KA FINANZ AG: RESULT FOR THE YEAR 2012

Steinbichler: "Risk positions down by another EUR 4.9 billion; total portfolio reduced to date by EUR 15.1 billion or 52%"

KA Finanz publishes its results for the year 2012

- Risk portfolio reduced by EUR 4.9 billion in 2012
- EUR 15.1 billion run-down to 48% of the original portfolio since the beginning of restructuring
- Capital support from Republic of Austria reduced by EUR 119.7 million from mid-2012 level
- EUR 1.75 billion liquidity guarantees redeemed without being called
- Net result for the year of EUR -70.7 million after EUR 83.3 million paid in guarantee fees

(Vienna, 23 April 2013) – Today KA Finanz AG (KF) presented its results for the year 2012. In a generally improved but volatile market, KF was able to **reduce its risk positions by a total of EUR 4.9 billion**, taking advantage of positive market windows. Thus, KF's risk portfolio has been brought down to 48% of its original value of EUR 30 billion since the beginning of the restructuring process in November 2008. This performance is above the targets of the restructuring plan. After guarantee fees of EUR 83.3 million paid to the Republic of Austria, the **result for the year** was negative at **EUR -70.7 million** (budget 2012: EUR -72.6 million).

Portolio run-down

CDS positions in the amount of EUR 2.9 billion and securities and loans in the amount of EUR 1.0 billion were eliminated from the portfolio. Scheduled redemptions, mainly in the securities business, accounted for another EUR 1.0 billion.

Table: Reduction of risk positions since November 2008

Reduction of risk positions since November 2008 in EUR million	2008/2009 1)	2010	2011	2012 3)	Total 2008 to 2012
Securities - sold	516	964	1,513	895	**3,888**
Loans - sold	0	115	539	90	**744**
CDS - sold 2)	2,183	20	108	2,894	**5,205**
Total sold	2,699	1,099	2,160	3,878	**9,836**
Securitites - redeemed	635	560	609	758	**2,562**
Loans - redeemed	870	816	203	130	**2,019**
CDS - matured 2)	298	202	40	173	**713**
Total redeemed	1,803	1,578	852	1,061	**5,294**
Total sold/redeemed	**4,502**	**2,677**	**3,012**	**4,939**	**15,130**

1) Nominal reduction for 2008/2009

2) CDS sell positions; not reflected on balance sheet

3) PSI II Greece (March 2010) not considered

During the first quarter of 2013, a further reduction by EUR 0.9 billion, mostly in CDS, was achieved, which brought KF's total portfolio as at 31 March 2013 down to EUR 13.6 billion or 45% of the original value.

Balance-sheet structure and capitalisation

As at 31 December 2012, KF's **total assets** amounted to **EUR 11.0 billion** (31-12-2011: EUR 14.9 billion), down by EUR 3.9 billion or 26.4% from the previous year. The reduction in total assets differs from the portfolio reduction, as the latter also comprises CDS transactions not recognized on the balance sheet. The reduction in total assets results from portfolio run-down measures and redemptions (EUR 2.0 billion), as well as the lower volume of collateral to be provided under CSA arrangements (EUR 1.3 billion).

As at 31 December 2012, KF had a **core capital** of **EUR 403.6 million** (31-12-2011: EUR 474.3 million) and **own funds** of **EUR 639.6 million** (31-12-2011: EUR 836.5 million). With risk-weighted assets of EUR 4.9 billion (31-12-2011: EUR 6.4 billion), after the release of provisions pursuant to § 57(1) in the amount of EUR 116 million in 2012, this resulted in a **tier-1 ratio of 8.3%** (31-12-2011: 7.3%) and a **total capital ratio of 13.1%** (31-12-2011: 12.9%).

Capital measures taken by the Republic of Austria

As at 31 December 2012, the **capital measures taken by the Republic of Austria**, considering value recoveries and guarantee fees paid, came to EUR 1.9 billion, **down by EUR 119.7 million** from mid-2012. A major part of the reduction is due to the value recovery of Greek positions from secondary market sales and KF's participation in the second Greek bond swap programme in December 2012. Thus, the remaining exposure to Greece dropped to EUR 61.6 million as at 31 December 2012, all of which concerning loans to Greek municipalities. Moreover, targeted work-out measures resulted in accelerated redemptions of bonds with long maturities, as well as value recoveries through secondary market bond sales above book values in the US RMBS segment (US residential mortgage backed securities).

Table: Overview of capital measures taken by the Republic of Austria

Overview of capital measures by the Republic of Austria	
in EUR million	**31.12.2012**
Debtor warrant surety from capitalisation agreement of 17-11-2009; payment on 08-07-2013	1,140.9
Shareholder contribution	743,3
Capital increase	389.0
Surety of Republic of Austria	82,3
Sum total gross	**2,355.5**
Guarantee fees paid by KF 2008 to 12/2012	-623,3
Inflow from restructuring contributions of Republic of Austria 2008 to 12/2011	210.0
Guarantee fees KA-debtor warrant structure 2009 to 12/2012	-33,4
Sum total net	**1,908.8**

As of January 2014, KF's capitalisation will have to be calculated according to the Basel III rules then in effect. As already notified at the time of publication of the Austrian budget for 2013, an amount of EUR 250 million has been budgeted for KF. From today's point of view, the bank's Basel III capital requirement will be significantly lower. Details will be specified in the fourth quarter of 2013.

Liquidity situation

KF's liquidity situation improved substantially in 2012, particularly after the measures taken by the European Central Bank (ECB). Above all, the volume of collateral to be deposited under CDS arrangements with market partners declined significantly by EUR 1.3 billion.

Liquidity guarantees

In the year under review, the **liquidity guarantees** of the Republic of Austria were **reduced by EUR 1.75 billion without being called**. Upon maturity of another EUR 1.0 billion in June 2013, the outstanding guarantee volume will be brought down, as scheduled, to EUR 4.3 billion. The amount includes guarantees in the amount of EUR 3.0 billion for KF's commercial paper (CP) programme, which helps to secure funding for KF at favourable costs. Compared with its maximum level at the end of 2010, the volume of liquidity-related guarantees will thus be reduced by EUR 5.1 billion or 54% without being called. Of KF's total funding volume of EUR 9.5 billion as at 31 December 2012, EUR 4.6 billion or 49% was raised in the market without direct government support.

Table: Development of liquidity guarantees

Liquidity guarantees KA Finanz AG						
in EUR million	**Dec.08**	**Dec.09**	**Dec.10**	**Dec.11**	**Dec.12**	**Dec.13**
IBSG guarantees [1)]	0	8,514.7	7,547.2	4,547.2	2,297.2	1,246.2
Clearing-bank line	0	0	1,750.0	0	0	0
FinStaG guarantees	5,300.0	0	0	2,500.0	3,000.0	3,000.0
Total	**5,300.0**	**8,514.7**	**9,297.2**	**7,047.2**	**5,297.2**	**4,246.2**

1) acc. exchange rate at issuance date

Guarantee fees

Guarantee fees for capital measures and liquidity guarantees by the Republic of Austria paid by KF in 2012 amounted to EUR 83.3 million. Altogether, **gross guarantee fees** paid by KF to date total **EUR 623.3 million**. After deduction of the restructuring contributions in the amount of EUR 210.0 million paid by the Republic of Austria until the end of 2011, the **net amount of guarantee fees paid is EUR 413.3 million**.

Portfolio structure

As at 31 December 2012, KF had a total portfolio amounting to EUR 14.5 billion, EUR 12.4 billion or 85.4% of which is rated investment grade (BBB or higher).EUR 4.3 billion or 30.0% is rated AAA/AA. The average rating of the total portfolio is A- (according to Moody's rating scale). This is reflected in a very low non-performing-loan ratio of 0.2%.

The portfolio run-down measures significantly reduced the concentration risk. As at 31 December 2012, the ten biggest risks from exposure to sovereigns, territorial authorities and government-guaranteed positions were down to EUR 5.5 billion; the exposure to countries under EU support programmes amounted to EUR 2.5 billion or 17.3% of the portfolio and was further reduced through run-down measures in the first quarter of 2013 to EUR 2.1 billion or 15.6% of the total portfolio of EUR 13.6 billion as at 31 March 2013.

The CDS and guarantee exposure (after hedges) as at 31 December 2012 amounted to EUR 6.2 billion or 43% of the total portfolio, down by 49% since the beginning of restructuring. Securities accounted for EUR 6.6 billion of the portfolio, and loans for EUR 0.9 billion.

The ten biggest risks from exposure to sovereigns, territorial authorities and government-guaranteed positions, broken down by product group, are as follows:

Table: The ten biggest risks from exposure to sovereigns, territorial authorities and government-guaranteed positions, in TEUR

				by debtor category			by product type		
	Partner	Exposure as at 31.12.2012	%	Sovereigns	Territorial authorities	Government-guaranteed positions	of which securities	of which CDS/liabilities	of which loans
1	Italy	856,893	5,9%	633,487	223,406	0	555,078	301,815	0
2	Portugal*	745,934	5.2%	739,178	6,757	0	153,639	592,295	0
3	Spain*	729,405	5,0%	702,847	26,558	0	142,569	560,277	26,558
4	Austria	680,330	4.7%	495,643	0	184,686	122,958	495,643	61,728
5	Ireland*	655,461	4,5%	655,461	0	0	100,912	554,548	0
6	Poland	515,721	3,6%	514,418	1,303	0	504,131	11,590	0
7	Cyprus*	366,122	2,5%	184,967	0	181,155	32,648	152,319	181,155
8	Hungary	356,745	2,5%	356,745	0	0	196,026	160,719	0
9	Finland	321,281	2,2%	321,281	0	0	0	321,281	0
10	Belgium	306,482	2,1%	306,482	0	0	0	306,482	0
	Total Top 10	5,534,374	38,3%	4,910,509	258,024	365,841	1,807,963	3,456,970	269,441
	Total Exposur	14,462,505	100.0%				6,635,478	6,184,712	884,664

* under EU support measures

Income situation

The **after-tax result for the year**, after guarantee fees in the amount of EUR 83.3 million, was negative at **EUR -70.7 million** (budget 2012: EUR -72.6 million; 2011: EUR -534.4 million). **Net interest income** in the amount of **EUR -43.5 million** reflects funding costs higher than the average margins earned on interest-bearing assets.

The **result of valuations and realisations** was positive at **EUR 103.2 million**, including expenses for portfolio run-down measures and the release of § 57(s) provisions in the amount of EUR 116.0 million.

Rating

KF has been awarded a long-term rating of A+ and a short-term rating of F1+ by the Fitch rating agency. Standard & Poor’s rating of KF is A in the long-term segment and A-1 in the short-term segment. All ratings have a stable outlook.

Transfer of the Republic of Austria’s stake in KF to FIMBAG / Shareholder structure

Based on the transfer agreement of 17 February 2012, the 99.78% stake of the Republic of Austria in KF was transferred from the Ministry of Finance to FIMBAG Finanzmarktbeteiligung Aktiengesellschaft (Financial Markets Holding Company of the Republic of Austria) as a trustee.

Up to 31 December 2011, the Association of Austrian Municipalities held 0.22% of the share capital of KF. It participated fully in the capital cut, but waived its subscription right in the subsequent capital increase. Hence, the **Republic of Austria** has held **100% of the shares in KF since 31 December 2011**, with FIMBAG acting as its trustee.

Outlook

Following the measures taken by the EU and the ECB in the course of 2012, the market situation has improved significantly, but remains volatile. KA was able to take advantage of this market environment for portfolio run-down measures. In view of KF's continuing exposure to the euro zone, developments in this region are of particular importance.

The liquidity guarantees of the Republic of Austria will be reduced to EUR 4.3 billion by 31 December 2013 through the scheduled maturing of bonds of EUR 1.0 billion. The remaining amount includes a EUR 3.0 billion guarantee facility for favourably priced CP funding.

Net interest income will continue to be negative due to narrow margins at the time the transactions were made. Altogether, considering guarantee fees to be paid in the amount of EUR 47 million, KF does not expect a positive result for the current year. Thus, no dividend will be paid out on supplementary capital in the foreseeable future, not least because any surplus generated would have to be used to satisfy the claim arising from the debtor warrant.

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