

FITCH MAINTAINS KOMMUNALKREDIT'S IDRS ON RATING WATCH NEGATIVE

Fitch Ratings-London/Warsaw-14 March 2013: Fitch Ratings has maintained Kommunalkredit Austria's (KA) Long-term IDR of 'A' on Rating Watch Negative (RWN). KA's Support Rating of '1', Support Rating Floor of 'A' and Short-term IDR of 'F1' have also been maintained on RWN. The Viability Rating of 'b+' is unaffected by this rating action. A full list of rating actions is at the end of this rating action commentary.

RATING ACTION RATIONALE

Fitch placed KA's support-driven ratings on RWN in September 2012 after the Republic of Austria ('AAA'/Stable), KA's majority owner, initiated the privatisation process of the bank in line with European Commission state aid rules. The RWN reflects Fitch's view that a potential new owner's ability or propensity to support KA is likely to be weaker than under the bank's current ownership structure and hence negative for the bank's ratings.

Fitch's decision to maintain KA's support-driven ratings on RWN reflects the still-uncertain outcome in the privatisation process, currently scheduled to be finalised by end-June 2013. While Fitch considers a privatisation by mid-2013 still a possibility, the likelihood of the privatisation deadline not being met has increased.

KEY RATING DRIVERS - IDRS, SUPPORT RATING AND SUPPORT RATING FLOOR

KA's IDRs are driven solely by Fitch's view that support from KA's 99.78% ultimate owner, the Republic of Austria, is extremely probable. Fitch assigns a Support Rating Floor of 'A' to state-owned banks in Austria. Fitch's assessment of support is based on KA's government ownership, strong track record of support from Austrian authorities and Fitch's expectation that timely support would continue to be forthcoming as long as the Republic of Austria owns KA. Moreover, the government has committed itself to maintaining a Basel II Tier 1 ratio of at least 7% in KA as long as the bank's previous owners remain invested in KA's participation capital.

If the privatisation is ultimately successful, the extent of a downgrade of KA's support-driven ratings, if any, will predominantly depend on the credit profile and the support propensity of the acquiring entity.

Fitch understands that adequate credit quality and suitability of a buyer is an integral criterion in the privatisation process, managed by FIMBAG, managing stakes in financial institutions on behalf of the Austrian state, which should limit the extent of any downgrade.

If no suitable buyer is found in the timeframe agreed upon with the European Commission (EC), then Fitch believes it is likely that the Austrian government would request an extension of the privatisation deadline from the EC.

The resolution of the RWN will depend on developments surrounding the privatisation process, but Fitch currently expects that an outcome will be clearer in June 2013 as the privatisation deadline approaches.

RATING SENSITIVITIES - IDRS, SUPPORT RATING AND SUPPORT RATING FLOOR

The support-driven ratings are primarily sensitive to developments in the privatisation process. Should the acquiring entity be lowly or unrated or should Fitch's assessment about the entity's propensity to support be unfavourable, then a severe downgrade of KA's support-driven ratings would be likely. Conversely, should KA for instance be acquired by a highly-rated bank with an unquestioned support rationale, then a downgrade, if any, could be more limited.

The ratings are also sensitive to Fitch's assumption that - should the privatisation deadline not be

met - the Austrian government and the EC will come to an agreement for KA to either continue operating as a "going concern" entity with the extension of the privatisation deadline or, not Fitch's base case, be put in orderly wind-down.

In addition, the support-driven ratings could be downgraded if the ability, as expressed in the sovereign rating, or propensity of the Republic of Austria to support the bank change.

The rating actions are as follows:

Long-term IDR 'A'; maintained on RWN
Short-term IDR 'F1'; maintained on RWN
Viability Rating unaffected at 'b+'
Support Rating '1'; maintained on RWN
Support Rating Floor 'A'; maintained on RWN
Long-term senior unsecured notes rating 'A'; maintained on RWN
Short-term senior unsecured notes rating 'F1'; maintained on RWN
Senior market-linked notes rating 'Aemr'; maintained on RWN
Government guaranteed note (ISIN XS0437341307) unaffected 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 12 December 2012, 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=694649

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