

CORRECT: FITCH PLACES KOMMUNALKREDIT AUSTRIA'S LONG-TERM IDR ON RWN; AFFIRMS VIABILITY RATING

Fitch Ratings-London/Milan-21 September 2012: This announcement corrects the version published on 20 September 2012, which incorrectly stated the Support Rating Floor in the list of rating actions. A corrected version follows.

Fitch Ratings has placed Kommunalkredit Austria's (KA) Long-term Issuer Default Rating (IDR) of 'A', Short-term IDR of 'F1', Support Rating of '1' and Support Rating Floor of 'A' on Rating Watch Negative (RWN). At the same time, the agency has affirmed KA's Viability Rating (VR) at 'b+'. A full list of rating actions is at the end of this rating action commentary.

RATING ACTION RATIONALE

KA's IDRs are driven solely by Fitch's view that support from KA's 99.8%-owner, the Republic of Austria ('AAA'/Stable), is extremely probable. The RWN reflects Fitch's opinion that the sale process of KA, initiated in mid-2012 and to be finalised in mid-2013, could lead to a negative rating action on KA's support-driven ratings if the new owner's ability or propensity to support KA is weaker than under the current ownership structure.

If the privatisation of KA goes ahead as currently planned, the extent of a downgrade of KA's support-driven ratings, if any, will depend on, among other things, the creditworthiness and rating and the support propensity of the acquiring entity. Fitch understands that an adequate credit quality and suitability of a buyer is an integral criterion in the privatisation process, managed by Austria's FIMBAG, which should limit the extent of any downgrade.

If no suitable buyer is found in the timeframe agreed upon with the European Commission (EC), which Fitch believes is a possibility in the currently difficult market environment, then the Austrian government would, in the agency's opinion, likely request an extension of the privatisation deadline from the EC. Fitch would review the impact of alternative solutions on KA's ratings if and when details on these are available.

The resolution of the RWN will depend on developments surrounding the privatisation process, but Fitch currently expects to resolve the RWN by end-June 2013, the privatisation deadline set by the EC.

RATING DRIVERS AND SENSITIVITIES - IDRs, SUPPORT RATING AND SUPPORT RATING FLOOR

The bank's support-driven ratings reflect the implicit support of the bank by the Republic of Austria through its majority ownership of KA. These ratings are therefore sensitive to a change in ownership of the bank.

The support-driven ratings are also sensitive to changes in the assumptions around the propensity or ability of Austria to provide timely support to the bank. This might arise if the state's creditworthiness and rating were to deteriorate.

RATING DRIVERS AND SENSITIVITIES - VIABILITY RATING

KA's VR reflects the vulnerability of the bank's performance to challenging market conditions, its high leverage and reliance on wholesale funding although the bank is actively diversifying funding sources. The VR also reflects the single name concentration in KA's loan portfolio, which however generally consists of highly rated counterparties.

The VR is sensitive to KA's ability to demonstrate an adequate performance track record. Fitch would consider an upgrade if the bank achieves sustainable profit growth in the next few years and if it manages to strengthen its funding profile. Improvements in performance are constrained in the

short-term by the bank's low-margin legacy portfolio, although it is feasible given margin improvements through new business volumes. Downward pressure on the VR would come from losses sustained from counterparty defaults that would erode capitalisation or from deteriorating liquidity.

The rating actions are as follows:

Long-term IDR of 'A' placed on RWN;
Short-term IDR of 'F1' placed on RWN;
Viability Rating: affirmed at 'b+';
Support Rating of '1' placed on RWN;
Support Rating Floor of 'A' placed on RWN;
Long-term senior unsecured notes rating of 'A' placed on RWN;
Short-term senior unsecured notes rating of 'F1' placed on RWN;
Senior market-linked notes rating of 'Aemr' placed on RWN;
Government guaranteed notes: affirmed at 'AAA'

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Additional information is available on www.fitchratings.com.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 15 August 2012, and 'Evaluating Corporate Governance', dated 13 December 2011, are 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=686181
Evaluating Corporate Governance
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=657143

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