PRELIMINARY 2010 RESULTS OF KA FINANZ AG

KA Finanz AG: Results for business year 2010 above target

- Balanced preliminary result according to Austrian Companies Code
- EUR 249.5 million net guarantee fees paid to the Republic of Austria by end of 2010
- Merger with Kommunalkredit International Bank Ltd, Cyprus, according to schedule
- EUR 7.2 billion reduction of risk positions by end of 2010 above target

(Vienna, 13 April 2011) – KA Finanz AG (KF) published its preliminary results for the business year 2010 today. The balanced annual result is above target. From the beginning of the restructuring process until the end of 2010, assets and guarantees were reduced by EUR 7.2 billion, which is EUR 3.8 billion above the parameters of the original restructuring plan. As planned, the activities of Kommunalkredit International Bank Ltd, Cyprus (KIB), were merged into KF in the course of the business year (assets of EUR 8.8 billion and guarantees of EUR 2.8 billion). KIB was shut down, as scheduled, in September 2010.

KF is the legal successor to the former Kommunalkredit, holding the non-strategic activities, above all the securities and CDS portfolios, of the former Kommunalkredit since the restructuring/demerger on 28 November 2009. The restructuring plan pursued the following targets:

- avoidance of macro-economic damage
- minimisation of use of public-sector resources
- no realisation of losses in a “distressed market”
- maximisation of the bank’s own contribution

KF’s activities are therefore focused on

- running down existing portfolios
- funding existing assets
- risk management measures (management of credit, foreign-exchange and interest-rate risk)

There is no asset-side expansion of the business volume. Kommunalkredit Austria AG and KA Finanz AG are two independent financial institutions.

In line with its targets, KF was able to reduce its positions by EUR 2.7 billion in 2010, which is EUR 1.1 billion above the targeted redemptions of EUR 1.6 billion of the restructuring plan. This was achieved without any significant capital consumption and without drawing on public funds, as some of the assets were sold above their book value.

Guarantee fees paid to the Republic of Austria

Between the take-over by the Republic of Austria and 31 December 2010, KF paid a total of EUR 249.5 million of net guarantee fees for funding guarantees and support measures. By the end of 2010, these guarantees amounted to a total of EUR 8.2 billion. By the end of the first quarter of 2011, EUR 2.2 billion matured according to schedule, which has brought the current level of guarantees down to EUR 6.1 billion. According to a recent decision by the statistical office of the European Union (EUROSTAT), EUR 1.0 billion thereof (from the debtor warrant surety) is attributable to the national debt and the state deficit.

Assets, financial position and income

Due to the merger of KIB with KF as of 18 September 2010, the results and the balance-sheet figures now presented are not directly comparable with those of the previous year's separate financial statements. Moreover, following the merger, KF no longer qualifies as a group of financial institutions and therefore reports its financial statements under the Austrian Companies Code/Austrian Banking Act.

Total assets as of 31 December 2010 amount to EUR 16.5 billion, with 75.8% or EUR 12.5 billion securities and loans. 29.9% of this portfolio is rated AAA/AA; overall, 85.0% of the portfolio is rated investment grade (BBB or higher). Broken down by geographic region, 54.8% of the portfolio is allocated to the EU region, with 34.8% in the EU-17 euro area and 20.0% in the remaining EU states.

Besides this EUR 12.5 billion portfolio, there are **guarantees and CDS contracts** (Credit Default Swaps) in a net amount of EUR 10.5 billion. EU Member States account for a total of 92.5%, with 66.7% thereof from the EU-17 euro area. In terms of rating, 95.9% is rated investment grade (BBB or higher), of which 62.0% is rated AAA/AA.

The total exposure from securities and guarantees amounts to EUR 24.7 billion, with 50.8% or EUR 12.5 billion allocated to the EU-17 euro area, including 4.1% (EUR 1.0 billion) sovereign risks from Greece, 3.4% (EUR 0.8 billion) from Ireland and 3.4% (EUR 0.8 billion) from Portugal, i. e. countries that have drawn on or applied for support from the EFSF (European Financial Stability Facility).

In the **securities and loan portfolio**, specific loan loss provisions of EUR 174.1 million have been set up for an exposure of EUR 293.9 million. This corresponds to a provisioning ratio of 59%. In addition, risk provisions of EUR 165.3 million pursuant to § 57(1) (portfolio provisions) and EUR 95.0 million pursuant to § 57(3) (fund for general banking risks) of the Austrian Banking Act have been made. In total, **risk provisions** amount to EUR 434.4 million.

As of 31 December 2010, KF had a **funding volume** of EUR 14.3 billion, with EUR 6.1 billion raised independently of direct state support measures.

KF's long-term **rating** by Fitch is A+. The short-term rating by Fitch is at the highest level of F1+. Since 3 March 2010, KF also has an S&P rating of A for long-term and A-1 for short-tem senior liabilities.

KF holds capital (**own funds)** of EUR 927.4 million. With risk-weighted assets of EUR 7.1 billion, the resulting total capital ratio is 12.7%. The core capital at the end of 2010 is EUR 544.7 million, the tier-1 ratio being 7.5%.

The **after-tax result for the year** is balanced. Therefore, no interest payments on supplementary capital or distributions on participation capital will be made in 2011. KF has not raised any state participation and supplementary capital; such capital is held by private institutional investors.

State Aid Procedure of the European Commission

On 31 March 2011, the restructuring plan submitted to the European Commission by the Federal Ministry of Finance in June 2009 was approved after an intensive audit procedure. As a prerequisite for this approval, a so-called "impaired asset procedure" had to be performed. In this procedure, independent experts reviewed the market valuation of the non-strategic assets in order to ensure that they did not contain any hidden aid elements. KF brought this procedure to a positive conclusion in July 2010 without any problems.

Outlook

The targets achieved by KF to date are above the parameters of the restructuring plan. For 2011, the company aims at reducing its risk positions by EUR 2.4 billion, of which EUR 1.5 billion through active disposals, while maintaining a 7% Tier-1 ratio. Thus, positions in the amount of EUR 9.5 billion will have been run down by the end of 2011. Markets are expected to remain volatile, a trend which is being reinforced by the pro-cyclical behaviour of the rating agencies.

For 2011, KF will pay net guarantee fees of EUR 89.9 million. Therefore, the company does not expect to generate a net income in the current business year.

The Executive Board and the staff of KF will remain committed to their tasks and continue to pursue the targets set in the restructuring plan with great energy and dedication.

For enquiries:

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