Rating Report

Kommunalkredit Austria AG

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DBRS

Insight beyond the rating.

Ratings

Issuer	Debt	Rating	Rating Action	Trend
Kommunalkredit Austria AG	Long Term Debt and Deposit	BBB (low)	Trend Change	Negative
Kommunalkredit Austria AG	Short-Term Debt and Deposit	R-2 (middle)	Trend Change	Negative

Rating Considerations

Franchise Strength:

KA's balance sheet-light business model, is built upon an originate-to-distribute approach, aiming to produce value added returns for sourcing, underwriting and then syndicating infrastructure project risk and provide related consulting services. As project finance is in a start-up phase, the balance sheet currently contains a low-risk legacy portfolio that will run off as the project finance activities grow. KA's new business is targeted for structured exposures in near public infrastructure (PPP projects), in contrast to the public sector focused legacy portfolio. The Bank's new business in terms of geographical footprint focuses on Austria and more broadly across core EU markets. It will be concentrated in KA's key areas of expertise, such as energy & environment, social infrastructure and transport.

Earnings Power:

KA aims to achieve in future a more balanced revenue and earnings profile where the majority is generated by net interest income (NII) and fee income. KA follows a *monoline* business model with revenue uncertainty regarding the Bank's future earnings stability from new business.

Risk Profile:

Risks during the portfolio build-up phase are balanced by stringent underwriting criteria with a focus on the economic viability of the projects and the expected cash flows.

Large portion of covered bonds are issued in foreign currency. FX risks are hedged with short term currency derivatives.

Funding and Liquidity:

KA's is predominantly wholesale funded. Its legacy portfolio is however fully funded until maturity. The Bank benefits from a large surplus pool of ECB- and Cover Pool-eligible assets.

Capitalization:

High CET1 (Common Equity Tier 1) ratio driven by very low Risk-Weighted Assets (RWA) density, reflecting the good quality of the Bank's legacy portfolio (low levels of RWAs); low absolute CET1 level; non-binding dividend distribution plan.

Rating Drivers

Factors with Positive Rating Implications

- While near term upside for the ratings is limited by the Bank's monoline business model, a sustained positive track record of growth with well contained risks over the longer term and good capitalisation levels would be credit positive for the Bank.

Factors with Negative Rating Implications

- Any further deterioration or variance in the Bank's progress in achieving its targeted levels of new business, profitability, capital and/or expected leverage, or a deterioration in the quality of assets or earnings from new business or the legacy portfolio, or excessive risk taking would exert negative rating pressure.

- Additionally a prudent dividend distribution policy going forward remains DBRS's view essential to the rating

Financial Information

EUR Millions	30/06/2016	31/12/2015
Total Assets	3,862	4,162
Equity	275	256
Pre-provision operating income (IBPT)	35	4
Net Income	28	6
Net Interest Income / Risk Weighted Assets (%)	5.36%	1.23%
Risk-Weighted Earning Capacity (%)	9.46%	NA
Post-provision Risk-Weighted Earning Capacity (%)	9.45%	NA
Efficiency Ratio (%)	44.02%	77.14%
Impaired Loans % Gross Loans	NA	NA
Core Tier 1 (As-reported)	27.90%	25.60%

Source: SNL Financial, DBRS (IFRS figures)

The relevant accounting date for the demerger for new incorporation in accordance with IFRS was 26 September 2015 (date of execution of the demerger and entry in the Companies' Register). The IFRS results of KA for the year 2015 therefore only cover the period from 26 September 2015 to 31 December 2015.

Issuer Description

Kommunalkredit Austria AG was demerged on 26 September 2015 as part of the partial sale process of Kommunalkredit (KA old) which was formed in 2009. The new Bank benefits from a profitable and self-funding legacy portfolio and its business model will focus on areas of expertise inherited from KA old, such as energy & environment, social infrastructure and transport.

Rating Rationale

The BBB (low) long-term ratings continue to reflect the good quality and self-funding dynamic of the legacy portfolio which provides the Bank with some cushion in terms of time, capital and earnings in order to fully establish KA's planned business model. DBRS notes additionally KA's strong liquidity profile with approximately EUR 800 million of liquid assets that can be used for repos under ECB collateral rules. However, the rating also takes into account the challenges faced by the Bank, including its narrow and new business model, lack of track record, and dependence on wholesale funding.

On October 11, 2016 DBRS changed KA's rating trend to Negative, from Stable, reflecting the Bank's relative lack of progress towards meeting the targets it has set for profitability and new business volumes within its business plan following regulatory delays in the approval of the demerger. The Bank has a challenging timeframe to meet to build up its new project finance activities in a conservative manner, at the same time that the legacy portfolio runs off.

Since the demerger from KA old (the good bank part of the former Kommunalkredit Austria) in September 2015, the Bank's 1H16 financial performance in terms of operating profit has been weak. The Bank is lagging behind its projected targets due to the later regulatory approval for the demerger and the subsequent related delay in business generation, but also due to the competitive environment and ultra-low interest rates in the Eurozone. The results of the Bank, under both IFRS and the local GAAP, were boosted by extraordinary gains on the buy-back of own bonds (mainly outstanding covered bonds) and the unwinding of related interest hedging derivatives. This was recorded as income of EUR 47 million under Austrian GAAP and EUR 31.9 million of positive valuation result under IFRS. Under Austrian local GAAP the operating result for 1H16 totaled EUR 4 million while net income amounted to EUR 29.7 million. The Bank also charged EUR 25.0 million as additions into its capital reserve account (silent reserves under local GAAP). Together with the existing capital reserves of EUR 15.0 million (fund for general banking risks), this contributed to a further strengthening of its capital. At the same time, however, DBRS notes that part of the extraordinary income was paid to shareholders through a dividend payment. DBRS will continue to closely monitor future shareholder payments.

KA still needs to successfully establish the Bank's new business generation. New business at KA was expected to grow slowly but is then planned to increase at a faster rate from 2017, once the new model is fully established. Earnings from the new business are planned to more than offset the expected decline in cash flow from the legacy portfolio as these assets mature.

DBRS understands that KA's planned business model emphasises a balance sheet-light generation of project risks. Focusing on areas of expertise such as energy & environment, social infrastructure and transport, KA aims to generate new business based on project cash flows and plans to sell the major portion of future risk to market investors. The Bank plans to pursue an active syndication strategy to long-term investors (e.g. insurance and pension funds) which is planned to be stepped up after 2018 as new business volumes are planned to increase.

Meanwhile the Bank is pursuing a wide array of syndication channels (funds, insurance companies, pension funds, family offices) and is in the process of establishing its own distribution platform in the form of an alternative investment fund structure. DBRS also notes that the Bank will need to manage its syndication risk in a conservative manner to ensure it is appropriately positioned at times of market stress.

Franchise Strength

Historical Background

The former KA was forced to request support from the Austrian state in 2008. In 2009, under an EC (European Commission) supervised restructuring programme, the Bank was split into KA Finanz (KF), which included the non-strategic operations, and a strategic entity Kommunalkredit old (KA old) which inherited the core portfolio of loans to local authorities and continued to operate under the Kommunalkredit name.

State support for former KA was conditional on a number of commitments including the downsizing of the Bank's balance sheet and in addition, the Austrian Government committed to sell KA old. This set the foundation for the de-merger process of the current KA which was completed in September 2015. In August 2014, FIMBAG [the Financial Market Holding Company of the Republic of Austria] published a public tender offer for the de-merger and sale. Following a bidding process, FIMBAG signed a binding sale offer with a consortium of investors in March 2015. This consortium was led by private equity firm Interritus and London based investment firm Trinity Investments/Attestor Capital.

Description of Operations

KA was established in late September 2015 with total assets of EUR 4.5 billion under Austrian UGB (local GAAP), in line with EC requirements at roughly half the asset size of KA old. KA operates under the banking license transferred from KA old. Likewise, its initial assets and liabilities comprised only those demerged from KA old. The new owners, Interritus and Attestor, aim to continue KA's historical expertise in the sectors of energy, social infrastructure and transport and to expand and/or re-establish the franchise centered on the generation and distribution of infrastructure finance.

Beginning in July 2013, EU restructuring conditions prohibited KA old from generating any new financing projects. Following the demerger in September 2015, KA is again authorized to engage in new business and new financing which will ramp up over several years as the business model is established. KA old maintained its industry expertise via the completion and management of existing deals, as well as ongoing consulting, advisory and service contracts which should benefit KA going forward. Concurrently, some of KA's historical competitors in Austria and Germany have to some extent also withdrawn from infrastructure project finance origination. DBRS notes the Bank's still strong ties in Austria and more broadly in some European markets. This should place KA in a competitive position for re-entering project finance origination. KA is targeting slow but steady growth with the aim of establishing an "originate to distribute" model for infrastructure project finance assets – working closely with project sponsors and institutional investors in order to structure attractive long term investments. Ultimately, KA targets to place up to 80% of risk for each transaction following the completion of each project's construction phase.

KA aims to leverage its experience and extensive contacts among public sector borrowers, agencies, contractors and investors. These include municipalities, utilities, contractors and government agencies and programs which KA has continued to work with on a consulting, advisory and distributor basis following the 2013 moratorium on new business. KA highlights that its contacts are particularly strong in Austria, but also extend into Germany, as well as some niche EU and EEA markets. The targeted originate-to-distribute model is to be balance sheet-light and aims to produce value added returns for sourcing, underwriting and then syndicating project risk. KA intends to benefit from the changes in regulatory and market dynamics driven by 1) pressure on public finance, 2) pressure on banks' balance sheets through Basel 3 and 3) institutional investors' needs for long term assets.

As part of the demerger transaction, KA has retained the subsidiaries and affiliates which had been included within KA old. The most important of these is Kommunalkredit Public Consulting (KPC), a consulting company which distributes and manages public grant funding from Austria to promote environmental protection, water management and energy projects. Indeed, KPC's role to act on the part of Austrian government agencies is written into grant legislation. Its interaction across the project funding, construction and implementation chain (with both private and public counterparties) provides KA with a value added "view" of the overall market. Although specific details of KPC's projects are not public information, its teams are able to provide sector and industry expertise with the KA business teams. The contributions of other KA subsidiaries such as Kommunalleasing (in run-down), Kommunalnet E-Government Solutions and TrendMind IT Dienstleistung are similar in nature but smaller in scope. These provide know-how for data-base management platforms and IT services which are broadly recognized or used by Austrian municipalities.

Earnings Power

The historical earnings profile of KA old was characterized by low profitability. This largely reflected the "buy and hold" and tender offer platform which had dominated public finance generation. Going forward, KA's initial earnings are largely tied to the currently EUR 3.0 billion of legacy assets which were acquired in the de-merger. These are expected to generate annual NII in the range of 1% of portfolio assets. The portfolio is fully funded and will decline in size as the portfolio matures. Initial earnings will also include fee income linked to services provided by KA to KF under a service level agreement. By 2020, the Bank aims to achieve a more balanced revenue and earnings profile which is majority generated by NII and fee and commission income from new business

DBRS notes that there is a high level of uncertainty regarding the Bank's future earnings profile from new business, given the transformation taking place in the business model. However, initial earnings are primarily generated by the legacy portfolio and this provides KA a window of time during which to build up its new franchise. The current ratings are based on an expectation of dependable NII from the legacy portfolio, complemented by increasing fee income linked to the new originate to distribute model. DBRS notes that failure to achieve forecast goals could result in downward pressure on the current rating.

Figures for the previous years are not available as KA has been newly incorporated with business inception at September 2015. As of 1H16 KA's total assets shrank by 7% to EUR 3.9 billion driven by loan redemptions and derivative transactions with total customer loans shrinking by 3.8% to EUR 2.5 billion.

IFRS results

KA's consolidated net income under IFRS amounted to EUR 26.5 million for the first half of 2016, including the results of the fully consolidated subsidiaries, Kommunalkredit Public Consulting GmbH (KPC) and Kommunalkredit Beteiligungs- und Immobilien GmbH (KBI). KA recorded a net interest income of EUR 18.7 million during 1H16 or approximately 30% of its total operating income, constituting its main earnings source and resulting from the legacy assets inherited from its predecessor company. Net fee and commission income of EUR 7.9 million in 1H16 or approximately 13% of its total operating income is derived from revenues generated by KPC (Kommunalkredit Public Consulting) which distributes and manages public grant funding and consultancy services. KA reported negligible loan impairment charges of TEUR -15.1 reflecting mainly the high quality legacy asset portfolio and the benign credit cycle in Austria. The Bank had no defaulted loans on its books in the first half of 2016. KA reported a EUR 2.3million full write down in 1H16 on the book value of its investment in Kommunalleasing (in run-down) under the result from investments in associates.

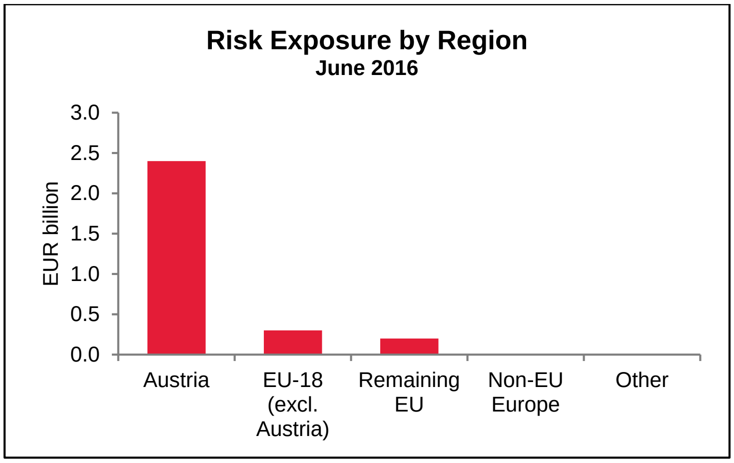
The bottom line result benefitted extraordinary through a positive net trading and valuation result of EUR 31.9 million, driven from the buy-back of own bonds (largely outstanding covered bonds) and the related unwinding of related interest rate hedging derivatives. The Bank further recorded general administrative expenses of EUR 17.4 million excluding expenses of EUR 5.2 million for the provision of operational services to KA old on the basis of the current service level agreement which are separately booked under other operating income. KA's annual contribution to the Austrian Bank Resolution Fund the year 2016 -a frontloaded yearly expense- amounted to EUR 2.5 million. Additionally the Bank contributed another EUR 1.9 million towards the local bank levy.

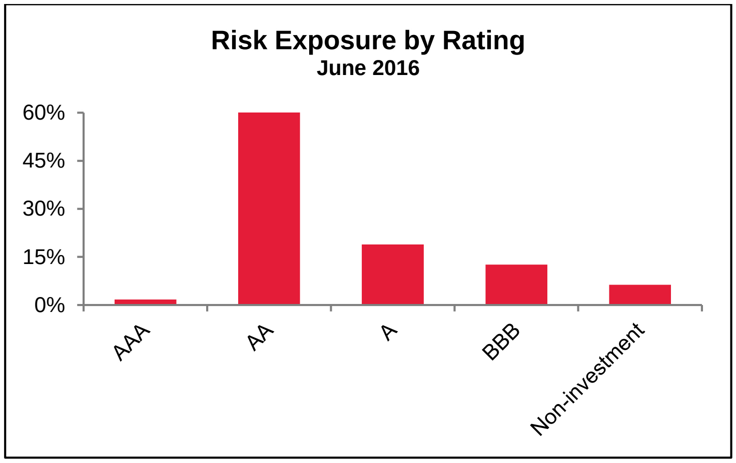
Local GAAP results

Under Austrian local GAAP the operating result for 1H16 amounted to EUR 4 million and net income amounted to EUR 29.7 million. Similarly to the IFRS result, the bottom line result in local GAAP was driven by the extraordinary gain on the buy-back of its own bonds which was recorded at EUR 47 million under Austrian GAAP. KA charged the amount of EUR 25.0 million as additions into its capital reserve account (silent reserves under local GAAP). Together with its already in 2015 cumulated capital reserves of EUR 15.0 million (fund for general banking risks), this contributed to a further strengthening of its capital. The Bank expects to report in 2016 a positive year-end result.

Risk Profile

KA's portfolio is primarily investment grade and at initiation contained no non-performing exposures. The bulk of the risk is Austrian with a large concentration to Austrian municipalities. The portfolio exhibits credit concentrations with the top 20 exposures representing a multiple of the absolute level of CET1 capital of EUR 195 million. This is partially mitigated by quality of exposure to most provinces, public entities and/or the additional guarantees which are in place.





Source: Company reports

In order to ensure that the future quality of exposure remains strong, KA has established strict parameters for new business generation. The Bank will only finance new projects for which cash flows can be clearly defined as fully viable and sufficient to cover the entire credit period and which are not reliant on linked collateral and guarantees.

The principal change in KA's risk profile will be related to the credit risk of new business. By 2020, newly generated business is expected to contribute up to 50% of the Bank's portfolio. Yet it will constitute a much larger share of overall risk weighted assets at the Bank as new business is targeted for structured exposure in near public infrastructure (PPP projects), rather that the public sector focused legacy portfolio. As noted above, the new business will be focused in Austria, as well as more broadly across core EU markets and will be concentrated in KA's key areas of expertise, such as energy & environment, social infrastructure and transport.

DBRS notes however the prominent risks during the portfolio build-up phase of KA, stemming from the increased risks during the early project phases (e.g. construction risk). In addition many projects generate positive cash flows only after many years. The initial phase of an infrastructure project is thus subject to high cash flow uncertainties. Additionally, the uniqueness of infrastructure projects (e.g. road bridges, schools, etc.) makes infrastructure investments less liquid. The high initial construction risks, tail loaded cash flow profiles and the illiquidity of the financed assets require that the lender is able to command a sizable risk premium for the financed transactions. This is becoming increasingly difficult in the current low yield environment which is additionally burdened by high competition. These risks are somewhat balanced by KA's good technical expertise, the application of a cash flow based lending methodology and the existence of state regulated price schemes for some projects.

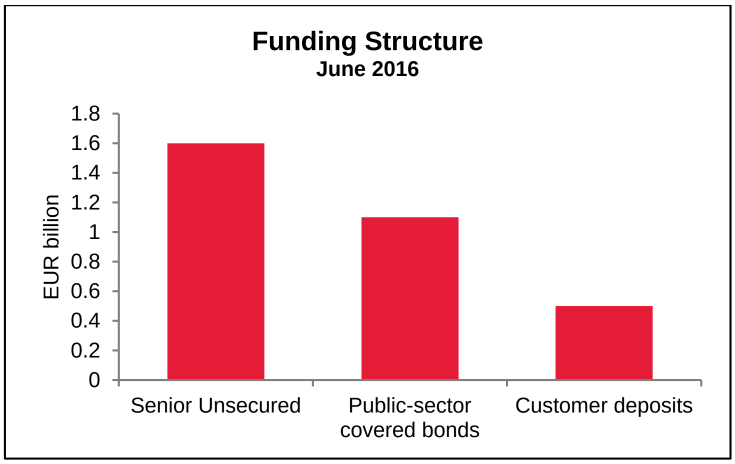
The Bank plans to pursue an active syndication strategy to long-term investors (e.g. insurance and pension funds) which is planned to be stepped up after 2018 as new business volumes are planned to increase. Meanwhile the Bank is pursuing a wide array of syndication channels (funds, insurance companies, pension funds, family offices) and is in the process of establishing its own distribution platform in the form of an alternative investment fund structure. DBRS also notes that the Bank will need to manage its syndication risk in a conservative manner to ensure it is appropriately positioned at times of market stress.

KA does not engage actively in any security trading activities. KA derivative book, consisting of interest rate swaps, FX forwards and cross currency swaps, serves mainly for the purpose of hedging interest rate and/or currency risks. Consequently, as derivatives are closely associated with their underlying assets (host contracts), they are recognised and measured together with the underlying transactions. Derivatives are however not formally embedded in a micro-hedge relationship according to IFRS, but accounted for as portfolio hedges, employed to manage risks on a wider portfolio level.

Funding and Liquidity

KA's funding profile largely reflects the funding of the legacy portfolio. This is outlined in the breakdown below. Apart from the legacy funding itself, the Bank benefits from a large surplus pool of ECB-eligible assets.

The legacy portfolio is fully funded until maturity, with the bulk of financing provided by senior unsecured and covered bonds. KA emphasizes that the structure ensures compliance with Basel III LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) requirements. Going forward, the legacy funding will decline in tandem with the run-off and maturity of the assets they finance. KA expects that up to half of the legacy assets will have run-off by 2020. The Bank plans to initially fund its new business through operating earnings, as well as the re-entry into wholesale funding markets. KA's total volume of long-term funding amounts to EUR 2.8 billion in 1H16 (EUR 3.0 billion in 2015), comprising EUR 1.6 billion in senior unsecured bonds as well as EUR 1.1 billion in public-sector covered bonds with a cover pool of EUR 1.3 billion (with voluntary nominal overcollateralisation of 10% of the redemption amount). KA's portfolio incorporates an asset base which effectively serves to support EUR 1.1 billion in legacy covered bond funding. The cover pool is highly rated and is largely linked to Austrian assets.



Source: Company reports

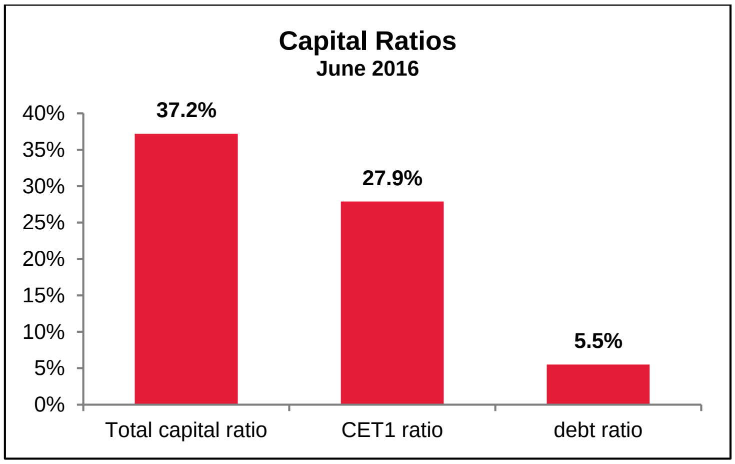
Customer deposits, coming mainly from institutional customers and including long-term customer deposits, grew by 19% over the last six months amounting to EUR 451 million in 1H16 (vs EUR 379 million in YE2015) and were supported by the launch of KA Direkt the online asset management platform for local authorities and public-sector-related enterprises where KA raises small levels of corporate online deposits from municipalities. Although the EU had placed a moratorium on KA old taking on new deposit clients in 2013, existing clients have remained with the Bank and KA anticipates scope for some deposit expansion going forward. Clients are likely to remain municipalities and regional corporates linked to KA associated projects.

KA currently reports approximately CHF 1.4 billion of FX-denominated liabilities (mainly covered bonds). The position is hedged through short-term FX derivatives, and is as such exposed not only to counterparty but also roll-over risk, although DBRS notes that this risk is expected to come down substantially (to be reduced by half) in late 2016 and early 2017, as a large amount of outstanding covered bond issuances are maturing.

Capitalisation

While KA reports a strong CET1 ratio of 27.9% under Basel III transitional rules, DBRS notes that KA's risk-weighted assets (RWA) density is very low (its risk weighted assets amount to only 18% of assets). As a result, the absolute level of CET1 is in DBRS's view comparatively low. The low RWA density mainly reflects the good quality of the Bank's legacy portfolio which is mostly exposed to Austrian municipalities and therefore result in a low level of RWAs. KA reported a leverage ratio of 5.5% under Basel III, transitional rules (5.0% at YE2015).

DBRS views the Bank's internal capital generation ability as passable. The low level of nominal capital however highlights the importance of managing concentration risk and the ability of the Bank to syndicate exposures. KA is targeting a 13% CET1 ratio over the long term, while maintaining a higher capital ratio as the new business ramps up and higher risk weightings for future new business erode some of the current strength. Maintaining both strong capital levels and ratios will be important to balance the risks arising from credit risk concentrations inherent to the business model, the cash flow uncertainty of some infrastructure projects, as well as the illiquidity of the financed assets. Additionally, a prudent dividend distribution policy going forward remains an important rating factor.



Source: Company reports

Kommunalkredit Austria AG	30/06/2016		31/12/2015	
	EUR		EUR	
EUR Millions	IFRS		IFRS	
Balance Sheet				
Cash and deposits w ith central banks	184	4.75%	80	1.91%
Lending to/deposits w ith credit institutions	118	3.05%	241	5.79%
Financial Securities*	NA	-	182	4.37%
- Trading portfolio	0	0.00%	0	0.00%
- At fair value	NA	-	30	0.73%
- Available for sale	147	3.81%	152	3.64%
- Held-to-maturity	0	0.00%	0	0.00%
- Other	NA	-	0	0.00%
Financial derivatives instruments	421	10.89%	544	13.07%
- Fair Value Hedging Derivatives	380	9.83%	407	9.79%
- Mark to Market Derivatives	41	1.06%	137	3.28%
Gross lending to customers	NA	-	3,076	73.90%
- Loan loss provisions	NA	-	0	0.01%
Insurance assets	NA	-	NA	-
Investments in associates/subsidiaries	NA	-	2	0.06%
Fixed assets	27	0.70%	28	0.66%
Goodw ill and other intangible assets	0	0.01%	0	0.01%
Other assets	10	0.26%	10	0.23%
Total assets	**3,862**	**100.00%**	**4,162**	**100.00%**
Total assets (USD)	4,287		4,520	
Loans and deposits from credit institutions	437	11.32%	464	11.15%
Repo Agreements in Deposits from Customers	NA	-	NA	-
Deposits from customers	451	11.68%	383	9.20%
- Demand	NA	-	4	0.10%
- Time and savings	NA	-	NA	-
Issued debt securities	2,288	59.23%	2,528	60.74%
Financial derivatives instruments	309	8.00%	427	10.26%
- Fair Value Hedging Derivatives	115	2.97%	133	3.19%
- Other	194	5.03%	294	7.07%
Insurance liabilities	NA	-	NA	-
Other liabilities	31	0.80%	30	0.72%
- Financial liabilities at fair value through P/L	0	0.00%	0	0.00%
Subordinated debt	71	1.84%	74	1.77%
Hybrid Capital	0	0.00%	0	0.00%
Equity	275	7.11%	256	6.16%
Total liabilities and equity funds	**3,862**	**100.00%**	**4,162**	**100.00%**
Income Statement				
Interest income	88		58	
Interest expenses	69		48	
Net interest income and credit commissions	19	30.34%	9	53.67%
Net fees and commissions	8	12.82%	5	26.63%
Trading / FX Income	NA	-	NA	-
Net realised results on investment securities (available for sale)	NA	-	NA	-
Net results from other financial instruments at fair value	-11	-17.28%	-1	-6.93%
Net income from insurance operations	0	0.00%	0	0.00%
Results from associates/subsidiaries accounted by the equity method	-2	-3.77%	0	0.27%
Other operating income (incl. dividends)	48	77.88%	5	26.36%
Total operating income	62	100.00%	17	100.00%
Staff costs	15	53.96%	8	58.91%
Other operating costs	12	46.04%	5	37.22%
Depreciation/amortisation	NA	-	1	3.88%
Total operating expenses	27	100.00%	13	100.00%
Pre-provision operating income	**35**		**4**	
Loan loss provisions**	0		0	
Post-provision operating income	35		4	
Impairment on tangible assets	0		0	
Impairment on intangible assets	0		0	
Other non-operating items***	0		0	
Pre-tax income	35		4	
(-)Taxes	7		-2	
(-)Other After-tax Items (Reported)	0		0	
(+)Discontinued Operations (Reported)	0		0	
(-)Minority interest	0		0	
Net income	**28**		**6**	
Net income (USD)	31		6	

*Includes derivatives w hen breakdow n unavailable, **LLP includes Impairments on financial assets, ***Incl. Other Provisions

Note: The relevant accounting date for the demerger for new incorporation in accordance with IFRS was 26 September 2015 (date of execution of the demerger and entry in the Companies' Register). The IFRS results of KA for the year 2015 therefore only cover the period from 26 September 2015 to 31 December 2015.

Off-balance sheet and other items		
Asset under management	NA	NA
Derivatives (notional amount)	NA	7,755
BIS Risk-w eighted assets (RWA)	699	762
No. of employees (end-period)	NA	263
Earnings and Expenses		
Earnings		
Net interest margin [1]	0.94%	NA
Yield on average earning assets	4.43%	NA
Cost of interest bearing liabilities	4.27%	1.40%
Pre-provision earning capacity (total assets basis) [2]	1.72%	NA
Pre-provision earning capacity (risk-w eighted basis) [3]	9.46%	NA
Net Interest Income / Risk Weighted Assets	5.36%	1.23%
Non-Interest Income / Total Revenues	69.66%	46.33%
Post-provision earning capacity (risk-w eighted basis)	9.45%	NA
Expenses		
Efficiency ratio (operating expenses / operating income)	44.02%	77.14%
All inclusive costs to revenues [4]	44.02%	77.14%
Operating expenses by employee	NA	51,023
Loan loss provision / pre-provision operating income	0.04%	0.20%
Provision coverage by net interest income	124733.33%	116700.00%
Profitability Returns		
Pre-tax return on Tier 1 (excl. hybrids)	35.38%	2.03%
Return on equity	20.01%	2.16%
Return on average total assets	1.37%	NA
Return on average risk-w eighted assets	7.53%	NA
Dividend payout ratio [5]	NA	NA
Internal capital generation [6]	NA	NA
Grow th		
Loans	NA	NA
Deposits	35.67%	NA
Net interest income	NA	NA
Fees and commissions	NA	NA
Expenses	NA	NA
Pre-provision earning capacity	NA	NA
Loan-loss provisions	NA	NA
Net income	NA	NA
Risks		
RWA% total assets	18.09%	18.30%
Credit Risks		
Impaired loans % gross loans	NA	0.00%
Loss loan provisions % impaired loans	NA	NA
Impaired loans (net of LLPs) % pre-provision operating income [7]	NA	-5.35%
Impaired loans (net of LLPs) % equity	NA	-0.08%
Liquidity and Funding		
Customer deposits % total funding	13.90%	11.11%
Total w holesale funding % total funding [8]	86.10%	88.89%
- Interbank % total funding	13.47%	13.45%
- Debt securities % total funding	70.44%	73.30%
- Subordinated debt % total funding	2.19%	2.14%
Short-term w holesale funding % total w holesale funding	15.64%	29.44%
Liquid assets % total assets	7.80%	12.08%
Net short-term w holesale funding reliance [9]	3.82%	10.93%
Adjusted net short-term w holesale funding reliance [10]	3.82%	0.79%
Customer deposits % gross loans	NA	12.45%
Capital [11]		
Tier 1	27.91%	25.58%
Tier 1 excl. All Hybrids	27.91%	25.58%
Core Tier 1 (As-reported)	27.90%	25.60%
Tangible Common Equity / Tangible Assets	7.10%	6.14%
Total Capital	37.21%	34.11%
Retained earnings % Tier 1	58.57%	48.61%

[1] (Net interest income + dividends)% average interest earning assets.
[2] Pre-provision operating income % average total assets.
[3] Pre-provision operating income % average total risk-w eighted assets.
[4] (Operating & non-op. costs) % (op. & non-op. revenues)
[5] Paid dividend % net income.
[6] (Net income - dividends) % shareholders' equity at t-1.
[7] We take into account the stock of LLPs in this ratio.
[8] Whole funding excludes corporate deposits.
[9] (Short-term w holesale funding - liquid assets) % illiquid assets
[10] (Short-term w holesale funding - liquid assets- loans maturing w ithin 1 year) % illiquid assets
[11] Capital ratios of Interim results exclude profits for the year
* Interim information is annualised w here needed.

Methodologies

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (July 2016). Other applicable methodologies include the DBRS Criteria – Support Assessments for Banks and Banking Organisations (March 2016) and DBRS Criteria: Rating Bank Capital Securities – Subordinated, Hybrid, Preferred & Contingent Capital Securities (February 2016).

Ratings

Debt	Rating	Rating Action	Trend
Long Term Debt and Deposit	BBB (low)	Trend Change	Negative
Short-Term Debt and Deposit	R-2 (middle)	Trend Change	Negative

Rating History

	Current	2015	2014	2013	2012	2011
Long Term Debt and Deposit	BBB (low)	BBB (low)	n/a	n/a	n/a	n/a
Short-Term Debt and	R-2 (middle)	R-2 (middle)	n/a	n/a	n/a	n/a

Previous Action(s)

- DBRS Confirms Kommunalkredit Austria AG at BBB (low), Trend Changed to Negative, October 11, 2016.

Related Research

- DBRS Releases Commentary: Developments in European Resolution Frameworks and their Impact on Bank Creditors, July 29, 2016.

Previous Report

- Kommunalkredit Austria AG, Rating Report, January 11, 2016.

Notes:
All figures are in EUR unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrs.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.