Meister, previously Head of Strategy and Legal Affairs, was newly appointed to serve on the Executive Board of KA. Helmut Urban, previously member of the Executive Board of KA, remains on the Executive Board of KF. Contrary to past practice, the Executive Board positions of KA and KF will no longer be held by the same persons. Through these appointments, the operational stability and continuity of the two institutions will be preserved.

KA New with strong capital base

As shown by KA’s opening balance sheet, retroactive as at 1 January 2015, the bank has a strong capital base, with a total capital ratio of 26.2% and a common equity tier-1 ratio of 19.0%. The credit portfolio of KA New has a high asset quality, with 98% of its outstanding loans rated investment grade (61% of which AAA/AA) and an NPL ratio of 0.0%. The average rating of the portfolio is A+.

With the transfer of ownership to Gesona, KA New will again be in a position to offer its expertise in the structuring and financing of infrastructure projects, as well as in support programme management through its 90% subsidiary Kommunalkredit Public Consulting (KPC), to its many customers in Austria and throughout Europe without any restriction. As in previous years, the main focus will be on KA’s core segments, i.e. “**Social Infrastructure**”, “**Energy and Environment**” and “**Transport**”.

In its business policy, KA takes the significant changes in the economic framework for infrastructure projects fully into account. These changes can be summarised as follows:

- Due to the constraints of budget consolidation, public budgets are subject to increasingly strict limits; thus, financing infrastructure projects has become more and more difficult and demands new approaches.

- Regulatory requirements to be met by banks, such as the net stable funding ratio required under Basel III rules (reduced possibilities of maturity transformation), limit the possibility for banks to carry long-term assets on their balance sheets and increase the costs of long-term loans.
- Given the historic low of capital market yields, with base rates of around 1.0% on 10-year investments and less than 2.0% on 30-year investments, institutional investors increasingly face the need to broaden their investment universe. Public-sector-related infrastructure projects with stable cash flows are regarded as an attractive target segment.

“We have anticipated this development since the beginning of the restructuring process in 2008. KA acts as a link between the demand of project developers for structuring and financing, on the one hand, and institutional investors (insurance companies, mutual funds, etc.) looking for investment options, on the other hand”, underlines CEO Steinbichler. The bank focuses, in particular, on the structuring of projects and the provision of finance for the construction phase, whereas long-term finance for the operational phase is provided primarily by institutional investors. This strategic approach will be strengthened and supported by the new owners with their own resources and possibilities. The management and the staff of KA New are looking forward to this new phase.

KA Finanz AG (KF)

KF, managing the non-strategic portfolio of the former KA, was able to reduce its original portfolio of EUR 30 billion by a total of 81.3% or EUR 24.4 billion over the period from the beginning of the restructuring process in 2008 until mid-2015. The takeover of the portfolio of KA Residual of EUR 6.7 billion has increased KF’s total assets according to Austrian GAAP from EUR 7.3 billion as at 31 December 2014 to approx. EUR 13.9 billion as at 1 January 2015. The average rating of the KF portfolio has improved from A- to A+. The assets transferred to KF were of high quality; the transfer is required to meet a condition imposed by the European Commission (EC) under its competition rules. Moreover, the transfer of positive equity and funding ensures a stable capital and liquidity position with a total capital ratio of 20.1% and a common equity tier-1 ratio of 15.4%; before the merger, KF had 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 under the new owners, ensuring KF’s operational stability.

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