MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Covered Bonds of Kommunalkredit Austria AG to Aa2

Global Credit Research - 03 Feb 2012

Frankfurt am Main, February 03, 2012 -- Moody's Investors Service has today downgraded to Aa2 from Aa1 Kommunalkredit Austria's (KA) public-sector covered bonds. This rating action follows Moody's downgrade of the senior unsecured long term rating of KA to Baa3 from Baa1. KA's covered bonds were previously confirmed at Aa1 on 3 February 2011.

RATINGS RATIONALE

Today's rating action on KA's public-sector covered bonds was prompted by the rating action taken by Moody's Financial Institutions Group on the senior unsecured long term rating of KA, which was downgraded to Baa3/Prime-3 from Baa1/Prime-2 on 2 February. For further information on the rating action in respect of KA's senior unsecured long term rating, please refer to "Moody's downgrades Kommunalkredit Austria to Baa3/P-3/E from Baa1/P-2/E+; outlook stable", published on 2 February 2012.

Moody's says that the rating action on KA's covered bond is not caused by deterioration in the credit quality of the cover pool assets backing the covered bond.

Following the rating action on the issuer, the rating assigned to the public-sector covered bonds of KA are now restricted at Aa2 as a result of the combination of the TPI framework and their Timely Payment Indicators (TPIs) of "High", which remains unchanged.

The over-collateralisation in the public-sector covered bond programme of KA is sufficient to support the Aa2 rating. The minimum level of over-collateralisation consistent with the current rating is 26.5% based on data as of 30 September 2011, while Moody's observes that the level of over-collateralisation held is 36.0% on a nominal basis as of 31 December 2011. The level of over-collateralisation that the issuer has committed under the programme on a nominal basis is 28.0%.

KEY RATING ASSUMPTIONS/FACTORS

Covered bond ratings are determined after applying a two-step process: expected loss analysis and TPI framework analysis.

EXPECTED LOSS: Moody's determines a rating based on the expected loss on the bond. The primary model used is Moody's Covered Bond Model (COBOL), which determines expected loss as (i) a function of the issuer's probability of default (measured by the issuer's rating); and (ii) the stressed losses on the cover pool assets following issuer default.

The cover pool losses are based on Moody's most recent modelling and are an estimate of the losses Moody's currently models if the relevant issuer defaults. Cover pool losses can be split between Market Risk of 22.8% and Collateral Risk of 4.5%. Market Risk measures losses as a result of refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral Risk measures losses resulting directly from the credit quality of the assets in the cover pool. Collateral Risk is derived from the Collateral Score, which for this programme is 8.9% as of 30 September 2011.

For further details on Cover Pool Losses, Collateral Risk, Market Risk, Collateral Score and TPI Leeway across all covered bond programmes rated by Moody's please refer to "Moody's EMEA Covered Bonds

Monitoring Overview", published quarterly. These figures are based on the latest data that has been analysed by Moody's and are subject to change over time. Quarterly these numbers are updated in Performance Overviews published by Moody's.

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI) which indicates the likelihood that timely payment will be made to covered bondholders following issuer default. The effect of the TPI framework is to limit the covered bond rating to a certain number of notches above the issuer's rating.

Moody's has assigned a TPI of "High" to the covered bonds of KA.

SENSITIVITY ANALYSIS

The robustness of a covered bond rating largely depends on the credit strength of the issuer.

The TPI Leeway measures the number of notches by which the issuer's rating may be downgraded before the covered bonds are downgraded under the TPI framework.

The TPI assigned to KA's programme is "High". The TPI Leeway for this programme is limited, and thus any downgrade of the issuer rating may lead to a downgrade of the covered bonds.

A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances. Some examples might be (i) a sovereign downgrade negatively affecting both the issuer's senior unsecured rating and the TPI; (ii) a multiple notch downgrade of the issuer; or (iii) a material reduction of the value of the cover pool.

The principal methodology used in this rating was "Moody's Approach to Rating Covered Bonds" published in March 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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