MOODY'S
INVESTORS SERVICE

Announcement: Moody's confirms Aa1 rating for Kommunalkredit Austria's covered bonds

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Frankfurt am Main, February 03, 2011 -- Moody's Investors Service has taken the following rating action on the covered bonds issued by Kommunalkredit Austria ("Kommunalkredit" or the issuer) under the Austrian covered bond act (Gesetz betreffend fundierte Bankschuldverschreibungen or FBSchVG):

- Public-sector covered bonds: Aa1 confirmed; previously on 30 July 2010 downgraded to Aa1 from Aaa and left on review for possible downgrade.

Today's rating action concludes the review for possible downgrade, which was ultimately prompted by Moody's downgrade of the issuer's senior unsecured rating to Baa1 (see press release dated 13 October 2009 and 11 November 2009).

RATINGS RATIONALE

The rating confirmation follows the addition of sufficient "committed" collateral to the cover pool for the expected loss of the covered bonds to be consistent with the Aa1 rating. The minimum level of over-collateralisation consistent with the current rating is 27%, while Moody's observes that the current level held is 30.1% on a nominal basis. The level of over-collateralisation that the issuer has now committed under the programme on a nominal basis is 28%.

The Timely Payment Indicator (TPI) remains unchanged at "High" for Kommunalkredit's covered bond. The TPI is in line with other public-sector covered bonds issued under the Austrian covered bond legislation.

The ratings assigned by Moody's address the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

The Aa1 rating assigned to the issuer's existing public-sector covered bonds is expected to be assigned to all subsequent covered bonds issued by the issuer under this programme and any future rating actions are expected to affect all such covered bonds. Should there be any exceptions to this, Moody's will in each case publish details in a separate press release.

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 a function of the issuer's probability of default, measured by its rating of Baa1, and the stressed losses on the cover pool assets following issuer default.

The Cover Pool Losses for this programme are 26.5%. This is an estimate of the losses Moody's currently models in the event of issuer default. Cover Pool Losses can be split between Market Risk of 23.7% and Collateral Risk of 2.8%. 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 currently 5.7%.

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.

SENSITIVITY ANALYSIS

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

The number of notches by which the issuer's rating may be downgraded before the covered bonds are downgraded under the TPI framework is measured by the TPI Leeway. Based on the current TPI of High the TPI Leeway for this programme is one notch, meaning the issuer rating would need to be downgraded to Baa3 before the covered bonds are downgraded, all other things being equal.

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

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 most recent cover pool information provided by the issuer and are subject to change over time.

RATING METHODOLOGY

The principal methodology used in rating the issuer's covered bonds is "Moody's Rating Approach to Covered Bonds" published in March 2010. Other methodologies and factors that may have been considered in the rating process can also be found on the Moody's website.

In addition, Moody's publishes a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at www.moodys.com/SFQuickCheck.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information and confidential and proprietary Moody's Investors Service information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of maintaining a credit rating.

The rating has been disclosed to the rated entity or its designated agents and issued with no amendment resulting from that disclosure.

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