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Insight beyond the rating.

Ratings

Issuer	Debt	Rating	Rating Action	Trend
Kommunalkredit Austria AG	Long-Term Issuer Rating	BBB (low)	Confirm	Negative
Kommunalkredit Austria AG	Short-Term Issuer Rating	R-2 (middle)	Confirm	Negative
Kommunalkredit Austria AG	Intrinsic Assessment	BBB (low)	--	--

See page 11 for a full list of ratings

Rating Considerations

Franchise Strength:

KA's balance sheet-light business model, is built upon an originate-to-distribute approach, through sourcing, underwriting and then syndicating infrastructure project risk and providing related consulting services. As the new project finance business 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.

(Grid Grade: Moderate)

Earnings Power:

KA follows a *monoline* business model with revenue uncertainty regarding the Bank's future earnings stability from new business activities. However, KA aims to achieve a more balanced revenue and earnings profile.

(Grid Grade: Moderate)

Risk Profile:

The Bank has a low-risk legacy portfolio, but has taken on risks related to the build-up phase of the portfolio. These risks are somewhat mitigated by stringent underwriting criteria with a focus on the economic viability of the projects and the expected cash flows.

(Grid Grade: Good / Moderate)

Funding and Liquidity:

KA 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.

(Grid Grade: Good)

Capitalization:

High CET1 (Common Equity Tier 1) ratio is driven by very low Risk-Weighted Asset (RWA) density, reflecting the good quality of the Bank's legacy portfolio; however the absolute CET1 level is low. Dividend distribution is expected to stabilise allowing for sufficient internal capital formation.

(Grid Grade: Moderate)

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, reflecting a successful transformation and execution of the new business model and good capitalisation levels would be credit positive for the Bank.

Factors with Negative Rating Implications

- Any 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.
- Additional pressure could arise if planned dividends were distributed at a time when support for the Bank's capital levels was needed.

Financial Information

EUR Millions	30/06/2017	31/12/2016	31/12/2015
Total Assets	3,349	3,791	4,162
Equity	278	297	256
Pre-provision operating income (IBPT)	11	35	4
Net Income	14	49	6
Net Interest Income / Risk Weighted Assets (%)	3.86%	5.31%	1.23%
Risk-Weighted Earning Capacity (%)	2.87%	6.26%	NA
Post-provision Risk-Weighted Earning Capacity (%)	2.84%	6.27%	NA
Efficiency Ratio (%)	71.04%	53.32%	77.14%
Impaired Loans % Gross Loans	NA	NA	NA
Core Tier 1 (As-reported)	26.90%	32.90%	25.40%

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, such as transport, natural resources, energy & environment and social infrastructure.

Rating Rationale

DBRS Ratings Limited (DBRS) rates Kommunalkredit Austria AG (KA or the Bank) with a Long-Term Issuer Rating of BBB (low) and Short-Term Issuer Rating of R-2 (middle). The trend on all ratings is Negative. KA's intrinsic assessment (IA) is BBB (low) and the Support Assessment (SA) is SA3.

The BBB (low) long-term ratings reflect the good quality and self-funding dynamic of the Bank's legacy portfolio, which provides a cushion in terms of time, capital and earnings in order for KA to fully establish its planned business model. DBRS notes additionally KA's strong liquidity profile with approximately EUR 561 million of liquid assets, of which EUR 248 million unencumbered, which can be used for repos under ECB collateral rules. However, the rating also takes into account the challenges faced by the Bank, including the successful roll-out of its narrow and new business model alongside with challenges related to organisational transformation, the necessity for the Bank to build a track record in underwriting, syndicating and managing the risks from infrastructure finance projects, as well as its high proportion of wholesale funding.

The Negative Trend reflects the fact that the Bank still needs to demonstrate it can meet its targets for underlying profitability and new business volumes within its business plan, after a difficult start in 2016 caused mainly by regulatory delays. It also reflects DBRS's view that KA needs to demonstrate it can retain sufficient future profits and generate sufficient capital to ensure the Bank is able to remain at all times well capitalised while transforming its business model into a more RWA intensive one.

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. DBRS notes, however, the recent significant progress the Bank has made in new business generation in 1H17, which is likely to affect FY2017 results positively, mostly in terms of increased income from fees and commissions. The Bank's guidance for the FY2017 result is a more normalised profit level of around EUR 20 million under local GAAP compared to EUR 37.5 million in FY2016, which was driven by certain extraordinary items.

The IFRS pre-tax profit for 1H17 totalled EUR 10.9 million (EUR 34.5 million in 1H16) while net income amounted to EUR 13.9 million (EUR 27.5 million in 1H16), which was impacted by a positive one-off tax benefit from tax loss carry forwards of EUR 3.1 million. KA reported cash dividend payments in 1H17 attributable to the owners of the parent in the amount of EUR 32 million, which related to FY 2016 results. DBRS will continue to follow up closely on future shareholder payments to its private owners while also noting the shareholders' approval of authorised capital of EUR 79.7 million in 2017 paving the way for potential future capital increases.

Franchise Strength (Grid Grade: Moderate)

Description of Operations

KA is owned by a consortium of investors which is led by the firms Interritus and Trinity Investments/Attestor Capital. The Bank was established in late September 2015 with total assets of EUR 4.5 billion under Austrian UGB (local GAAP). The new owners, 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 (for more information on KA's historical background see [DRBS Rating Report on Kommunalkredit Austria AG](#), Oct 17, 2016).

KA aims to establish an "originate to distribute" model for infrastructure project finance assets – working closely with project sponsors and institutional investors in order to structure long term investments. Ultimately, KA aims to syndicate approximately 80% of risk for each transaction. The targeted originate-to-distribute model is to be balance sheet-light through 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.

The Bank has retained the subsidiaries and affiliates from its predecessor entity, former Kommunalkredit (KA Old). The most important of these is Kommunalkredit Public Consulting (KPC), 90% owned by KA, a consulting company which distributes and manages public grant funding from Austria to promote environmental protection, water management and energy projects.

Earnings Power (Grid Grade: Moderate)

KA's earnings are currently largely derived from the EUR 2.7 billion of legacy assets on the balance sheet as of end-2016 which were transferred from the predecessor entity during the de-merger. These assets are expected to continue to generate annual NII in the range of 1% of portfolio assets. The portfolio is fully funded and will decline in size as the assets mature. Earnings also include fee income of approximately 6.4% of total revenues linked to operational services provided by KA to KA Finanz AG (KF), under a service level agreement. DBRS notes in this context KA's revenue dependence on KA Finanz AG, which could lead to a significant reduction in revenue if the agreement were to be terminated. By 2020, the Bank aims, however, to achieve a more balanced revenue and earnings profile driven by NII and fee and commission income from new business.

DBRS notes that there is some uncertainty regarding the Bank's future earnings profile from new business, given the transformation taking place in the business model. However, given the earnings generated by the legacy portfolio, KA has a window during which to build up its new franchise. The current ratings reflect the dependable NII from the legacy portfolio and the growing fee income linked to the new originate to distribute project finance activities.

New business at KA has grown slowly in 2016 but DBRS expects it to increase at a faster rate throughout 2017 and onwards. The recent significant progress in KA's origination and syndication efforts as of August 2017 resulted in new business generation of 17 projects in the areas of Transport, Energy & Environment, as well as Social Infrastructure with a total volume of EUR 454 million. According to KA's planning, the share of net interest income (NII) from new business in the Bank's overall NII, which is projected to amount around 20% for year-end 2017, is set to exceed 60% by 2021. This should counterbalance the expected decline in cash flow from the legacy portfolio. The legacy portfolio stood at EUR 2.68 billion as of year-end 2016 and is expected to decrease by EUR 524 million to EUR 2.156 billion by year-end 2017 and reduce by approximately half by 2021 (based on contractual asset maturities). As the Bank is currently in a transformation phase, DBRS expects the project finance activities to have gained firmer traction by 2021.

Net fee and commission income, which was EUR 8.7 million in 1H17, represented 28% of underlying operating income in 1H17 (adjusted for one-off items in the Bank's net trading and valuation result) compared with a share of 25% or EUR 7.9 million in 1H16. The Bank's management aims to increase this share substantially by 2021 mainly on the back of origination fees from syndication and fees from consulting activities. Focusing on areas of expertise such as transport, natural resources, energy & environment and social infrastructure, 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 is pursuing an active syndication strategy to long-term investors.

As of 1H17 KA's total assets stood at EUR 3.9 billion in 1H17, a sharp decline when compared to end-2016 and 2015 of 11.7% and 19.5% respectively, driven by loan redemptions and derivative transactions with total customer loans shrinking by 8.2% for the first six months of 2017 to EUR 2.0 billion.

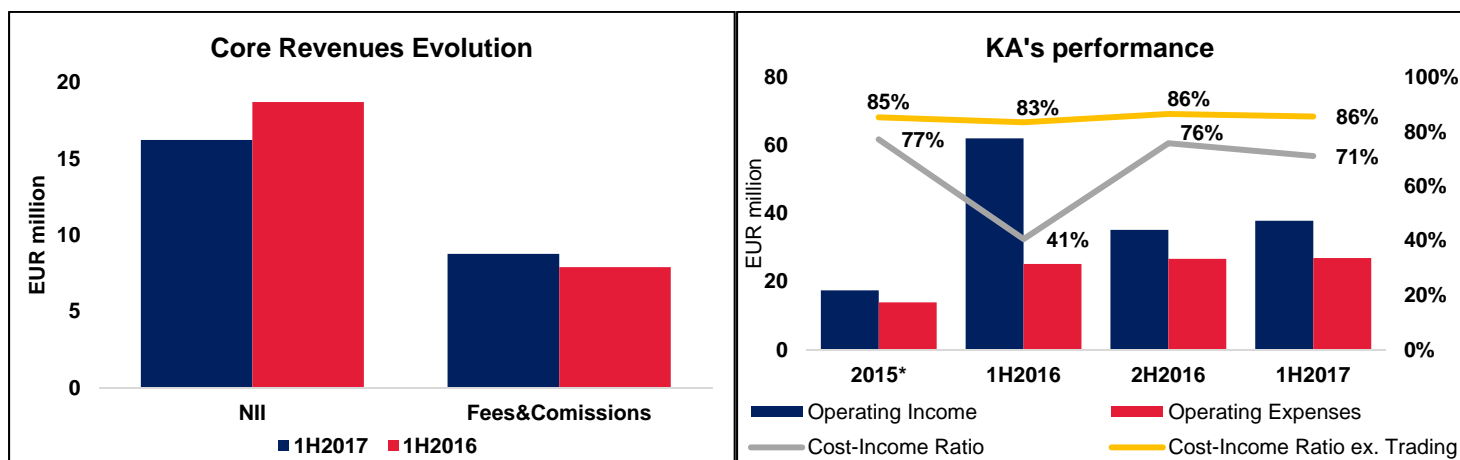
IFRS results

The Bank reported pre-tax profit of EUR 10.9 million in 1H17 under IFRS accounting rules, down by EUR 23.7 million year-on-year (YoY), with lower net interest income from the declining legacy portfolio only partially mitigated by one-offs in trading income. The Bank

reported net attributable profit of EUR 13.9 million in 1H17 compared to EUR 27.5 million for the same period in 2016 which was impacted by a positive one-off tax benefit from tax loss carry forwards of EUR 3 million.

Net interest income (NII) was EUR 16.2 million in 1H17, down 13% year-on-year (YoY) driven by the scheduled run-off of the legacy portfolio and the current low yield environment. Net fees and commission income was EUR 8.8 million in 1H17, up by 11% YoY, driven by higher related income from bank operations, representing 23% of operating income. KA recorded a net trading and valuation result of EUR 6.4 million (EUR 31.9 million in 1H16), which was (as in the previous year) primarily driven by the early redemption of CHF denominated outstanding covered bonds and the related early termination of associated hedging instruments (interest rates swaps).

General administrative expenses were up by 14% to EUR 25.9 million due to increased expenses for strategic investments and costs for regulatory compliance. DBRS notes the cost-income ratio (CIR, including contributions to the Bank Resolution Fund) for KA went down to 71.0%, from 75.7% at 2H16. The adjusted (by the extraordinary one-off trading gains) CIR was 85.6% at 1H17. Personnel expenses were EUR 17.2 million (up by 17.6%). KA employs group-wide currently a headcount of 293 FTE's (full time equivalent employees).



Source: Company reports

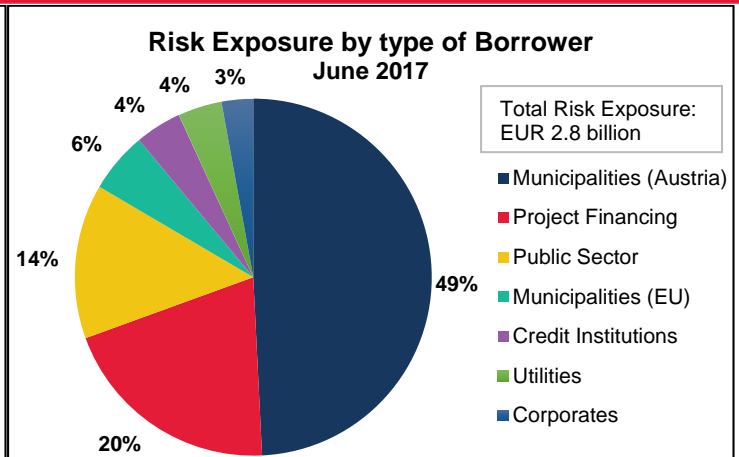
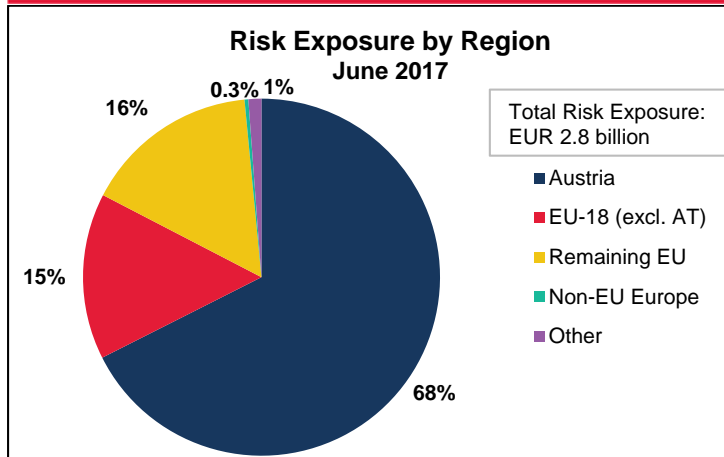
Source: SNL Financial, Company reports *The results for the year 2015 only cover the period from 26 September 2015 to 31 December 2015.

Local GAAP results

Under Austrian local GAAP the operating result for 1H17 amounted to EUR 5.6 million and net income amounted to EUR 10.8 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 5.1 million under Austrian GAAP. KA recorded lower NII due to the rundown of the legacy portfolio but improved its fees and commissions in 1H17. The Bank did not record any addition to its capital reserve account under the Austrian Banking Act in contrast with the previous financial periods. The Bank expects to report a positive year-end result in 2017.

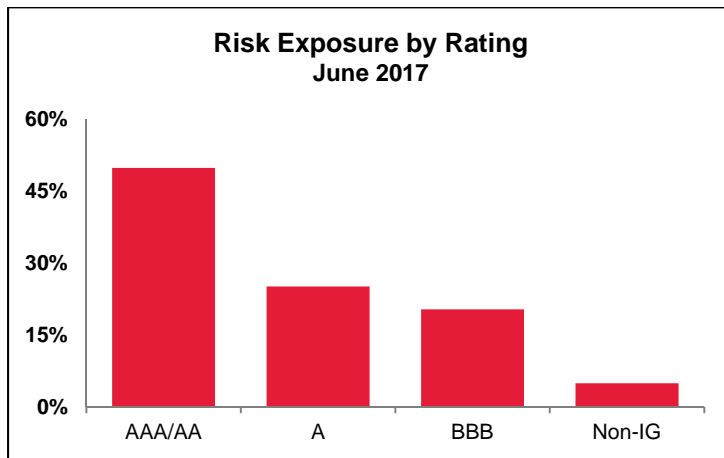
Risk Profile (Grid Grade: Good / Moderate)

KA's asset quality benefits from the high-quality public sector legacy portfolio. The Bank's portfolio is primarily investment grade and contains no non-performing exposures. The bulk of the risk, of approximately 68%, currently remains within the domestic market with a large concentration to Austrian municipalities, in the amount of EUR 1,886 million at end-June 2017. The portfolio exhibits credit concentrations with the top 20 exposures representing a multiple of the absolute level of CET1 capital of EUR 226 million. This is however substantially mitigated by the high quality of the assets, which are mostly related to provinces, public entities and/or with additional guarantees in place.



Source: Company reports

Source: Company reports



Source: Company reports

KA's impaired loans ratio was 0% as of 1H17 with no credit defaults within the first half of the year. DBRS notes however the unseasoned nature of KA's newly built-up loan book and the greater risks during the portfolio build-up phase. 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 NII. Yet it will constitute a much larger share of overall risk weighted assets given the higher risk weighting of infrastructure financing. The new business will be focused more broadly across core EU markets and EMEA and will be concentrated in KA's key areas of expertise, such as energy & environment, social infrastructure and transport.

DBRS notes, as already mentioned earlier, the increased risks during the early project phases (e.g. construction risk). In addition many projects generate positive cash flows only after a number of years. The initial phase of an infrastructure project is thus subject to higher cash flow uncertainties. Additionally, the uniqueness of infrastructure projects (e.g. road bridges, schools, etc.) makes infrastructure exposures less liquid than traditional corporate loans. 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 adequate risk premia 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 to some extent 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. KA aims for a balanced mix between projects in operation, which constitute the majority of the Bank's exposures and which exhibit a steady cash-flow pattern, and between projects under construction.

The Bank is pursuing an active syndication strategy targeting long-term investors (e.g. insurance and pension funds). KA has originated new business volume of EUR 454 million as of August 2017 (in 17 transactions) and has already syndicated EUR 306 million, of which 127 million (in 8 transactions) in relation to new business and EUR 179 million in relation to the legacy portfolio, utilising a wide array of syndication channels. 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 aims to achieve this through a close interaction and information exchange between origination and placement

teams. Origination of new business unfolds under concrete syndication targets in terms of volume and time (typically 90-120 days). KA's syndication partners include large global insurers & asset managers, medium to large Austrian or European insurers and pension funds, larger international Banks (EU and Asian).

KA's derivative book, consisting of interest rate swaps, FX forwards and cross currency swaps, is intended to serve 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.

While KA is officially classified as trading book institution under Austrian regulation, its trading activities are customer centric and unfold within a narrow and limited scope, allowing only for (through- trading) customer based activities. Within this limited framework KA does not engage in any proprietary trading or any other activities resulting in open trading book positions.

The Bank currently reports approximately EUR 0.98 billion Covered Bonds of which EUR 0.47bn are denominated in CHF. The FX-mismatch is hedged through FX derivatives on an ongoing basis, and is as such exposed not only to counterparty but also roll-over risk, although DBRS notes that this risk has come down substantially (from CHF 1.4 billion in 1H16), as a large amount of outstanding covered bond issuances matured. In addition, the counterparty risk is mitigated by standard daily margining arrangements under ISDA/CSA agreements.

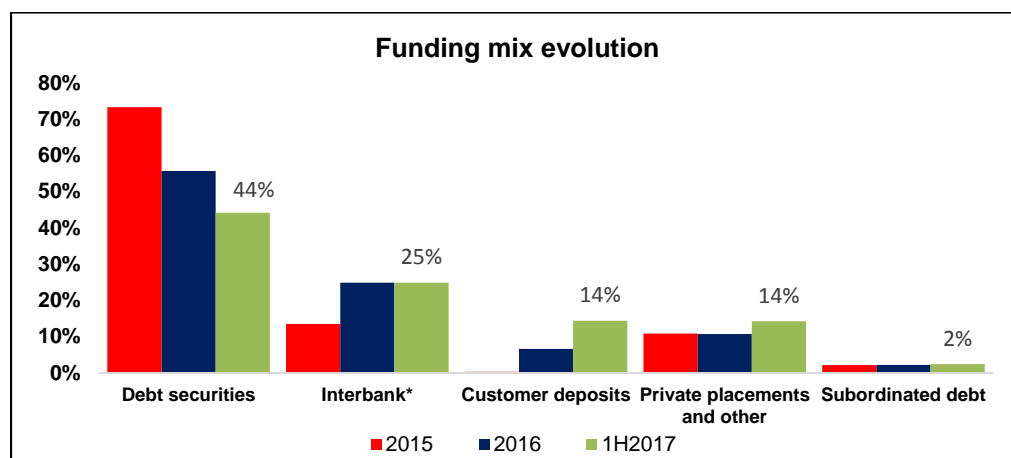
DBRS notes that KA is managing legacy risks, stemming mainly from its predecessor entity, former Kommunalkredit. KA remains liable (jointly with KA Finanz AG, the remaining part of former Kommunalkredit that after the demerger) for obligations transferred from former Kommunalkredit to KA Finanz AG during the demerger.

DBRS understands that as KA's business model moves from its currently low-margin, low-risk public finance business (municipal lending) towards the focus on infrastructure lending, this also necessitates substantial cultural and organisational changes involving processes, procedures, (IT) infrastructure, resource re-allocation, staffing, etc. DBRS recognises that many important steps are already under-way but aims to follow-up closely on the implementation of such changes, cautioning about potential execution risk along the way.

Funding and Liquidity (Grid Grade: Good)

KA's funding profile largely reflects the funding of the legacy portfolio, which is outlined in the breakdown below. Apart from the legacy funding itself, the Bank benefits from a large surplus pool of ECB-eligible assets of EUR 248 million.

The legacy portfolio is fully funded until maturity, with the bulk of financing provided by senior unsecured and covered bonds. The Bank is compliant 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 existing liquidity, new deposits, as well as the re-entry into wholesale funding markets (see also further below).



Source: Company reports, SNL Financial * Interbank funding: includes TLTRO II of approximately EUR 300 million

Debt securities are the main funding source for Kommunalkredit, totalling EUR 1.2 billion at 1H17 and including covered bonds (60.1%) and senior bonds (35.7%). KA's asset encumbrance ratio was 70.9% as of December 2016. The Bank accessed ECB funding through TLTRO II of approximately EUR 300 million. Customer deposits almost doubled during 1H17 to EUR 402.6 million representing 14% of the Bank's total funding. KA anticipates scope for further deposit expansion going forward, supported by Kommunalkredit Direkt, the investment platform for local authorities and public-sector-related enterprises where KA raises small levels of corporate online deposits

from municipalities. DBRS considers this funding source as relatively stable given a significant portion of deposits have a maturity that exceeds one year. Additionally KA launched an online retail platform in September 2017 to further diversify its deposit mix with more granular retail deposits.

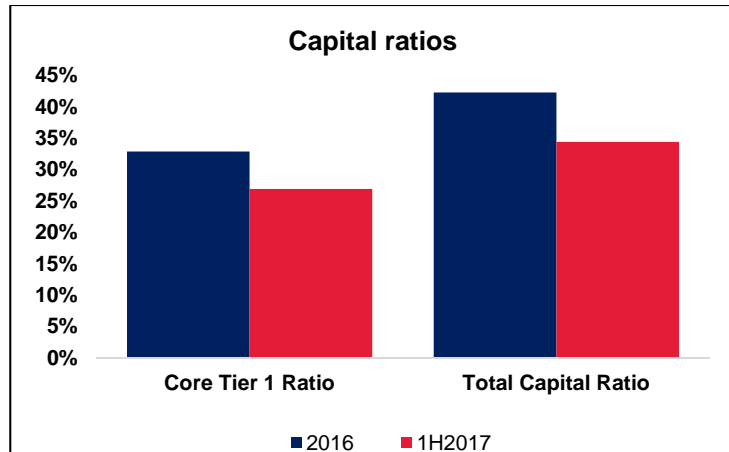
KA currently reports approximately CHF 0.6 billion of FX-denominated liabilities (mainly covered bonds), following a CHF 140 million buyback of covered bonds in May 15, 2017 and the scheduled redemption with a volume of CHF 305 million on March 15, 2017. The position is hedged through short-term FX derivatives, and is as such exposed not only to counterparty but also roll-over risk. Kommunalkredit issued a social covered bond denominated in EUR with a volume of EUR 300 million on July 12, 2017, marking the first public bond issued by KA in the capital markets since the demerger. DBRS notes the Reduction of FX-Mismatch after redemption and the buybacks of CHF denominated covered bonds and the new issuance of EUR denominated instruments.

Capitalisation (Grid Grade: Moderate)

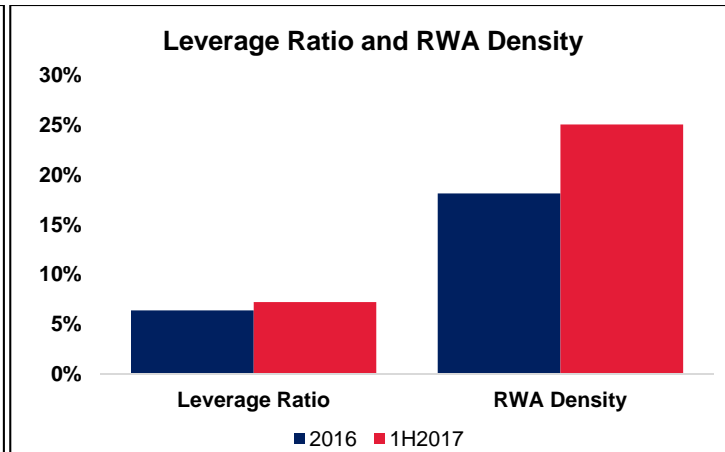
The Bank's fully loaded Basel III Common Equity Tier 1 (CET1) ratio was at a high level of 26.9% at end-June 2017, although this was down by 600 bps from end-2016, driven by the development of new business and consequently higher RWAs. According to regulatory requirements, KA needs to maintain a minimum CET 1 ratio of at least 5.75% and a total capital ratio of at least 9.25%. As of 1H17, the Bank reported a total capital ratio of 34.4%. KA's leverage ratio was 7.5% as of 1H17 (vs. 7.19% in FY2016).

While KA has a strong reported CET1 ratio at the current time, DBRS notes that KA's risk-weighted asset (RWA) density is very low, with RWAs amounting to only 25.1% (vs. 18% in 1H16) of total IFRS balance sheet assets. The low RWA density reflects the good quality of the Bank's legacy portfolio, which is mostly exposed to Austrian municipalities. 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 15% 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. DBRS views the Bank's internal capital generation ability as passable.

KA reported under IFRS in 1H17 cash dividend payments attributable to the owners of the parent in the sizable amount of EUR 32 million which related to FY 2016 result. A prudent dividend distribution policy going forward remains an important rating factor.



Source: Company reports



Source: Company reports

Summary Grid Grades

Building Block	Kommunalkredit Austria AG
Franchise Strength	Moderate
Earnings Power	Moderate
Risk Profile	Good / Moderate
Funding and Liquidity	Good
Capitalisation	Moderate
Intrinsic Assessment	BBB (low)

Kommunalkredit Austria AG	30/06/2017		31/12/2016		31/12/2015	
	EUR		EUR		EUR	
EUR Millions	IFRS		IFRS		IFRS	
Balance Sheet						
Cash and deposits w ith central banks	218	6.51%	310	8.19%	80	1.91%
Lending to/deposits w ith credit institutions	116	3.46%	102	2.69%	241	5.79%
Financial Securities*	745	22.23%	839	22.12%	904	21.73%
- Trading portfolio	0	0.00%	0	0.00%	0	0.00%
- At fair value	630	18.81%	692	18.24%	753	18.08%
- Available for sale	115	3.43%	147	3.88%	152	3.64%
- Held-to-maturity	0	0.00%	0	0.00%	0	0.00%
- Other	0	0.00%	0	0.00%	0	0.00%
Financial derivatives instruments	245	7.30%	337	8.89%	544	13.07%
- Fair Value Hedging Derivatives	231	6.91%	311	8.19%	407	9.79%
- Mark to Market Derivatives	13	0.39%	27	0.70%	137	3.28%
Gross lending to customers	1,963	58.61%	2,139	56.43%	2,353	56.54%
- Loan loss provisions	NA	-	0	0.00%	0	0.01%
Insurance assets	NA	-	NA	-	NA	-
Investments in associates/subsidiaries	NA	-	NA	-	2	0.06%
Fixed assets	26	0.78%	27	0.71%	28	0.66%
Goodwill and other intangible assets	0	0.01%	0	0.01%	0	0.01%
Other assets	37	1.10%	37	0.97%	10	0.23%
Total assets	3,349	100.00%	3,791	100.00%	4,162	100.00%
Total assets (USD)	3,821		3,998		4,520	
Loans and deposits from credit institutions	697	20.80%	795	20.97%	464	11.15%
Repo Agreements in Deposits from Customers	NA	-	NA	-	NA	-
Deposits from customers	801	23.92%	552	14.56%	383	9.20%
- Demand	NA	-	5	0.14%	4	0.10%
- Time and savings	NA	-	NA	-	NA	-
Issued debt securities	1,237	36.93%	1,779	46.93%	2,528	60.74%
Financial derivatives instruments	229	6.84%	263	6.95%	427	10.26%
- Fair Value Hedging Derivatives	77	2.29%	93	2.46%	133	3.19%
- Other	152	4.55%	170	4.49%	294	7.07%
Insurance liabilities	NA	-	NA	-	NA	-
Other liabilities	39	1.17%	35	0.91%	30	0.72%
- Financial liabilities at fair value through PL	0	0.00%	0	0.00%	0	0.00%
Subordinated debt	68	2.02%	70	1.84%	74	1.77%
Hybrid Capital	0	0.00%	0	0.00%	0	0.00%
Equity	278	8.31%	297	7.83%	256	6.16%
Total liabilities and equity funds	3,349	100.00%	3,791	100.00%	4,162	100.00%
Income Statement						
Interest income	78		172		58	
Interest expenses	61		136		48	
Net interest income and credit commissions	16	42.85%	37	37.57%	9	53.67%
Net fees and commissions	9	23.18%	17	17.27%	5	26.63%
Trading / FX Income	NA	-	NA	-	NA	-
Net realised results on investment securities (available for sale)	NA	-	NA	-	NA	-
Net results from other financial instruments at fair value	NA	-	-10	-10.00%	-1	-6.93%
Net income from insurance operations	0	0.00%	0	0.00%	0	0.00%
Results from associates/subsidiaries accounted by the equity method	0	0.00%	0	0.00%	0	0.27%
Other operating income (incl. dividends)	13	33.97%	54	55.16%	5	26.36%
Total operating income	38	100.00%	97	100.00%	17	100.00%
Staff costs	17	64.05%	31	60.71%	8	58.91%
Other operating costs	10	35.95%	18	35.39%	5	37.22%
Depreciation/amortisation	NA	-	2	3.90%	1	3.88%
Total operating expenses	27	100.00%	52	100.00%	13	100.00%
Pre-provision operating income	11		45		4	
Loan loss provisions**	0		0		0	
Post-provision operating income	11		45		4	
Impairment on tangible assets	0		2		0	
Impairment on intangible assets	0		0		0	
Other non-operating items***	0		-8		0	
Pre-tax income	11		35		4	
(-)Taxes	-3		-14		-2	
(-)Other After-tax Items (Reported)	0		0		0	
(+)Discontinued Operations (Reported)	0		0		0	
(-)Minority interest	0		0		0	
Net income	14		49		6	
Net income (USD)	15		54		6	

*Includes derivatives when breakdown 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.

Kommunalkredit Austria AG	30/06/2017	31/12/2016	31/12/2015
Off-balance sheet and other items			
Asset under management	NA	NA	NA
Derivatives (notional amount)	NA	4,394	7,755
BIS Risk-weighted assets (RWA)	840	688	762
No. of employees (end-period)	300	289	263
Earnings and Expenses			
Earnings			
Net interest margin [1]	0.93%	0.93%	NA
Yield on average earning assets	4.43%	4.39%	NA
Cost of interest bearing liabilities	4.39%	4.24%	1.40%
Pre-provision earning capacity (total assets basis) [2]	0.61%	1.14%	NA
Pre-provision earning capacity (risk-weighted basis) [3]	2.87%	6.26%	NA
Net Interest Income / Risk Weighted Assets	3.86%	5.31%	1.23%
Non-Interest Income / Total Revenues	57.15%	62.43%	46.33%
Post-provision earning capacity (risk-weighted basis)	2.84%	6.27%	NA
Expenses			
Efficiency ratio (operating expenses / operating income)	71.04%	53.32%	77.14%
All inclusive costs to revenues [4]	71.04%	63.65%	77.14%
Operating expenses by employee	179,287	179,374	51,023
Loan loss provision / pre-provision operating income	1.16%	-0.14%	0.20%
Provision coverage by net interest income	12773.23%	-56187.69%	116700.00%
Profitability Returns			
Pre-tax return on Tier 1 (excl. hybrids)	9.58%	15.63%	2.05%
Return on equity	10.00%	16.49%	2.16%
Return on average total assets	0.78%	1.23%	NA
Return on average risk-weighted assets	3.64%	6.75%	NA
Dividend payout ratio [5]	NA	NA	NA
Internal capital generation [6]	NA	NA	NA
Growth			
Loans	NA	-8.85%	NA
Deposits	90.22%	44.15%	NA
Net interest income	-13.30%	291.20%	NA
Fees and commissions	10.95%	262.40%	NA
Expenses	6.79%	286.31%	NA
Pre-provision earning capacity	-70.25%	1040.90%	NA
Loan-loss provisions	746.67%	-912.50%	NA
Net income	-49.37%	782.60%	NA
Risks			
RWA % total assets	25.08%	18.15%	18.31%
Credit Risks			
Impaired loans % gross loans	0.00%	0.00%	0.00%
Loss loan provisions % impaired loans	NA	NA	NA
Impaired loans (net of LLPs) % pre-provision operating income [7]	NA	-0.33%	-5.35%
Impaired loans (net of LLPs) % equity	NA	-0.05%	-0.08%
Liquidity and Funding			
Customer deposits % total funding	28.59%	17.27%	11.11%
Total w/ wholesale funding % total funding [8]	71.41%	82.73%	88.89%
- Interbank % total funding	24.86%	24.87%	13.45%
- Debt securities % total funding	44.13%	55.67%	73.30%
- Subordinated debt % total funding	2.41%	2.19%	2.14%
Short-term w/ wholesale funding % total w/ wholesale funding	34.82%	43.32%	29.44%
Liquid assets % total assets	32.20%	33.00%	29.43%
Net short-term w/ wholesale funding reliance [9]	-16.81%	-4.15%	-10.98%
Adjusted net short-term w/ wholesale funding reliance [10]	-16.81%	-16.04%	-23.62%
Customer deposits % gross loans	40.82%	25.81%	16.28%
Capital [11]			
Tier 1	26.90%	32.87%	25.41%
Tier 1 excl. All Hybrids	26.90%	32.87%	25.41%
Core Tier 1 (As-reported)	26.90%	32.90%	25.40%
Tangible Common Equity / Tangible Assets	8.30%	7.82%	6.14%
Total Capital	34.40%	42.30%	33.94%
Retained earnings % Tier 1	52.03%	59.97%	48.92%

[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-weighted 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/ wholesale funding - liquid assets) % illiquid assets

[10] (Short-term w/ wholesale funding - liquid assets - loans maturing w/ in 1 year) % illiquid assets

[11] Capital ratios of Interim results exclude profits for the year

* Interim information is annualised where needed.

Methodologies

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (May 2017).

Ratings

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

Rating History

Debt	Current	2016	2015	2014	2013
Long-Term Debt and Deposit	BBB (low)	BBB (low)	BBB (low)	n/a	n/a
Short-Term Debt and Deposit	R-2 (middle)	R-2 (middle)	R-2 (middle)	n/a	n/a
Long-Term Senior Debt	BBB (low)	n/a	n/a	n/a	n/a
Short-Term Debt	R-2 (middle)	n/a	n/a	n/a	n/a
Long-Term Deposits	BBB (low)	n/a	n/a	n/a	n/a
Short-Term Deposits	R-2 (middle)	n/a	n/a	n/a	n/a

Previous Action(s)

- [DBRS Confirms Kommunalkredit Austria AG at BBB \(low\) with Negative Trend](#), October 10, 2017
- [DBRS Harmonises its Ratings Nomenclature for Banks in Europe and Asia-Pacific](#), July 14, 2017
- [DBRS Assigns Issuer Ratings to 43 European Banking Groups](#), March 7, 2017

Related Research

- [DBRS Comments on Kommunalkredit Austria AG 1H17 Results](#), September 11, 2017

Previous Report

- [Kommunalkredit Austria AG](#), Rating Report, October 17, 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.

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