MOODY'S
INVESTORS SERVICE

Credit Opinion: Kommunalkredit Austria AG

Global Credit Research - 06 Dec 2011

Vienna, Austria

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Baa1/P-2
Bank Financial Strength	E+
Baseline Credit Assessment	B2
Adjusted Baseline Credit Assessment	B2
Senior Unsecured	Baa1
Subordinate -Dom Curr	*Baa2
Other Short Term -Dom Curr	(P)P-2

* Placed under review for possible downgrade on November 29, 2011

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Key Indicators

Kommunalkredit Austria AG (Consolidated Financials) [1]

	[2]**6-11**	[2]**12-10**	[2]**12-09**	**Avg.**
Total Assets (EUR million)	**16,522.7**	**16,271.1**	**18,283.2**	[3]**-4.9**
Total Assets (USD million)	**23,955.3**	**21,828.4**	**26,231.6**	[3]**-4.4**
Tangible Common Equity (EUR million)	**339.6**	**338.7**	**314.0**	[3]**4.0**
Tangible Common Equity (USD million)	**492.3**	**454.3**	**450.6**	[3]**4.5**
Net Interest Margin (%)	**0.3**	**0.3**	**0.0**	[4]**0.2**
PPI / Avg RWA (%)	**0.2**	**1.3**	**0.1**	[5]**0.5**
Net Income / Avg RWA (%)	**0.1**	**1.0**	**0.1**	[5]**0.4**
(Market Funds - Liquid Assets) / Total Assets (%)	**63.5**	**65.7**	**58.4**	[4]**62.6**
Core Deposits / Average Gross Loans (%)	**--**	**20.0**	**13.6**	[4]**16.8**
Tier 1 Ratio (%)	**15.5**	**15.7**	**14.3**	[5]**15.2**
Tangible Common Equity / RWA (%)	**12.9**	**12.9**	**11.0**	[5]**12.2**
Cost / Income Ratio (%)	**91.2**	**46.9**	**60.7**	[4]**66.3**
Problem Loans / Gross Loans (%)	**--**	**0.0**	**0.0**	[4]**0.0**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**--**	**0.2**	**0.0**	[4]**0.1**

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel II & IFRS reporting periods have been used for average calculation

Opinion

RECENT CREDIT DEVELOPMENTS

On 29 November 2011 we placed on review for downgrade the Baa2 rating for senior subordinated debt of Kommunalkredit Austria AG (KA). The review was caused by our view that within Europe, systemic support for subordinated debt may no longer be sufficiently predictable or reliable to be a sound basis for incorporating uplift into our ratings. This concern is mainly driven by the resolution frameworks being discussed by the European Commission (EC), which have the objective of significantly reducing the support provided to creditors and leave subordinated debt holders particularly exposed to exclusion from any support received.

The rating action was part of a wider action to review all subordinated, junior subordinated and Tier 3 debt ratings of banks in those European countries where the subordinated debt still incorporates some ratings uplift from our assumptions of government support, with the potential complete removal of government support in these ratings. Please also refer to our reports "Moody's to re-assess government support in bank sub debt ratings globally" published February 2011 and " Reassessment of Government Support Assumptions in European Bank Subordinated Debt", published on 28 November 2011.

During the review period, we will: (i) review the outcome of the expected EC proposals on bank resolutions and the implications for burden-sharing with subordinated debtholders; and (ii) interact with regulators and authorities to see if there is any additional information that would lead us to maintain an assumption of support in the subordinated debt ratings.

APPROVAL FOR STATE AID OBTAINED, SALE TARGETED BY MID-2013

The Austrian Ministry of Finance reported on 29 November 2011 that it has initiated the process of divesting KA in order to comply with what we consider the most challenging of the compensation measures for state aid, i.e., a change of ownership, as stipulated by the EC. As market conditions for bank funding remain hostile and banks across Europe shed assets to improve capital levels, the time limit of mid-2013 appears extremely difficult to meet. Whilst we believe that it may be possible to renegotiate the time limit closer to the deadline, we caution that: (i) the required sale may weigh on investor confidence in KA's future with adverse implications for the bank's funding costs; and (ii) that the EC has shown in the past that non-compliance with compensation measures can sometimes have major consequences for a bank's franchise and future.

KA obtained approval from the EC for the state aid on 31 March 2011. With the approval, the bank's previously submitted restructuring plan was also approved, reflecting an endorsement by the Commission of the bank's new strategy and business model of focussing on public sector and infrastructure finance. Other compensation measures that have been agreed include unspecified compensation payments to the government of Austria. While we expect that the bank should maintain some leeway to build reserves, we understand that this compensation measure represents a limitation of KA's internal capital generation.

SUMMARY RATING RATIONALE

We assign a bank financial strength rating (BFSR) of E+ to KA, which maps to B2 on the long-term scale, Baa1 ratings to the bank's long-term senior debt and deposits and a rating of Baa2, on review for downgrade, to its senior subordinated debt. The BFSR and all senior debt ratings carry a stable outlook. The rating for short-term liabilities is Prime-2.

The E+ BFSR is constrained by KA's evolving franchise as a provider of public infrastructure finance and services, developing risk management and anticipated weak profitability. At the same time, the E+ BFSR takes into account the sound quality of the bank's assets and gradual progress in transforming the business model.

KA's long-term global local currency (GLC) debt and deposit ratings are at the Baa1 level, based on our assumption of a very high probability of systemic support from the bank's 99.78% shareholder, the Republic of Austria, resulting in a seven-notch uplift from the B2 standalone credit strength. Whilst the targeted privatisation of KA is credit negative, it does not immediately exert pressure on the Baa1 ratings given that, from our current point of view, a successful sale within 18 months appears unlikely. As a consequence, we expect the current ownership to be maintained for the foreseeable future.

Credit Strengths

- 99.78% Government of Austria ownership with a demonstrated willingness and ability to support the bank

- Adequate regulatory capitalization with a Tier I ratio of 15.5% as of 30 June 2011

- Sound asset quality of the public sector finance lending book, with 68% in the Aaa and Aa rating categories, albeit also with 4% in non-investment grade

Credit Challenges

- Complying with the compensation measures set by the EC, and satisfying the EC even if the June 2013 deadline for KA's privatisation cannot be met

- Dependence on market funds, principally vulnerable to unexpected losses and distortions in financial markets

- Potential medium-term pressure from the increased capital requirements under Basel III, in particular with regard to leverage

- Restoring a sustainable level of profitability against the headwinds of the persistent euro area sovereign debt crisis, and fair competition in municipal project finance lending in Austria

- Restoring a credible risk management track record, while we recognise that progress has been made

Rating Outlook

The outlook on all ratings is stable.

The stable outlook on the E+ BFSR reflects our view that KA should be able to gradually stabilise its business, although we do not rule out potential further setbacks following the losses on KA's exposure to Greece in the past two quarters. While the bank may be able to re-establish an independent funding franchise over time, the stable outlook on the Baa1 long-term debt ratings reflects our view that KA will likely continue to receive government support in case of need. However, a degree of rating transition risk remains, especially in the medium term, given that the financial markets remain challenging for public sector finance franchises, and because the bank has yet to prove that it can achieve appropriate levels of sustainable profitability.

While we acknowledge that the Republic of Austria aims to exit from its ownership as early as June 2013, we believe that such a sale will only be possible in the medium to long term and only once KA has established a track record of delivering sustainable returns and having regular access to (unsecured) funding. Depending on the degree of financial stability achieved, an early divestment by the government would exert adverse pressure on the unsecured ratings, as we would need to reassess our assumption for the probability of systemic support post-divestment.

What Could Change the Rating - Up

We see little upside potential for the BFSR at this stage. Positive pressure on the BFSR would require a track record of sustainable profits and sound liquidity and risk management.

An upgrade of the Baa1 long-term senior debt and deposit ratings could be triggered by a stronger commitment by the Austrian government, in particular an explicit guarantee for the bank's obligations, which however is not expected.

What Could Change the Rating - Down

A downgrade of the BFSR could be triggered if losses exceed those expected under our central scenario, exerting pressure on the bank's capital ratios and undermining its strategy and longer-term viability.

A downgrade of the Baa1 long-term senior debt and deposit ratings could be triggered by an early sale by the government or other indications of a change in the probability of future systemic support for the bank.

Recent financial development

For the six months to June 2011, the bank reported a modest pre-tax income of EUR 1.2 million (which compares with a EUR 2.2 million for the same period in 2010), as the bank had to write down EUR 31.3 million on its exposure to Greece. Adjusted for this charge as well as valuation gains on other security holdings, the pre-tax result would have been higher year-on-year at roughly EUR 10 million.

The EUR 21.5 million in revenues (EUR 16.4 million) were adversely impacted by a negative EUR 9.1 million (negative EUR 13.2 million) trading and valuation result, which included the EUR 31.3 million loss on Greek bonds, as well as adverse valuation changes on the bank's public sector bond portfolio.

For the financial year 2010, KA reported a strong pre-tax result of EUR 31.7 million. This was supported by a EUR 16 million gain on the repurchase of own debt, but also contained net valuation losses as well as realised losses on asset sales to the amount of EUR 12.2 million. The earnings profile reflects KA's structural profitability, given that its core revenues (net interest income and fee & commission income) of EUR 59.4 million covered costs of EUR 44.3 million. Nonetheless, we caution that the volatility of the income statement and the potential for unexpected losses remains high in the current, persistently volatile market environment.

Total assets as of June 2011 were EUR 16.5 billion, based on IFSR accounting. The Tier 1 ratio was 15.5%, down from 15.7% six months earlier, driven by slightly higher risk weighted assets.

DETAILED RATING CONSIDERATIONS

Detailed considerations for KA's currently assigned ratings are as follows:

Bank Financial Strength Rating

We assign an E+ BFSR to KA. The rating is constrained by KA's evolving franchise as a provider of public infrastructure finance and services, developing risk management and anticipated weak profitability. The E+ BFSR also takes into account the sound quality of the bank's assets and gradual progress in transforming the business model.

The assigned BFSR is three notches below the calculated outcome of our bank financial strengths scorecard which results in a D+. Nonetheless, the E+ is considered the appropriate rating level, given several negative factors that are not fully captured by the scorecard, including the low predictability of whether KA will be able to rebuild a sustainable franchise with a different business focus.

Qualitative Factors (50%)

Factor 1: Franchise Value

Trend: Neutral

KA is the surviving core bank that emerged from a rescue in late 2008 and the subsequent breakup of the former Kommunalkredit Austria AG ("KA Old") in November 2009, that was orchestrated by the Austrian government (Aaa, stable). The break-up (or, legally, demerger) resulted in two independent entities: KA and KA Finanz AG (KF, not rated except for government-guaranteed, Aaa-rated bond issues). Both banks have received government support which has allowed them to meet their financial obligations until today. However, as KF serves as a wind-down vehicle for non-core assets, only KA is a going concern.

Equipped with more appropriate capital levels by the government, KA remains in business as a specialist lender to public-sector authorities and related entities in Austria, Switzerland and Germany. The bank aims to build a franchise focusing on higher-margin municipal project finance business in Austria as well as in neighbouring EU new member countries. However, the chosen strategy remains challenging, as the competition in these markets is high. Moreover, KA has still a large legacy, low-margin public sector lending book, representing roughly half of the group's total assets of EUR 16.5 billion (as of June 2011). KA's public sector loan book will be wound down only slowly over time and, according to the strategy of the bank, replaced by higher-margin municipal project finance business.

While we consider it yet uncertain as to whether KA will be able to demonstrate a full restoration of its franchise, its business will face additional hurdles when the higher requirements for capital and liquidity under Basel III will be phased in, starting from 2013. We are also concerned that lending margins may remain too low to allow for sufficient returns on the higher capital levels.

As a specialised service provider for public sector clients, the bank offers the full product range in public sector finance including lending, infrastructure and project finance, leasing, private placements as well as advisory service including debt restructuring and asset management.

KA has been mandated by the Republic of Austria to manage several environmental and infrastructure development programs. If sufficient returns can be derived from such services, this could help to improve the franchise over time. Based on the results during 2010-11, however, KA fully depends on interest income, with other income being immaterial in the context of its total earnings and cost position.

The overall score for franchise value is E+.

Factor 2: Risk Positioning

Trend: Neutral

Given that the lion's share of KA's assets is represented by its public sector finance book, the credit risk of KA's business is relatively low. However, KA currently remains vulnerable given the bank's weak, albeit increasingly focused business profile that is marked by high leverage, high dependence on market funds and low profitability. Moreover, some of its public sector assets that were previously perceived as risk-free, have come under heightened pressure during recent quarters, and the persistent euro area sovereign debt crisis seems far from resolved at the current stage. As a consequence, KA may suffer major set-backs yet on its road to recovery; therefore its operations remain, in our view, dependent on the implicit support indicated by the bank's government background.

According to the bank's plans, the low-margin, low risk assets will be replaced with higher margin assets over time, which we expect will translate into gradually increasing credit risk over time. In the initial period of building a targeted lending business, we caution that it may be difficult to accurately price the risk as well as monitor risk adjusted performance, partly as the bank's risk management capabilities are still evolving. We will closely monitor the bank's progress in establishing an appropriate risk management system for the new business and in building a credible track record of a sound risk culture.

KA's business model includes considerable concentration risk in terms of both, borrower and industry concentrations. Although the exposures are predominantly towards highly rated public sector entities, i.e. governments and sub-sovereign borrowers, they also include risk exposure to international credit institutions. Given that :(i) banks across Europe may henceforth enjoy less support than they did during the crisis; and (ii) the combination of risk concentrations and the leveraged nature of KA's business, the bank is principally vulnerable to unexpected losses, including on sovereign exposures.

KA is heavily reliant on capital market funds and thus dependent on regular access to debt capital markets. Since its establishment in late 2009, KA has had limited access to debt capital markets for unsecured funds (initially only with the support from the Austrian government), which is one of the main constraining factors for the E+ BFSR.

The overall score for risk positioning is D-.

Factor 3: Regulatory Environment

Trend: Neutral

All Austrian banks are subject to the same score for the regulatory environment. This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible, demonstrate enforcement powers and adhere to global standards of best practices for risk control.

Factor 4: Operating Environment

Trend: Neutral

In general, this factor is also common to all Austrian banks. Moody's assigns an A- score for the overall operating environment. However, in the case of KA, an adjustment of this factor to B+ better reflects the bank's geographical diversification with operations in Central and Eastern Europe (CEE).

Quantitative Factors (50%)

Factor 5: Profitability

Trend: Improving

KA's earnings profile is mostly driven by its low-margin public sector loan book, allowing for only weak returns from net interest income. Fee and commission income was also weak during the first quarters of KA's establishment. We are also concerned about the relatively high degree of earnings volatility, given the volatile trading and valuation results since 2009. Moreover, we caution that KA still had a EUR 198 million exposure to Greece (post write-down) at risk at the end of June 2011, and we therefore expect that further write-downs to around 50% of the EUR 222 million notional may be required in H2 2011, which implies that the 2011 earnings will likely be wiped out by the required total charges on Greek exposures.

We therefore take a cautious view on KA's future profitability, even though it was allowed to part with its major loss-driving activities (i.e., the CDS portfolio and the largest part of its securities portfolio) in 2009. This transaction, which in effect was an offloading of assets to KF, resulted in a funding benefit for KA, albeit only indirectly, as funding was supported with EUR 5.0 billion in state guarantees to KF, which also has to bear the costs for these guarantees. This continues to benefit KA's earnings power until today.

While we believe that the demand for municipal project financing will remain high despite austerity measures, especially in KA's targeted CEE markets, given expected continued investments in infrastructure, we also observe increasing competition from larger institutions that have more diversified franchises and financial flexibility.

The score for profitability is D.

Factor 6: Liquidity

Trend: Neutral

KA is fully dependent on wholesale funds and therefore on regular access to debt capital markets. Issuing senior unsecured debt at viable pricing levels has remained challenging during the first few quarters since KA's establishment, although the bank has resumed issuing small senior unsecured tranches under its new EUR 2.0 billion debt issuance program. The weak independent funding franchise of KA currently remains one of the main rating constraints.

Notwithstanding the above mentioned shortcomings, we nevertheless recognise that KA was successful in tapping the markets with a 5-year EUR 0.5 billion public sector covered bond issue in February 2011, which the bank reported was oversubscribed and could be placed with investors in various European countries. That being said, KA has committed to maintaining 28% of over-collateralisation which requires substantial portions of unsecured debt (or deposits) for the funding of its core business. Nonetheless, in combination with EUR 0.2 billion in unsecured private placements and EUR 0.3 billion additional customer deposits, KA could fund its new business during H1 2011.

As mentioned under Profitability above, the bank's break-up in 2009 had an indirect, positive effect on KA's funding profile, because some long-term assets were left behind in KF for unwinding, for which alternative funding was provided, while KA still has the long-term debt of KA Old on its balance sheet. We understand that this resulted in a somewhat better-matched profile of assets and liabilities, which continues to be beneficial for the bank.

Apart from EUR 11 billion of secured and unsecured market funds and EUR 1.9 billion interbank borrowings, KA currently holds EUR 1.9 billion in (institutional) client deposits which showed a healthy increase during recent quarters. We also note that KA remains a net lender in the interbank market.

We believe that, under the current market conditions, KA strongly benefits from its public ownership background and the implicit support from the Austrian government. Judging from recent market volatility and concerns over public sector credit quality, however, the funding situation remains potentially fragile and government ownership and commitment critically important for several years yet.

The score for liquidity is E.

Factor 7: Capital Adequacy

Trend: Neutral

In spite of the improved risk profile of KA following the demerger in late 2009, and notwithstanding satisfactory regulatory capitalisation, we consider the economic capital levels of the bank to be only acceptable. This is because of: (i) the bank's high leverage; and (ii) the limited absolute cushion for unexpected losses of roughly EUR 170 million (to maintain a 9% Tier 1 ratio); in the context of (iii) the borrower concentrations in the loan book. We note that there is a persistent risk of stress to the income statement - and thus capital erosion - that could stem from unforeseen credit losses or rising funding costs.

The Tier 1 ratio stood at 15.5% as of June 2011, slightly lower than the 15.7% reported for December 2010. We caution that the Tier 1 ratio may decline over time as KA, trying to rebuild its core franchise, takes on new lending business that will redeploy previously freed-up capital.

With a pro-forma Basel III leverage ratio of 2.5% (i.e., Tier 1 capital in % of total assets as of June 2011), KA displayed considerable leverage and may struggle to meet the higher capital requirements under Basel III, which will be phased-in starting from 2013. However, gradual progress in total asset reduction may ensure a positive trend in leverage over coming quarters, even though total assets grew during H1 2011 as KA maintained higher liquidity reserves.

The score for capital adequacy is A.

Factor 8: Efficiency

Trend: Neutral

Given the loss of economies of scale following the break-up, we consider KA's efficiency as one of the challenges for the standalone bank. KA Old had a pre-crisis history of strong efficiency ratios benefitting from the high operational integration of its subsidiaries Dexia-Kommunalkredit (now 100% owned by Dexia Group and not individually rated) and Kommunalkredit International (now merged with KF), which brought about considerable synergy potential through the sharing of personnel and equipment. Progress on the efficiency of KA will partly depend on the execution of its planned re-focusing and a recovery in core revenues. However, we caution that the potential for improving efficiencies is limited for the small bank.

The score for efficiency is B.

Factor 9: Asset Quality

Trend: Neutral

As a specialised public sector lender, KA's asset quality is fairly sound. The bank's assets are dominated by public sector loans and bonds, complemented by inter-bank loans. The level of problem loans is very low. Maintaining high asset quality and, as a natural consequence, a low level of risk provisions is a key element in the overall low risk profile of the bank, which is reflected in the score of A for asset quality.

Global Local Currency Deposit Rating (Joint Default Analysis)

We assign a global local currency (GLC) deposit rating of Baa1 to KA. The rating is based on KA's standalone credit strength of B2, as well as by the Aaa local-currency deposit ceiling (LCDC) of its underlying support provider and main shareholder, the Republic of Austria. KA therefore receives a seven-notch uplift from its standalone credit strength, bringing the long-term debt and deposit ratings to Baa1.

We view the probability of systemic support by the Republic of Austria, to be very high based on: (i) the Republic of Austria's 99.78% ownership in KA; and (ii) Austria's demonstrated willingness to support KA over the course of the break-up.

Notching Considerations

In line with our notching guidelines published in November 2009, KA's subordinated debt is rated at Baa2 (on review for downgrade), i.e., one notch below the bank's senior debt rating.

Foreign Currency Deposit Rating

Our foreign currency deposit ratings for KA are Baa1/Prime-2.

Foreign Currency Debt Rating

Our foreign currency debt ratings for KA are Baa1/Prime-2.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honour its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's baseline credit assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Kommunalkredit Austria AG

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**

Qualitative Factors (50%)						**D**	
Factor: Franchise Value						**E+**	**Neutral**
Market Share and Sustainability					**x**		
Geographical Diversification			**x**				
Earnings Stability					**x**		
Earnings Diversification [2]					**x**		
Factor: Risk Positioning						**D-**	**Neutral**
Corporate Governance [2]				**x**			
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks				x			
Controls and Risk Management				**x**			
- Risk Management					x		
- Controls			x				
Financial Reporting Transparency		**x**					
- Global Comparability	x						
- Frequency and Timeliness				x			
- Quality of Financial Information		x					
Credit Risk Concentration					**x**		
- Borrower Concentration					x		
- Industry Concentration					x		
Liquidity Management					**x**		
Market Risk Appetite					**x**		
Factor: Operating Environment						**A-**	**Neutral**
Economic Stability	**x**						
Integrity and Corruption		**x**					
Legal System	**x**						
Financial Factors (50%)						**C-**	
Factor: Profitability						**D**	**Improving**
PPI / Average RWA - Basel II				0.67%			
Net Income / Average RWA - Basel II				0.53%			
Factor: Liquidity						**E**	**Neutral**
(Mkt funds-Liquid Assets) / Total Assets					62.09%		
Liquidity Management					x		
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio - Basel II	15.00%						
Tangible Common Equity / RWA - Basel II	11.93%						
Factor: Efficiency						**B**	**Neutral**
Cost / Income Ratio		53.80%					
Factor: Asset Quality						**A**	**Neutral**
Problem Loans / Gross Loans	0.00%						
Problem Loans / (Equity + LLR)	0.14%						
Lowest Combined Score (15%)						**E**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**D+**	
Assigned BFSR						**E+**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral