

Austria
Credit Update

Kommunalkredit Austria AG

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Individual Rating	E
Support Rating	1
Support Rating Floor	A
Sovereign Risk	
Foreign-Currency Long-Term IDR	AAA
Local-Currency Long-Term IDR	AAA

Outlooks

Foreign-Currency Long-Term IDR	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable

Financial Data

Kommunalkredit Austria AG	
30 Jun 09 ^a	
Total assets (USDm)	24,446.8
Total assets (EURm)	17,296.1
Total IFRS equity (EURm)	349.3
Total local GAAP equity (EURm)	483.7
Pre-tax profit end-2009 (EURm)	10.9 ^b
Net income end-2009 (EURm)	8.2 ^b
Operating ROAE end-2009 (%)	2.70 ^b
IFRS equity/assets end-2009 (%)	2.02 ^b
Tier 1 ratio end-2009 (%)	13.02 ^b
Total capital ratio end-2009 (%)	16.12 ^b

^a Unaudited pro forma financials

^b Forecast

Analysts

Christian Kuendig, London
+44 020 7682 7541
christian.kuendig@fitchratings.com

Michael Steinbarth, London
+44 020 7682 7468
michael.steinbarth@fitchratings.com

Related Research

Applicable Criteria

- *Global Financial Institutions Rating Criteria (December 2009)*

Other Research

- *KA Finanz AG (January 2010)*

Rating Rationale

- Kommunalkredit Austria AG's (KA) ratings – apart from its Individual Rating – are based on its 99.78% ownership by the Republic of Austria and KA's importance for public-sector financing in Austria. KA's Individual Rating reflects its lack of track record following a fundamental change to its business model.
- KA, established in late 2009, is one of the two legal successors of the former Kommunalkredit (KA Old), which was nationalised in late 2008 after severe funding and liquidity difficulties. It holds KA Old's core operating assets and focuses on advisory-intensive and fee-generative municipal and infrastructure financing, largely in Austria but also in Germany and selected eastern European markets. KA Old's non-core assets, credit protection sold and credit exposure outside KA's core markets are held by KA Finanz AG (see *Related Research*).
- Based on about EUR1bn new business volume per year, improved and risk-adjusted asset margins and low assumed funding costs, KA's management expects the bank to be marginally profitable for 2009. By end-2013, KA expects a return on equity of around 12%, underpinned by wider asset margins, stable operating expenses and well-contained credit costs. Fitch Ratings views this performance target as ambitious due to the required asset margin widening and assumed low funding costs.
- At end-H109 (pro forma accounts) 33% of KA's EUR16.8bn credit exposure (around two-thirds of which was loans) related to Austrian municipalities, 26% to banks (including exposure to KA Finanz AG), 9% to corporates, 23% to foreign municipalities and 9% to public-sector entities. High concentration risk is mitigated by the good credit quality of exposures (average rating: 'AA-').
- Most of KA Old's long-term funding has been allocated to KA, which – together with efforts to build up an institutional deposit base – limits redemptions and contains funding costs in the short to medium term. New business will be funded by a mix of covered and senior unsecured bonds and to a lesser extent commercial paper. Management aims to maintain a core Tier 1 ratio above 10%, which Fitch considers acceptable, although KA's capital ratios have to be viewed in the context of low risk weightings for public-sector lending.

Support

- Due to KA's ownership and its importance for domestic municipal financing and capital markets (eg as a significant covered bonds issuer), Fitch considers there to be an extremely high propensity of support from the public authorities.

Key Rating Drivers

- KA's Long-Term IDR is on its Support Rating Floor and has a Stable Outlook, reflecting Fitch's expectation that KA is very unlikely to be privatised before 2012. In the medium term, any change in Outlook or Watch on KA's Long-Term IDR will largely depend on the creditworthiness of any potential acquirer.

Profile

Unlike KA Old, which focused on Europe-wide volume-driven public sector financing, KA's advisory-intensive municipal and infrastructure financing activities will be centred on Austria (around 70% of total business volumes). KA is also a trustee of state development funds and a consultant on development projects.

www.fitchratings.com

15 March 2010

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Copyright © 2010 by Fitch, Inc. and Fitch Ratings, Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004 Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. All of the information contained herein has been obtained from sources Fitch believes are reliable, but Fitch does not verify the truth or accuracy of the information. The information in this report is provided 'as is' without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security, not a recommendation to buy, sell, or hold any security.