

FITCH RATES NEWLY-FORMED KOMMUNALKREDIT AUSTRIA 'A'; OUTLOOK STABLE

Fitch Ratings-London-30 November 2009: Fitch Ratings has today assigned newly-established Kommunalkredit Austria AG (KA) a Long-term Issuer Default Rating (IDR) of 'A' with a Stable Outlook. The other ratings assigned to KA today are provided at the end of this comment.

The agency has simultaneously affirmed KA Finanz AG's ratings, including its Long-term IDR at 'A+' with a Stable Outlook, and affirmed the ratings of its wholly-owned Cyprus-based subsidiary, Kommunalkredit International Bank Ltd at (KIB). The rating actions related to these entities are also provided at the end of this comment.

KA is the result of a spin-off on 28 November 2009 from Kommunalkredit Austria (KA Old). What remains in KA Old has been renamed KA Finanz AG. KA holds KA Old's strategic public sector assets, including new business, whilst KA Finanz AG - the legal successor of KA Old - holds KA Old's non-strategic assets and will be wound down over time. KA Old was acquired by the Austrian state in November 2008 after the bank encountered severe funding and liquidity difficulties. Generally, rated senior issues of KA Old have been allocated to KA, rated lower tier 2 issues to KA Finanz AG and rated junior subordinated notes have been proportionately allocated to KA and KA Finanz AG.

KA's ratings, excluding its Individual Rating, reflect Fitch's view that due to its close affiliation with the Austrian government (rated 'AAA'/F1+) and its strategic importance as a municipal lender and a public service provider on behalf of the Austrian state, there is an extremely high likelihood of ongoing support from the Austrian state. KA's Individual Rating reflects the bank's lack of a track record under its revised business model. Fitch will re-assess the bank's Individual Rating in the short- to medium-term, once KA has started operating under its new business model.

KA is currently 99.78% owned by the Austrian state. As part of KA's restructuring plan, Fitch expects the Austrian government to privatise KA in 2012 or shortly thereafter. The Stable Outlook on KA's Long-term IDR indicates that Fitch does not expect a privatisation in the short-term. The agency will review the Outlook closer to an actual privatisation date. Should a potential buyer be rated lower than 'A+', it would likely have a negative impact on KA's Long-term IDR.

KA Finanz AG's Long-term IDR is one notch above KA's Long-term IDR due to Fitch's belief that KA Finanz AG will remain government-owned until it has been fully wound down. Under the proposed restructuring plan, KA Finanz AG will be a non-competing entity in run-off mode. The agency does not, therefore, anticipate that the European Commission's (EC) ruling on the restructuring plan, expected in Q110, will require the state to sell off KA Finanz AG in the short- to medium-term. However, should the EC's ruling impose such or similar conditions, Fitch would take appropriate negative rating action.

KA, established out of former KA Old's subsidiary Kommunalkredit Depotbank AG, holds EUR17.3bn, or around 51.6%, of former Kommunalkredit Austria's IFRS assets and liabilities, but only 38.0% of total credit exposure and 24.2% of risk-weighted assets as of end-H109. Unlike KA Old, KA will predominately focus on advisory-intensive public sector lending and project finance and infrastructure and advisory business in its Austrian core market as well as in Germany, Switzerland, Poland, Romania, Bulgaria and Croatia. At end-H109 (pro forma), around 60% of KA's credit exposure related to Austria, although this is likely to increase, according to KA's business plan. KA's credit exposure is of a good quality with an average rating of 'AA-' at end-H109.

KA is largely funded by covered bonds (44% of liabilities at end-H109) and to a lesser extent unsecured bonds, client deposits and short-term funding. The bulk of KA Old's government guaranteed funding will be transferred to KA Finanz AG. KA's capitalisation was supported by the

injection of EUR250m capital from the Republic of Austria in November 2009 and management estimates that its Tier 1 ratio will amount to around 13% at end-2009. Management intends to maintain a Tier 1 ratio above 10% and the Austrian state has committed to maintaining a Tier 1 ratio of at least 7% in KA while the bank's previous owners, Osterreichische Volksbanken AG and Dexia, remain invested in its participation capital.

The rating actions are as follows:

Kommunalkredit Austria AG (former Kommunalkredit Depotbank AG)

Long-term IDR: assigned at 'A'; Outlook Stable

Short-term IDR: assigned at 'F1'

Individual Rating: assigned at 'E'

Support Rating: assigned at '1'

Support Rating Floor: assigned at 'A'

KA Finanz AG (former Kommunalkredit Austria)

Long-term IDR: affirmed at 'A+'; Outlook Stable

Short-term IDR: affirmed at 'F1+'

Individual Rating: affirmed at 'F' and simultaneously withdrawn

Support Rating: affirmed at '1'

Support Rating Floor: affirmed at 'A+'

Junior subordinated: affirmed at 'C'/Recovery Rating 'RR5' (XS0284217709, XS0270579856)

Kommunalkredit International Bank Ltd (Cyprus)

Long-term IDR: affirmed at 'A+'

Short-term IDR: affirmed at 'F1+'

Support Rating: affirmed at '1'

(KIB no longer writes new business and management intends to merge KIB into KA Finanz AG in H110.)

Credit updates on KA and KA Finanz AG will be made available in the coming weeks on Fitch's public website, www.fitchratings.com.

For further information, please see the rating action commentary, entitled 'Fitch Affirms Kommunalkredit at 'A+'; Off RWP; Outlook Stable' published 10 September 2009, and the credit update on KA Old published 25 September 2009, which are both available at www.fitchratings.com.

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Fitch's Recovery Ratings (RR), introduced in 2005, are a relative indicator of creditor recovery on a given obligation in the event of a default. An overview of Fitch's RR methodology can be found at www.fitchratings.com/recovery.

Additional information is available at www.fitchratings.com.

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