

FITCH MAINTAINS KA FINANZ AG'S LOWER TIER 2 DEBT ON RWN

Fitch Ratings-London-16 September 2011: Fitch Ratings has maintained KA Finanz AG's (KF) subordinated (lower Tier 2; rated 'A') on Rating Watch Negative (RWN). KF's issuer ratings (Long-term IDR 'A+' with Stable Outlook, Short-term IDR 'F1+', Support Rating '1' and Support Rating Floor 'A+') are unaffected by this rating action.

KF's lower Tier 2 debt was placed on RWN on 23 December 2010 to reflect Fitch's view of the 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. Fitch has stated that in resolving the RWN it will consider the EC's final report as well as general regulatory and market trends concerning lower Tier 2 capital.

Since the last rating action on 22 June 2011, the final report on the approved state aid measures was published on 6 July 2011. There is no indication that the transfer of losses could be imposed onto subordinated debt holders.

While Fitch acknowledges that the EC is currently unlikely to impose losses onto lower Tier 2 debt holders, the agency has maintained the RWN in light of its Exposure Draft "Rating Bank Regulatory Capital Securities" published on 28 July 2011, which stipulates that the agency is reviewing its methodology for the rating of lower Tier 2 debt. If implemented, it could result in a multiple-notch downgrade of KF's subordinated debt as in Fitch's revised criteria the potential state support may no longer be considered in the subordinated debt ratings. Fitch aims to resolve the RWN once it has implemented final revised criteria for rating subordinated debt, likely before end-2011.

KF is one of the successors of former Kommunalkredit Austria AG (KA Old), a mid-sized Austrian public sector lender. As an 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', Viability Rating 'bb-', Individual Rating 'D', Support Rating '1', Support Rating Floor 'A').

The following bonds are affected by this rating action:

XS0257275098
AT0000441209
XS0185015541
XS0255270380

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Additional information is available on www.fitchratings.com.

Applicable criteria "Global Financial Institutions Rating Criteria" dated 16 August 2011, is available at www.fitchratings.com.

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=649171

KA Finanz AG

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=539978

Kommunalkredit Austria AG

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=539977

Rating Bank Regulatory Capital Securities

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647469

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