

FITCH AFFIRMS KA FINANZ AT 'A+', OUTLOOK STABLE

Fitch Ratings-London/Milan-20 September 2012: Fitch Ratings has affirmed KA Finanz AG's (KF) Long-term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook. Fitch has also affirmed KF's Short-term IDR at 'F1+', its Support Rating at '1' and its Support Rating Floor at 'A+'. A full list of rating actions is at the end of this rating action commentary.

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

KF's IDRs and senior debt ratings are support-driven and reflect Fitch's view of an extremely high likelihood of support by the Republic of Austria ('AAA'/Stable), KF's sole owner, as well as the Austrian government's commitment to maintain KF's Tier 1 capital ratio at a minimum of 7%. The agency expects KF to remain government-owned until it has been wound down.

The Stable Outlook on KF's Long-term IDR reflects the Stable Outlook of Austria's sovereign rating. Any change in Austria's sovereign rating is therefore likely to be reflected in KF's IDRs.

The bank's IDRs and Support Ratings are sensitive to deterioration in the creditworthiness of the Republic of Austria, or to a change in the support structure provided by the state. Fitch views these eventualities as unlikely in the foreseeable future due to the nature of KF as a run-off institution, as well as due to the Stable Outlook on Austria's 'AAA' sovereign rating.

KF's sole purpose is the wind-down of the non-strategic assets of the former Kommunalkredit Austria AG (KA Old), and consequently, Fitch has not assigned a Viability Rating to KF, similar to other European institutions that are being run off.

Performance improved in H112 following heavy Greek exposure losses in 2011, although the bank was still loss-making overall for both periods. High funding cost pressures and warranty payments made in exchange for the state's support measures place severe constraints on the bank's performance. Any profits generated in the future will be used to amortise the interest-bearing debtor warrant held by the Republic of Austria (EUR1bn).

Following the impairment of its Greek exposures, KF's overall asset quality is now solid although high concentration and exposures to European periphery countries represent a risk to the bank. KF was able to make use of market fluctuations over H112 by disposing of some of its higher-risk assets. However, high hidden valuation reserves means that further disposals are likely to be limited under current market conditions. Redemptions in the portfolio will also be low in volume in the short-term, although this should accelerate in the coming years.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

The ratings of KF's junior subordinated debt reflects the fact that coupons have been deferred and coupon payments are in Fitch's view unlikely to be resumed during the wind-down of KF. The Recovery Rating on the bank's junior subordinated debt has been withdrawn in line with Fitch's Recovery Ratings criteria, which stipulates that recovery ratings are not applied to issuers with an IDR of above 'B+'.

The ratings of KF's subordinated (lower Tier 2) debt reflects the substantial risks of potential non-performance and losses which are not captured by the IDR as the IDR is entirely based on extraordinary state support. The withdrawal of the Rating Watch Negative (RWN) on KF's subordinated debt reflects the fact that the European Commission has to date refrained from applying burden sharing principles to this debt class in the case of KF. Nonetheless, the low rating of KF's subordinated debt reflects Fitch's view that KF could incur losses on its existing assets of a magnitude that would necessitate material further state support in order to sustain the required level

of capitalisation. In such a scenario Fitch believes the subordinated debt could face the risk of burden-sharing.

The rating actions are as follows:

Long-term IDR: affirmed at 'A+'; Outlook Stable
Short-term IDR: affirmed at 'F1+'
Support Rating: affirmed at '1'
Support Rating Floor: affirmed at 'A+'
Long-term senior unsecured notes: affirmed at 'A+'
Short-term senior unsecured notes: affirmed at 'F1+'
Subordinated notes: affirmed at 'B'; RWN removed
Junior subordinated: affirmed at 'C'; Recovery Rating 'RR5' withdrawn
Government guaranteed notes: affirmed at 'AAA'
Government guaranteed commercial paper programme: affirmed at 'F1+'
Market linked securities: affirmed at 'A+emr'

For all of Fitch's Eurozone Crisis commentary go to
http://www.fitchratings.com/web_content/pages/grs/eurozone

Contact:

Primary Analyst
Krista Davies
Analyst
+44 20 3530 1579
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Christian Kuendig
Director
+44 20 3530 1399

Committee Chairperson
Christian Scarafia
Senior Director
+39 02 8790 87212

Media Relations: Hannah Huntly, London, Tel: +44 20 3530 1153, Email:
hannah.huntly@fitchratings.com.

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, 'Recovery Ratings for Financial Institutions', dated 15 August 2012, 'Evaluating Corporate Governance', dated 13 December 2011, and 'Rating Bank Regulatory Capital and Similar Securities' dated 15 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
Recovery Ratings for Financial Institutions
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686295

Evaluating Corporate Governance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=657143

Rating Bank Regulatory Capital and Similar Securities

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=656371

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 WEBSITE '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.