

## **FITCH WITHDRAWS KOMMUNALKREDIT INTERNATIONAL BANK'S RATINGS; AFFIRMS KA FINANZ AG**

Fitch Ratings-London-20 September 2010: Fitch Ratings has affirmed Cyprus-based Kommunalkredit International Bank's (KIB) ratings at Long-term Issuer Default (IDR) 'A+' with Stable Outlook, Short-term IDR 'F1+' and Support '1'. All of KIB's ratings have simultaneously been withdrawn.

At the same time, the agency has affirmed KIB's Austria-based parent KA Finanz AG (KAF) at Long-term IDR 'A+' with Stable Outlook, Short-term IDR 'F1+', Support Rating '1' and Support Rating Floor 'A+'. A full breakdown of rating actions is provided at the end of this comment.

Effective 18 September 2010, KIB has been absorbed by KAF and ceases to exist as a separate legal entity. This merger is part of KAF's wind-down process, initiated in late 2008.

KAF itself is the legal successor of former Kommunalkredit Austria AG (old KA), a public sector lender that was nationalised in November 2008. KAF holds old KA's non-strategic assets; it is in wind-down mode and is no longer acquiring new business. KIB was old KA's (and subsequently KAF's) Cypriot subsidiary, holding much of the group's CDSs and bond and non-core loan portfolios. Old KA's core business, essentially public sector lending and advisory in Austria and neighbouring countries, has been transferred to Kommunalkredit Austria AG (rated Long-term IDR 'A', Stable Outlook; see separate update, published 15 March 2010).

KAF's ratings are based on its 99.78% ownership by the Republic of Austria (rated 'AAA'/Outlook Stable) and Fitch's assumption that there will be no change to the ultimate ownership and the willingness of Austria to support KAF. Given KAF's sole purpose is to ensure an orderly run-off of its assets base, Fitch no longer assigns an Individual Ratings.

KAF's financial performance under IFRS is significantly affected by volatility in bond and CDS prices. After a EUR545.1m positive mark-to-market swing during 2009 resulted in a EUR447.6m pre-tax profit at end-2009, negative CDS and bond valuation movements during H110 affected KAF's performance and contributed to a EUR493.1m operating loss. Given that the quality of KAF's CDS and bond portfolios is generally good and KAF intends to wind-down the portfolio in an orderly way, CDS and bond valuation volatility is, in Fitch's opinion, less concerning.

KAF's regulatory capital ratios are based on Austrian GAAP which does not mark to market fixed income securities held as fixed assets nor CDSs. Consequently, KAF's tier 1 ratio remained stable at 7.9% at end-H110.

The ratings affected by today's rating action are as follows:

### KA Finanz AG

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

Short-term IDR affirmed at 'F1+'

Support Rating affirmed at '1'

Support Rating Floor affirmed at 'A+'

Senior notes affirmed at 'A+'

Subordinated (lower Tier 2) notes affirmed at 'A'

Junior subordinated notes affirmed at 'C'/RR5'

Government-guaranteed notes unaffected at 'AAA'

### Kommunalkredit International Bank Ltd.

Long-term IDR affirmed at 'A+'; withdrawn

Short-term IDR affirmed at 'F1+'; withdrawn

Support Rating affirmed at '1'; withdrawn  
Commercial paper programme ratings affirmed at 'F1+'; withdrawn

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

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 13 August 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)

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