

Fitch Downgrades Kommunalkredit Austria to 'A+'; Dexia Kommunalkredit Bank to 'A'; Outlooks Stable [Ratings](#)

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Fitch Ratings-London-06 October 2008: Fitch Ratings has today downgraded Kommunalkredit Austria's (KA) ratings to Long-term Issuer Default (IDR) 'A+' from 'AA-' (AA minus), Short-term IDR 'F1' from 'F1+' and Individual 'B/C' from 'B'. The Support Rating has been affirmed at '1' and a Support Rating Floor of 'A-' (A minus) has been assigned.

Fitch has also downgraded Dexia Kommunalkredit Bank AG's (Dexia-Kom) Long-term IDR to 'A' from 'AA', Short-term IDR to 'F1' from 'F1+' and Support Rating to '2' from '1'. Dexia-Kom's Individual rating has been affirmed at 'C'. At the same time, the agency has affirmed KA's fully-owned Cyprus-based subsidiary, Kommunalkredit International Bank Ltd. (KIB), at Long-term IDR 'A+', Short-term IDR 'F1' and Support '1'.

The agency has also resolved the Rating Watch Negative on all three entities' Long- and Short-term IDRs as well as on KA's and KIB's Individual Ratings and assigned Stable Outlooks to the Long-term IDRs of all three institutions.

These rating actions follow the downgrade of the Long-term IDRs of Dexia and its operating subsidiary, Dexia Credit Local (DCL), to 'AA-' (AA minus) from 'AA+' on 30 September 2008 (see separate rating action commentary on www.fitchratings.com).

The downgrade of KA's Long-term IDR reflects Fitch's view that the probability of support from DCL (which owns 49% of KA), should it ever be required, has significantly diminished following the intervention (and capital injection) of the French, Belgian and Luxembourg governments in Dexia. KA's Long-term IDR is now based on KA's Individual rating which, in turn, is underpinned by KA's sound domestic and increasingly international franchise in public-sector lending, well-managed credit risk, excellent asset quality and adequate profitability. The downgrade of KA's Individual rating reflects deteriorating conditions in wholesale markets where KA sources the bulk of its funding which, in turn, could put KA's profitability under pressure.

As DCL's support is no longer a consideration in KA's ratings, the latter's Support rating and newly assigned Support Rating Floor now reflect Fitch's view that there is an extremely strong likelihood of support from the Austrian state given KA's role in local public sector finance and its close ties with the government in some key activities for economic development.

The Long- and Short-term IDRs and Support rating of KIB are based on the extremely strong support available from KA as well as the strong operational integration of KIB into KA. Given this integration of KIB within KA, Fitch has not assigned an Individual rating to KIB. DCL does not directly commit to any support for KIB which explained the previous one notch difference between KA and KIB. However, as support from DCL is no longer factored into KA's and KIB's ratings, Fitch has equalised the Long-term IDR of the two entities.

The rating action on Dexia-Kom is based on DCL's weakened ability to support Dexia-Kom. While Fitch still recognises Dexia-Kom's important role in expanding the Dexia group's franchise in central and eastern Europe (CEE), Dexia-Kom's Long-term IDR is now based on its stand-alone strength as well as operational support from Dexia and KA, the former's particularly regarding access to capital market funding.

KA is primarily an Austria-based long-term lender to public authorities, but also a trustee of government development funds and a consultant on development projects. It promotes regional, particularly environmental, development. KA's majority shareholder is VBAG, the central

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institution of the cooperative Volksbanken Verbund (rated 'A'/Outlook Stable), Austria's fourth-largest banking group.

Like its parent, KIB focuses on public-sector finance. Management, risk management policies and systems are largely identical with those of KA and KIB is responsible for KA's short-term funding requirements.

Dexia-Kom is a joint venture between DCL (owning 50.84%) and KA, which is also in charge of the management and operations of Dexia-Kom. Dexia-Kom focuses on public-sector financing in CEE and has a notable presence in Slovakia, Poland, Hungary, the Czech Republic, Croatia, Bulgaria and Romania.

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