

FITCH AFFIRMS KOMMUNALKREDIT AT 'A+'; OFF RWP; OUTLOOK STABLE

Fitch Ratings-London-10 September 2009: Fitch Ratings has today affirmed Kommunalkredit Austria's (KA) Long-term Issuer Default Rating (IDR) at 'A+' and removed it from Rating Watch Positive (RWP). The Outlook on the Long-term IDR is Stable. The agency has simultaneously affirmed KA's Support Rating Floor at 'A+' and removed it from RWP. KA's Short-term IDR has been upgraded to 'F1+' from 'F1' and been removed from RWP. Fitch has affirmed the bank's Individual Rating and Support Rating at 'F' and '1' respectively.

In line with the rating actions on KA, the agency has affirmed Kommunalkredit International Bank Ltd.'s (KIB), KA's fully-owned Cyprus-based subsidiary, Long-term IDR at 'A+' and removed it from RWP. KIB's rating Outlook is Stable. KIB's Short-term IDR has been upgraded to 'F1+' from 'F1' and removed from RWP. The subsidiary's Support Rating is affirmed at '1'. Fitch has also downgraded KA's junior subordinated obligations to 'C' from 'CCC+' and revised the Recovery Rating (RR) on the obligations to RR5 from RR2 following the recent announcement of a second coupon deferral.

The rating actions reflect Fitch's assessment of KA's revised strategic positioning and the agency's view on the propensity of available support from KA's 99.78% owner, the Republic of Austria ('AAA'/Stable), the remaining 0.22% of KA is owned by Austrian municipalities.

KA was acquired by the Austrian state in November 2008 after the bank encountered severe funding and liquidity difficulties. In June 2009, KA's management presented a restructuring plan which proposed to spin off the bank's non-strategic assets into a special purpose company (KA SPC; the legal successor of the existing KA). These assets will mostly consist of KA's non-Austrian public sector bonds and CDS protection sold portfolio, which will be gradually wound down. Management also proposes to establish a "new" KA, to be formed out of an existing subsidiary, which will predominately focus on advisory-intensive public sector lending and advisory business in its Austrian core market. The restructuring plan still requires approval by the European Commission (EC), which KA expects to obtain later this year.

In April 2009, Fitch revised the Support Rating Floors of systemically important Austrian banks to 'A' from 'A-', and announced that an uplift was possible for banks where the state has a controlling interest (for further information, see the 9 April 2009 comment entitled "Updated Support Rating Floors for Major Banks in High-Grade Sovereigns", available at www.fitchratings.com). KA is currently a major lender to Austrian municipalities and a public service provider on behalf of the Austrian state. This business will be transferred into the "new" KA, but in Fitch's view the Austrian state will continue to take responsibility for an orderly wind down of the non-strategic assets retained in KA's legal successor, KA SPC. The upgrades of KA's and KIB's Short-term IDRs reflect the agency's opinion that due to government ownership, credit risk in the short-term time horizon is limited.

The Stable Outlook assigned to KA's Long-term IDR reflects Fitch's opinion that KA and its planned legal successor, KA SPC, will remain government-owned in the medium- to long-term. Under the proposed restructuring plan, KA SPC will be a non-competing entity in run-off mode. Fitch does not, therefore, anticipate that the EC's ruling on the restructuring plan will impose a disposal of KA SPC by Austria 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 is primarily a long-term lender to Austria's public authorities, but also a trustee of government development funds and a consultant on development projects. It promotes regional development, particularly environmental projects. KA has announced that, following expected EC approval, it intends to merge KIB back into KA and discontinue its Cypriot operations.

According to Fitch's rating definitions, the Individual Rating reflects the standalone strength of a bank while the Support Rating reflects the probability of support from a major shareholder and/or the government. Collectively, these ratings drive Fitch's Long- and Short-term IDRs.

Contacts: Christian Kuendig, London, Tel: +44 (0) 20 7682 7541; Michael Steinbarth, +44 (0) 20 7682 7468.

Media Relations: Hannah Warrington, London, Tel: +44 (0) 207 417 6298, Email: hannah.warrington@fitchratings.com.

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