

## **PRELIMINARY RESULTS FOR THE YEAR OF KA FINANZ AG**

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### **KA Finanz AG: Restructuring proceeds according to schedule**

- Preliminary consolidated after-tax result according to IFRS stands at EUR 435 million
- Preliminary solo result according to Austrian GAAP negative at EUR -267 million
- Guarantee fees in net amount of EUR 116 million paid to Republic of Austria
- Surety given by Republic of Austria reduced from EUR 1,207.9 million to EUR 1,000 million

Vienna, 20 April 2010 – Today KA Finanz AG presented its preliminary results for the financial year 2009, which has been essentially determined by the demerger within the framework of the restructuring process. After the spin-off of the strategic core business to Kommunalkredit's former subsidiary, Kommunalkredit Depotbank AG, now operating under the name of Kommunalkredit Austria AG (KA), the non-strategic part (the securities portfolio, the CDS business and Kommunalkredit International Bank Ltd) remained with the former Kommunalkredit, which was renamed **KA Finanz AG (KF)** at the date of the demerger on 28 November 2009. Kommunalkredit Austria AG and KA Finanz AG are two financial institutions independent of each other.

The accounting effects of the demerger are different under IFRS and under Austrian GAAP. The result for the year under IFRS comprises eleven months of the former Kommunalkredit, including the fields of business spun off, and one month of the new structure. Kommunalkredit International Bank Ltd is contained in the result with its full financial year. The solo financial statements according to Austrian GAAP comprise six months of the former Kommunalkredit and six months of the new structure. See diagram in Annex 1.

### **Preliminary results for the year**

On this basis, the **preliminary IFRS result for the year** amounts to EUR 435 million (after the previous year's negative result of EUR -1,451.4 million). The solo result according to Austrian GAAP shows a loss of EUR 267.0 million (after EUR 329.4 million for the previous year). Essentially, the results have been determined by the following factors:

- Restructuring effect:

In accordance with the restructuring plan, KA waived its claim against KF to a money market deposit in the amount of EUR 1.0 billion against issue of a debtor warrant by KF to KA. The Republic of Austria assumed liability vis-à-vis KA for this debtor warrant as a guarantor and payer. At the same time, the surety given to the former Kommunalkredit in the amount of EUR 1,207.9 million expired. Thus, the Republic of Austria was able to reduce the volume of its guarantee by EUR 207.9 million, which represents an improvement compared with the restructuring plan by that amount.

As a result of these measures, an extraordinary profit of EUR 1.0 billion arose for KF. This served to compensate for loan loss provisions and valuation adjustments for KF assets of approximately the same amount to be made after the expiry of the former

surety. Moreover, a positive effect of EUR 106 million was generated through the early buyback and redemption of own issues.

- CDS portfolio:

The CDS valuation result improved from EUR -1,146.5 million at the end of 2008 by EUR 545.2 million to a market value of EUR -601.4 million as of 31 December 2009. However, the risk-reducing rundown of the CDS portfolio in the amount of EUR 1.6 billion generated losses of EUR 106.3 million. In addition, a CDS volume of EUR 300 million was hedged through hedging measures. As of 31 December 2009, the sum total of the CDS portfolio stands at EUR 10.1 billion.

At the beginning of the year, impending losses of EUR 182 million on the CDS portfolio were averted through active risk management.

- Guarantee fee:

In the year under review, a net amount of EUR 116 million was paid to the Republic of Austria as a guarantee fee payable for the surety and the guarantees given, which is included in the result. Unlike coupon payments on participation capital, guarantee fees are not profit-dependent.

The **preliminary solo result under Austrian GAAP** stands at EUR -267.0 million. The difference against the IFRS result is essentially due to the fact that the valuation result of the CDS portfolio is not recognised under Austrian GAAP. Moreover, risk provisions of EUR 165 million were made under Austrian GAAP, which are not considered under IFRS. Thus, KF was able to largely compensate the reduction of the guarantee given by the Republic of Austria, which was EUR 208 million higher than planned, from its own resources and ensure a conservative level of risk provisions.

### **Total assets**

As of 31 December 2009, the **total assets** of KF (Group) after the demerger amount to EUR 21.4 billion. Own funds total EUR 862.5 million, with the core capital amounting to EUR 436.2 million. With risk-weighted assets of EUR 6,040.5 million, this results in a **total capital ratio** of 14.3% and a **tier-1 ratio** of 7.2%.

**Equity** under IFRS is negative at -250.9 million, compared with EUR -1,161.9 million on 31 December 2008.

As regards the rating of the securities portfolio of a total nominal volume of EUR 12.2 billion, 38% is rated in the AAA/AA range and a total of 96% is rated investment-grade. Issuers include public-sector issuers (46%), banks (27%), corporates (17%) and securitisations (10%). The KF loan portfolio comprises a nominal value of EUR 2.7 billion and originates mainly from transactions by Kommunalkredit International Bank Ltd in the banking and quasi-public segments.

75% of the CDS portfolio in the total amount of EUR 10.1 billion is rated in the AAA/AA range; 96% of the portfolio has an investment-grade rating. Broken down by debtors, the CDS portfolio is accounted for by 86% sovereign debtors, 13% banks and 1% quasi-public corporates.

### **Funding structure**

The funding structure was stabilised in the course of the year. As of 31 December 2009, government-guaranteed bonds of EUR 6.1 billion were outstanding. The short-term funding

structure comprises commercial paper issues, ECB tenders, repo funding transactions and money market transactions. In accordance with the requirements of the restructuring plan, the focus of future funding activities will be on the short-term segment.

### **Restructuring and demerger process**

In accordance with the requirements of the Financial Markets Stabilisation Act and the rules of the Competition Authority of the European Commission, a restructuring plan was drawn up for Kommunalkredit in the spring of 2009. After its adoption by the Supervisory Board, the Federal Ministry of Finance submitted the plan to the European Commission for approval in June 2009.

The plan was drawn up with the following objectives in mind:

- Avoidance of a destabilisation of Austria as a financial centre
- Minimisation of the input of public funds while, at the same time, maintaining a margin of flexibility for the government
- Avoidance of disproportionately high losses through selling in inactive markets and preservation of value recovery potentials
- Implementation of the restructuring process based on the requirements of the law (Financial Markets Stabilisation Act, Inter-Bank Market Support Act and EU law)

The best way to achieve these goals was to split the company's operations into "strategic" and "non-strategic" fields of business. The implementation proceeded in accordance with the Austrian Demerger Act. On this basis, the **strategic core business in the municipal and infrastructure-related sector** was spun off to Kommunalkredit's former subsidiary, Kommunalkredit Depotbank AG, which was then renamed **Kommunalkredit Austria AG** (KA).

The **non-strategic business** (securities and CDS portfolio as well as Kommunalkredit International Bank Ltd (KIB) remained with the former Kommunalkredit, which was renamed **KA Finanz AG** (KF).

After the required official authorisations and the approval of the European Commission had been obtained, the demerger was decided by the annual general meeting of 17 November 2009 and became legally effective after its entry in the Companies Register on 28 November 2009, 00:00 hrs.

### **Approval procedure at the European Commission**

The European Commission approved the demerger within the framework of the restructuring plan. The final approval of the restructuring parameters is expected in the course of the year.

Currently, a valuation of a portion of the securities portfolio spun off (approx. 10%) is being performed in accordance with the "Impaired Asset Communication" of 25 February 2009. The valuation of the securities is being reviewed by external experts. The talks are being conducted in a positive and constructive spirit.

### **Kommunalkredit International Bank**

In December 2008, with the approval of the supervisory authorities, the decision was taken not to continue Kommunalkredit International Bank Ltd (KIB, Cyprus) as a going concern, but to merge it with KA Finanz AG within the framework of a cross-border merger and to discontinue its operations in the course of 2010. This process is being carried out in close

coordination with the supervisory authorities in charge and is to be completed by September 2010. KIB has not engaged in any new business, its focus has been on the consolidation of the existing portfolio. The bank's headcount has been reduced to a current level of 15 and will be further reduced to four employees by July this year. Upon entry into force of the merger, KIB's banking license will be withdrawn in the fourth quarter.

## **Outlook**

KA Finanz AG will pursue and implement the objectives of the restructuring plan. The necessary prerequisites

- secure liquidity base
- secure capitalisation
- secure framework in terms of company law

were created in 2009. The merger of Kommunalkredit International Bank Ltd with KA Finanz AG, scheduled for September 2010, will complete the restructuring of KA Finanz AG in terms of company law.

In line with the orientation of KF, loans and securities with a nominal value of EUR 1.260 billion will mature in 2010. Any further rundown of assets will essentially depend on the market environment, which is still considered volatile.

Apart from the payment of guarantee fees, annual surpluses are not expected for the foreseeable future, which means that no profit distributions will be made on supplementary and participation capital.

For the Executive Board and the staff of KF, the presentation of a result that meets the objectives of the restructuring plan is a very positive development. They will continue to dedicate all their energy and commitment to the restructuring effort. KA Finanz AG wishes to thank all its customers and market partners as well as the public authorities which supported the bank in the implementation of its essential restructuring measures.

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