REPUBLIC OF AUSTRIA

Rating Analysis - 6/30/16

*EJR Sen Rating(Curr/Prj) A/ A+
*EJR CP Rating: A1
EJR's 3 yr. Default Probability: 1.3%

The Austrian Debt/GDP rose to 86.22% in 2015 from 81.58% in 2012, which can be partly attributed to bank rescues: capital injections to Hypo Group Alpe Adria. The euro is expected to remain weak against USD for the next 3 years, mainly due to diverging monetary policies in these two economies. Hence Austrian export is unlikely to be hampered by currency risk.

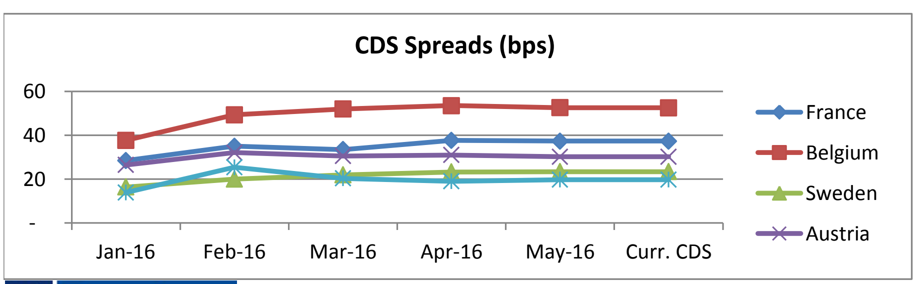
There is significant risk in the Austrian banking area, which might potentially develop into a systemic Eurozone phenomenon. Assets of Austria's top four banks are approximately equal to Austria's GDP. Austria is facing some headwinds on labor productivity and global competitiveness fronts. However, we expect public debt/GDP ratio to improve gradually, given improvements to the federal operating statements (deficits are declining). Over the longer term labor productivity and growth could improve if the government were to take faster action on structural reforms. We are affirming the rating of "A" with a positive watch. Note, to reflect the propensity of central banks to support sovereign obligors, we have eased our indicative credit ratios, resulting in some upgrades.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2013	2014	2015	P2016	P2017	P2018
Debt/ GDP (%)	80.9	84.4	86.2	85.4	83.8	81.3
Govt. Sur/Def to GDP (%)	-1.6	-2.4	-0.8	0.0	0.8	1.6
Adjusted Debt/GDP (%)	80.9	84.4	86.2	85.4	83.8	81.3
Interest Expense/ Taxes (%)	9.3	8.7	8.2	8.0	7.8	7.7
GDP Growth (%)	1.7	2.0	2.5	2.3	2.3	2.5
Foreign Reserves/Debt (%)	2.5	3.3	3.0	2.9	2.9	2.9
Implied Sen. Rating	A	A	A	A	A+	A+

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

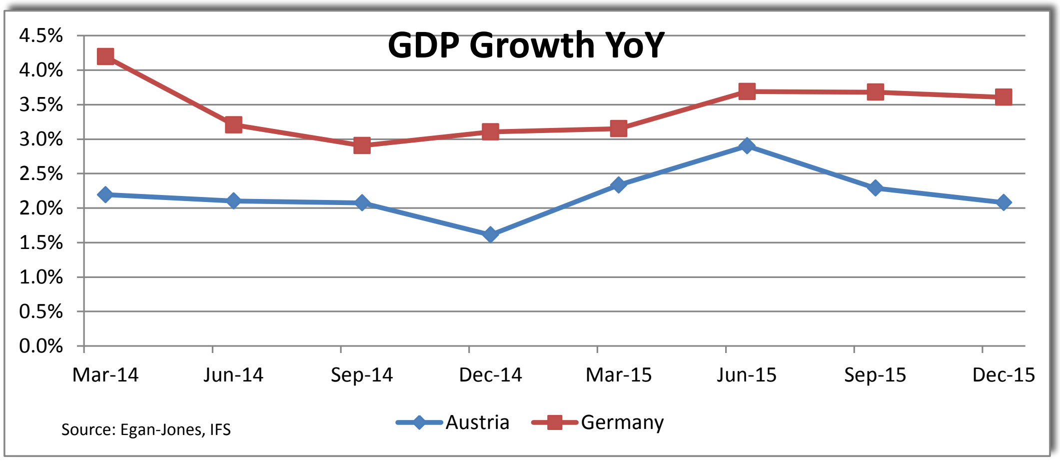
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	71.2	0.6	71.2	7.0	4.1	AA
French Republic	AA	96.0	-3.4	96.0	7.0	2.4	A+
Kingdom Of Belgium	AA	106.0	-2.6	106.0	9.6	1.9	A+
Kingdom Of Sweden	AAA	43.4	1.0	43.4	1.2	6.0	AA+
United Kingdom	AAA	89.2	-3.5	89.2	8.7	4.0	AA+



Country	CDS
France	37
Belgium	53
Sweden	23
Austria	30
Germany	20

Economic Growth

Austria is on the path of gradual growth; real GDP is expected to grow around 1.5% in 2016 and improve further in 2017. Tax reforms that came about in early 2016 will stoke private consumption. Private consumption contributes about 55% to the overall GDP of Austria. Despite weak economic growth in the last 5 years and rising unemployment, inflation has been higher than Eurozone average. The services sector constitutes around 70% of GDP. Declining labor productivity in services may have raised costs which in turn weakened competitiveness in global markets. The reason for low labor productivity could be stringent regulations in the services sector. Restructuing of banking sector could weigh on public finances and economic growth.



Fiscal Policy

A new fiscal policy that came into effect in January 2016 aimed at a more progressive income tax regime, which is expected to lead to an estimated 5 Billion Euro in overall tax relief. This will create disposable income which will in turn ramp up private consumption. The new tax reform also increases accountability of capital flow in the economy. As seen from the chart to the right, deficit to GDP(%) is 0.82 which is better than most peers. The government aims to fund the tax relief from targeting unreported earnings and increase of two taxes: land transfer tax and VAT rates.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Austria	-0.82	86.22	30.18
Germany	0.59	71.22	19.79
France	-3.40	95.96	37.35
Belgium	-2.62	105.96	52.56
Sweden	1.02	43.43	23.43
UK	-3.46	89.22	33.95

Sources: Thomson Reuters and IFS

Unemployment

At 5.7%, unemployment rate is high in a historical perspective though still lower as compared to peers. Domestic demand and investments will drive the economy and job creation. Though projected rebound of investment could be hampered by lower than expected growth in Euro area and emerging markets.

Unemployment (%)

	2014	2015
Austria	5.60	5.70
Germany	6.70	6.01
France	10.30	10.40
Belgium	8.50	8.50
Sweden	7.93	7.40
UK	6.19	5.37

Source: Intl. Finance Statistics

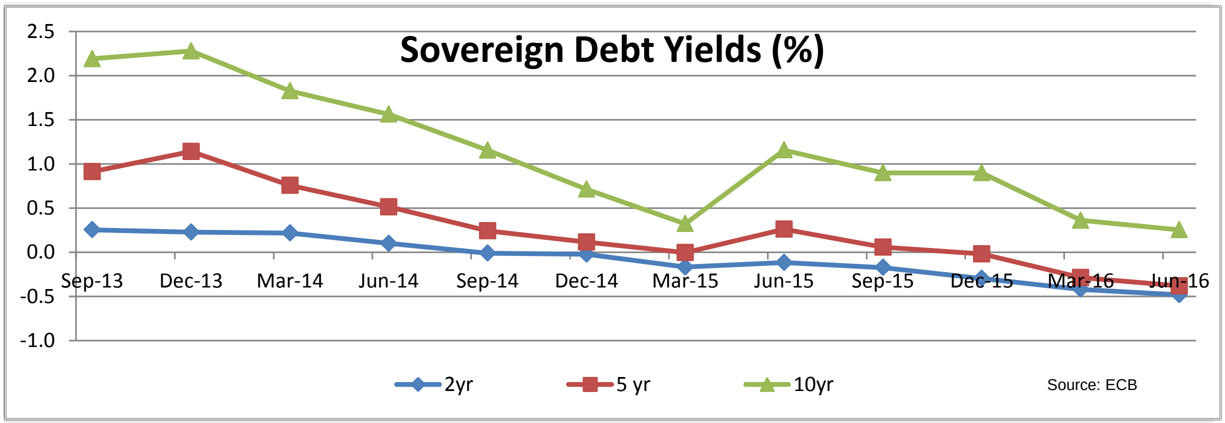
Banking Sector

Financial nexus between public sector and banking should be reduced to revive public confidence. Bank assets are 99.25% of the GDP. A potential "Bail-In" of failed Austrian Bank could spread panic in Europe and could have systemic ripple effects. As seen from the chart, OBERBANK AG is under capitalized as compared to others.

Bank Assets (billions of local currency)	Assets	Cap/ Assets %
ERSTE GROUP BANK	199.74	4.87
RAIFFEISEN INTL	114.43	3.05
VOLKSBANK VORARLBERG	2.26	0.83
OBERBANK AG	18.24	9.00
Total	334.7	
EJR's est. of cap shortfall at 10% of assets less market cap		18.6
Austria's GDP		337.2

Funding Costs

As can be seen in the below graph, the bond yields have plunged particularly since December 2013 with a surge in June 2015 which can attributed to Greek crisis. The funding position is strong, underpinned by the European Central Bank's sovereign and corporate bond purchase programmes. Monthly purchases of these securities will amount to 80 billion euros on an average until the end of March 2017.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 21 (1 is best, 189 worst) is strong.

The World Bank's Doing Business Survey*	2015 Rank	2014 Rank	Change in Rank
Overall Country Rank:	**21**	**20**	**-1**
Scores:			
Starting a Business	106	101	-5
Construction Permits	47	44	-3
Getting Electricity	17	19	2
Registering Property	26	24	-2
Getting Credit	59	52	-7
Protecting Investors	36	33	-3
Paying Taxes	74	70	-4
Trading Across Borders	1	1	0
Enforcing Contracts	6	6	0
Resolving Insolvency	18	16	-2

* Based on a scale of 1 to 189 with 1 being the highest ranking.

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Economic Freedom

As can be seen below, Austria is strong in its overall rank of 71.2 for Economic Freedom with 100 being best.

Heritage Foundation 2015 Index of Economic Freedom
World Rank 71.2*

	2015 Rank**	2014 Rank	Change in Rank	World Avg.
Property Rights	90	90	0	42.2
Freedom from Corruption	69	75.5	-6.5	41.9
Fiscal Freedom	50.1	51	-0.9	77.4
Government Spending	19.8	23.5	-3.7	61.7
Business Freedom	78	76.3	1.7	64.1
Labor Freedom	76.7	80.5	-3.8	61.3
Monetary Freedom	80.3	79.5	0.8	75.0
Trade Freedom	88	87.8	0.2	75.4
Investment Freedom	90	90	0	54.8
Financial Freedom	70	70	0	48.6

*Based on a scale of 1-100 with 100 being the highest ranking.
**The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
Source: The Heritage Foundation

Valuation Driver: Taxes Growth:
REPUBLIC OF AUSTRIA has grown its taxes of 4.7% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 4.7% per annum over the next couple of years and 4.7% per annum for the next couple of years thereafter.

Valuation Driver: Total Revenue Growth:
REPUBLIC OF AUSTRIA's total revenue growth has been less than its peers and we assumed no growth in total revenue growth over the next two years.

Income Statement	Peer Median	Co. Avg.	Assumptions Yr 1&2	Yr 3,4,5
Taxes Growth%	4.1	4.7	**4.7**	**4.7**
Social Contributions Growth %	4.0	3.5	**3.5**	**3.5**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	0.3	**4.2**	**4.2**
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	3.9	3.8	**3.8**	**3.4**
Compensation of Employees Growth%	1.0	3.0	**3.0**	**3.0**
Use of Goods & Services Growth%	1.4	2.9	**2.9**	**2.9**
Social Benefits Growth%	2.6	3.4	**3.4**	**3.4**
Subsidies Growth%	5.2	4.1		
Other Expenses Growth%	0.0			
Interest Expense	0.0	2.7	**2.7**	
Currency and Deposits (asset) Growth%	0.0	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	(1.1)	4.9	**4.7**	**4.7**
Shares and Other Equity (asset) Growth%	(2.2)	8.9	**8.9**	**8.9**
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	0.0	(96.4)	**(10.0)**	**(10.0)**
Other Accounts Receivable LT Growth%	2.1	(1.1)	**(1.1)**	**(1.1)**
Monetary Gold and SDR's Growth %	0.0	0.0	**5.0**	**5.0**
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	0.0			
Currency & Deposits (liability) Growth%	2.4	32.6	**4.7**	**4.7**
Securities Other than Shares (liability) Growth%	1.1	2.0	**1.4**	**1.4**
Loans (liability) Growth%	(1.2)	2.5	**2.5**	**2.5**
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	0.0	(11.0)	**(11.0)**	**(11.0)**
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL INCOME STATEMENTS

Below are REPUBLIC OF AUSTRIA's annual income statements with the projected years based on the assumptions listed on page 3.

ANNUAL REVENUE AND EXPENSE STATEMENT
(MILLIONS EUR)

	2012	2013	2014	2015	P2016	P2017
Taxes	87,034	90,181	92,940	97,321	101,896	106,685
Social Contributions	47,332	49,179	50,593	52,373	54,216	56,124
Grant Revenue						
Other Revenue	20,830	20,467	20,688	20,742	21,620	22,534
Other Operating Income						
Total Revenue	155,196	159,827	164,220	170,437	177,731	185,342
Compensation of Employees	33,802	34,194	34,904	35,958	37,045	38,165
Use of Goods & Services	20,120	20,550	20,798	21,404	22,028	22,670
Social Benefits	71,505	74,188	76,756	79,350	82,032	84,804
Subsidies	4,739	4,416	4,663	4,852	4,852	4,853
Other Expenses				14,880	14,880	14,880
Grant Expense						
Depreciation	8,353	8,495	8,667	8,809	8,809	8,809
Total Expenses excluding interest	152,672	156,513	164,052	165,254	169,647	174,181
Operating Surplus/Shortfall	2,524	3,314	168	5,183	8,085	11,162
Interest Expense	8,622	8,398	8,128	7,933	8,150	8,372
Net Operating Balance	-6,098	-5,084	-7,960	-2,751	-65	2,789

ANNUAL BALANCE SHEETS

Below are REPUBLIC OF AUSTRIA's balance sheets with the projected years based on the assumptions listed on page 3.

Base Case

ANNUAL BALANCE SHEETS
(MILLIONS EUR)

ASSETS	2012	2013	2014	2015	P2016	P2017
Currency and Deposits (asset)						
Securities other than Shares LT (asset)						
Loans (asset)	35,760	36,519	46,283	48,569	50,852	53,242
Shares and Other Equity (asset)	56,441	51,626	54,006	58,821	64,065	69,777
Insurance Technical Reserves (asset)	11,954	9,507	4	10,248	10,248	10,248
Financial Derivatives (asset)	1,539	668	26,397	939	845	760
Other Accounts Receivable LT	33,820	34,658	35,438	35,055	34,676	34,302
Monetary Gold and SDR's						
Other Assets					32,694	32,694
Additional Assets	19,517	20,345	9,876	32,694		
Total Financial Assets	159,030	153,323	172,004	186,325	193,380	201,022

LIABILITIES	2012	2013	2014	2015	P2016	P2017
Other Accounts Payable						
Currency & Deposits (liability)	3,320	1,987	2,997	3,973	3,973	3,973
Securities Other than Shares (liability)	248,095	242,696	269,826	275,226	279,081	282,991
Loans (liability)	42,027	42,366	48,004	49,205	49,271	46,481
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)	1,628	1,212	1,027	915	814	725
Other Liabilities	43,150	44,966	45,151	46,864	46,864	46,864
Liabilities	338,221	333,227	367,005	376,182	383,302	388,155
Net Financial Worth	-179,191	-179,904	-195,001	-189,857	-189,922	-187,133
Total Liabilities & Equity	159,030	153,323	172,004	186,325	193,380	201,022

Comments on the Difference between the Model and Assigned Rating

*EJR Sen Rating(Curr/Prj) A/ A+
*EJR CP Rating: A1
EJR's 3 yr. Default Probability: 1.3%

SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:
For the issuer REPUBLIC OF AUSTRIA with the ticker of 1480Z AV we have assigned the senior unsecured rating of A. There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:
We are using the methodology available in our Form NRSRO Exhibit #2 dated May 10, 2015 available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:
The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:
Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:
Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:
EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:
Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:
EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:
This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:
Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:
Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:
Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			**Resulting Ratio-Implied Rating**		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	4.7	8.7	0.7	A	A	A
Social Contributions Growth %	3.5	0.5	6.5	A	A	A
Other Revenue Growth %	4.2	1.2	7.2	A	A	A
Total Revenue Growth%	3.8	1.8	5.8	A	A	A
Monetary Gold and SDR's Growth %	5.0	3.0	7.0	A	A	A

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:
This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

1) No part of the credit rating was influenced by any other business activities,
2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature: **Today's Date**

N Chaudhari
…………………………………………………….. June 30, 2016
……………………………………….
Nikhil Chaudhari
Rating Analyst

Reviewer Signature: **Today's Date**

Caroline Ding
…………………………………………………….. June 30, 2016
……………………………………….
Caroline Ding
Rating Analyst

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward- looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.