KA FINANZ AG

INTERIM RESULTS 2011 OF KA FINANZ AG

KA Finanz AG: Wind-down of risk positions above target

- EUR 2.2 billion risk positions phased out in first half of 2011;
  EUR 9.4 billion since November 2008
- Pre-tax result for the period EUR -71.3 million
- EUR 84.8 million in guarantee fees paid to Republic of Austria;
  net fees of EUR 318.6 million paid since November 2008

Vienna, 8 August 2011 – Today, KA Finanz AG (KF) presented its results for the first half of 2011, reviewed and confirmed by PWC auditors. KF is the successor in law to the former Kommunalkredit and has engaged in the structured wind-down of the non-strategic portfolio (securities and CDS) since the restructuring/demerger effective as of 28 November 2009.

Despite a difficult market environment, KF was able to meet its goals and reduce its risk positions by EUR 2.2 billion in the first half of 2011, of which EUR 1.7 million were phased out through active portfolio management, exceeding the targets of the restructuring plan. Risk positions of another EUR 0.5 billion were reduced through scheduled redemptions. As of mid 2011, the company’s total assets therefore decreased by EUR 2.7 billion or 16.5% to EUR 13.8 billion (31-12-2010: EUR 16.5 billion). The reduction was achieved without any significant capital charge and without drawing on public funds over and above what had been provided for in the restructuring plan; KF’s demand for liquidity was reduced accordingly.

Between November 2008 and 30 June 2011, KF’s risk position was reduced by a total of EUR 9.4 billion. This is EUR 5.5 billion more than the targets set in the restructuring plan.

Guarantee fees payable to the Republic of Austria

In the first half of 2011, KF paid guarantee fees in the amount of EUR 84.8 million to the Republic of Austria. Since the beginning of the restructuring process, guarantee fees in a total net amount of EUR 318.6 million have been paid to the Republic of Austria. Based on the capital-replacing debtor warrant surety of EUR 1 billion, a claim to current payments of guarantee fees of 10% annually, independent of the company’s results, arises for the Republic of Austria.

The above net amounts result from gross guarantee fees of EUR 453.6 million paid to date; at the same time and in accordance with the capitalisation agreement of 17 November 2009, restructuring contributions of EUR 60 million for 2009 and EUR 75 million for 2010 have been drawn. Another EUR 37.5 million was drawn according to schedule in July 2011. In total, amounts of EUR 75 million each are available for 2011, 2012 and 2013.

Assets, financial position and income

As of 30 June 2011, KF's **total assets** amounted to EUR 13.8 billion (31-12-2010: EUR 16.5 billion), the above-target reduction by EUR 2.7 billion being due to active portfolio management measures. Assets as of 30 June 2011 included EUR 3.8 billion (31-12-2010: EUR 4.0 billion) in loans and advances to banks and EUR 3.0 billion (31-12-2010: EUR 3.5 billion) in loans and advances to customers. Public-sector debt instruments and bonds were reduced by 18.5% to EUR 6.4 billion (31-12-2010: EUR 7.9 billion). Contingent liabilities of EUR 10.0 billion (31-12-2010: EUR 10.7 billion) contain CDS positions in the amount of EUR 9.8 billion (31-12-2010: EUR 10.5 billion).

KF had no defaulting loans on its books in the first half of 2011. As of 30 June 2011, specific loan loss provisions for credit risks in the amount of EUR 165.2 million (31-12-2010: EUR 293.9 million) totalled EUR 60.0 million (31-12-1010: EUR 172.1 million), which corresponds to a provisioning ratio of 36%. Some of the risk provisions carried were released, as the impaired loans and advances were redeemed or sold, which resulted in a reduction of underlying receivables by EUR 128.7 million. New loan loss provisions were set up in the amount of EUR 4.0 million. Moreover, portfolio loan loss provisions of EUR 2.0 million as well as § 57(1) provisions of EUR 132.8 million and § 57(3) provisions of EUR 95.0 million were made. Thus, total **provisions** amount to EUR 289.0 million.

Of KF's total exposure of EUR 21.3 billion (incl. CDS and guarantees), 42.1% is rated AAA/AA; 91.1% of the exposure is rated investment grade (BBB or higher).

As of 30 June 2011, KF had a **total funding volume** (excluding own funds) of EUR 12.1 billion (31-12-2010: EUR 14.3 billion), of which 58% or EUR 7.1 billion (2010: 42% or EUR 6.0 billion) was raised in the market without direct government support.

KF has been **rated** A+ in the long-term segment and F1+ in the short-term segment by the Fitch rating agency. S&P has awarded KF a long-term rating of A and a short-term rating of A-1. The government-guaranteed commercial paper programme is rated A-1+ by S&P and F1+ by Fitch. All ratings have a stable outlook.

As of 30 June 2011, KF held a **core capital** of EUR 473.4 million (31-12-2010: EUR 544.7 million) and **own funds** of EUR 790.9 million (31-12-2010: EUR 927.4 million). The reduction is primarily due to the negative result for the period. Due to the portfolio wind-down measures, risk-weighted assets fell by EUR 0.8 billion to EUR 6.0 billion. Including other risks requiring equity backing, this results in a core capital ratio of 7.4% (31-12-2010: 7.5%) and a total capital ratio of 12.4% (31-12-2010: 12.7%).

The pre-tax **result for the period** amounted to EUR -71.3 million and is primarily due to guarantee fees paid to the Republic of Austria in the amount of EUR 84.4 million. Excluding guarantee fees, the pre-tax result for the period would have been EUR 13.5 million.

State aid procedure of the European Union

The European Commission finally approved the state aid procedure, including the restructuring plan, on 31 March 2011. As an essential prerequisite for approval of the restructuring plan within the framework of the EU state aid procedure, KF had already completed an "impaired asset procedure" in July 2010, which verified and confirmed that all assets carried by KF were measured according to the arm's length principle. The decision by the European Commission approving the restructuring plan was published on 6 July 2011.

Voluntary support programme for government bonds of the Republic of Greece

KF's total direct exposure to the Greek state amounts to EUR 818.6 million; an additional EUR 164.6 million is carried in government-guaranteed bonds. The direct exposure includes EUR 182.4 million of CDS commitments; of the remaining EUR 636.2 million of government bonds, EUR 311.5 million will mature by 2020, of which a volume of EUR 303.0 million is locked in until maturity in repo-type TRS (total return swap) funding positions and therefore not available for voluntary programme participation. For the time being, KF does not intend to participate in the programme and therefore has not set up provisions for the Greek portfolios concerned. Non-participation is in the public interest, as KF – and the Republic of Austria – have already made an important contribution towards the stabilisation of Greek government bonds through the nationalisation of the former Kommunalkredit and the responsible management of the KF portfolio. Thus, voluntary programme participation would constitute a double burden.

Outlook

Against the background of current developments of the debt crisis of the euro countries and the USA, markets are expected to remain volatile for the rest of 2011. The primary goal of the countries of the euro area will and must consist in engaging the strength of this economic region through targeted and appropriate measures. A common and timely approach is therefore indispensable.

In this volatile market environment, KF will continue to manage the existing portfolio in accordance with the principles of the restructuring plan, with a special emphasis on active portfolio management under difficult market conditions. Risk positions in the amount of EUR 2.2 billion were phased out during the first half of the year, which essentially corresponds to the target set for the full year, an achievement made possible, in particular, by the more favourable market environment in the first quarter. The portfolio wind-down is expected to continue in the second half of the year, but will largely depend on market conditions.

Considering the guarantee fees to be paid, KF does not expect to close the second half of 2011 as well as the full year with a positive result for the year or a positive net income. Therefore, no profit distributions to holders of participation and supplementary capital are to be expected for the business year 2011 and for the foreseeable future. KF continues to aim at maintaining the contractually agreed capital ratios, i. e. a tier-1 ratio of 7% and a total capital ratio of 10%, and expects to meet this goal. The communications to that effect pursuant to § 48(d) of the Stock Exchange Act already published in previous years still apply.

For enquiries please contact:

KA Finanz AG
Cornelia Schragl-Kellermayer (Communication & Marketing)
Phone: +43 (0)1/31 6 31-532 or +43 (0)676/88 3163 532
mailto:c.schragl@kafinanz.at; www.kafinanz.at