

Statement by BAWAG P.S.K. regarding City of Linz's announcement not to fulfil the 2007 swap-contract anymore

Following the City of Linz Council Meeting of October 13, 2011, the City of Linz has stated that it will not make the next instalment payment to BAWAG P.S.K. relating to a Swap transaction dated February 2007. The City of Linz will now move to the stage of a violating the valid contract with BAWAG P.S.K.

The legal situation of the 2007 contract remains valid and unchanged. Legal and expert opinions have confirmed to BAWAG P.S.K. the validity and legal position of this swap transaction.

Since the execution of the swap in February 2007, the City of Linz both accepted and received payments from BAWAG P.S.K. resulting from the contract. The City of Linz has fulfilled all the commitments and obligations over the last four and a half years. The City of Linz entered a similar swap transaction in 2006, which was closed out at its sole discretion with a profit for the City of Linz.

BAWAG P.S.K. earned an initial arm's length fee commission on entering the transaction. Further payments received by BAWAG P.S.K. from the City of Linz have been forwarded and paid to third correspondent banks to meet the Bank's own obligations. Regarding the swap transaction, BAWAG P.S.K. has been in regular contact with representatives of the City of Linz to find a risk reducing way of dealing with the swap position entered by the City of Linz.

The accusations against BAWAG P.S.K. expressed by the City of Linz are not sustainable. Despite the announced violation of the contract by the City of Linz, BAWAG P.S.K. still considers this contract to be valid and expects no negative impact on the result of the Bank and its capital position for 2011.

BAWAG P.S.K. will reserve all legal measurements. However, BAWAG P.S.K. continues to keep its doors open to find a constructive solution in the best interest of the Linz.

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