

FITCH CHANGES KOMMUNALKREDIT AUSTRIA'S RATING WATCH TO POSITIVE ON ACQUISITION BY GOVERNMENT

Fitch Ratings-London-04 November 2008: Fitch Ratings has today changed the Rating Watch on Kommunalkredit Austria's (KA) Long-term Issuer Default (IDR) of 'A+' and Short-term IDR of 'F1' to Positive (RWP) from Evolving (RWE). KA's Support Rating Floor is upgraded to 'A+' from 'A-' (A minus) and also put on RWP. This follows yesterday's announcement that the Republic of Austria (rated 'AAA'/Stable) has acquired 99.78% of KA's share capital from its former owners, Dexia Credit Local (49%; DCL, rated 'AA-' (AA minus)/Stable) and Volksbanken AG (50.78%; VBAG), the central institution of the cooperative Volksbanken Verbund.

At the same time, Fitch has downgraded KA's Individual rating to 'F' from 'C' to reflect Fitch's opinion that the bank would have failed without the availability of external support. The Individual rating is removed from RWN. KA's Support rating is affirmed at '1'. The Long-term 'A+' IDR and Short-term 'F1' IDR of Kommunalkredit International Bank Ltd. (KIB), KA's fully-owned Cyprus-based subsidiary, have also been placed on RWP. KIB's Support rating is affirmed at '1'. Given the close integration of KIB into KA, Fitch has not assigned an Individual rating to KIB. KIB's EUR50m of perpetual, non-cumulative, non-voting preferred securities - rated 'A' - remain on Rating Watch Negative, pending further discussions with KA's (and KIB's) new owner. The ratings of Dexia Kommunalkredit Bank AG (Dexia-Kom), have been affirmed at Long-term IDR 'BBB+' / Outlook Stable, Short-term IDR 'F2', Individual 'D' and Support '2'. Dexia-Kom will be fully owned by DCL, following the completion of the transaction.

The upgrade of the Support Rating Floor reflects the intervention by the Austrian authorities and demonstrates their propensity to support KA, a major lender to Austrian municipalities and public service provider on behalf of the Austrian state. The RWP on KA's Support Rating Floor and IDRs will be resolved once Fitch has received more details on the transaction from the Austrian government, especially regarding any explicit guarantees and KA's future business model. Depending on Fitch's assessment of those details, KA's IDRs and Support Rating Floor are likely to be upgraded by at least one notch. Following this assessment, Fitch will also review KA's Individual rating in light of - amongst other aspects - KA's new business plan and the bank's access to capital market funding.

As part of the transaction, VBAG and DCL will transfer its shares in KA to the Austrian state for a symbolic consideration of EUR1 each. The Austrian municipalities will continue to hold the remaining 0.22% of KA. A certain share of intra-group liabilities between KA and its former owners and a EUR95m capital increase in KA planned for January 2009 will be converted to participation capital (EUR173m in the case of VBAG, EUR200m in the case of DCL). DCL furthermore agreed to maintain its current level of collateralised funding to KA to ensure adequate liquidity until June 2009. KA will also transfer its 49.16% shareholding in Dexia-Kom to DCL for a symbolic consideration. Subsequently, DCL will own 100% of Dexia-Kom.

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 development, particularly environmental projects.

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

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