

## FITCH MAINTAINS KA FINANZ AG'S SUB DEBT ON RWN

Fitch Ratings-London-24 June 2011: Fitch Ratings has maintained Austria's KA Finanz AG's (KF) subordinated debt (lower Tier 2; rated 'A') on Rating Watch Negative (RWN). KF's Long-term Issuer Default Rating (IDR) of 'A+' with Stable Outlook, Short-term IDR of 'F1+', Support Rating of '1' and Support Rating Floor of 'A+' remain unaffected by this rating action.

The RWN on KF's lower Tier 2 debt, in place since 23 December 2010, reflects Fitch's view that there is a remote probability that the European Commission (EC) may require investors in KF's lower Tier 2 debt to carry losses in the context of a "burden sharing" concept. In an initial statement published on 31 March 2011, the EC approved state aid measures for KF. However, the EC's final report has yet to be published. In resolving the RWN, Fitch will consider the EC's final report, the development of KA Finanz AG's risk profile and solvency as well as general regulatory and market trends concerning lower Tier 2 capital.

While Fitch (and KF's management) views the possibility of lower Tier 2 debt holders having to participate in KF's losses as remote, if the EC decides to impose losses onto subordinated debt holders, this would result in a multiple-notch downgrade of KF's subordinated bonds.

KF is one of the successors of former Kommunalkredit Austria AG (KA Old), a mid-sized Austrian public sector lender. As a state-owned entity in a wind-down mode, it holds KA Old's non-strategic public sector assets, including a large book of credit default swaps. KA Old's core business has been transferred to Kommunalkredit Austria AG (KA; Long-term IDR 'A' with Stable Outlook, Short-term IDR 'F1', Support Rating '1', Support Rating Floor 'A', Individual Rating 'D').

The following bonds are affected by this rating action:

XS0257275098  
AT0000441209  
XS0185015541  
XS0267751245  
XS0255270380

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com).

Applicable criteria "Global Financial Institutions Rating Criteria" dated 16 August 2010 and "Short-Term Ratings Criteria for Corporate Finance" dated 2 November 2010, are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=547685](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547685)

Short-Term Ratings Criteria for Corporate Finance

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=568726](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=568726)

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