2015 ANNUAL REPORT OF KOMMUNALKREDIT AUSTRIA AG

INFRA BANKING EXPERTS
ÖSTERREICHS BANK FÜR INFRASTRUKTUR

KOMMUNAL KREDIT

TABLE OF CONTENTS

BOARDS OF THE BANK

Executive Board

Alois Steinbichler
Chairman of the Executive Board
since 26 September 2015

Wolfgang Meister
Member of the Executive Board
since 28 September 2015

Jörn Engelmann
Member of the Executive Board
since 1 February 2016

Helmut Urban
Member of the Executive Board
from 26 to 28 September 2015

SUPERVISORY BOARD

Ulrich Sieber
Chairman, delegated by Interritus Limited
since 28 September 2015

Klaus Liebscher
Chairman, Member of the Board of the Financial Markets Holding Company of the Republic of Austria (FIMBAG) and former Governor of the Austrian National Bank(OeNB)
from 26 to 28 September 2015

Christopher Guth
Deputy Chairman, delegated by Attestor Capital
Since 28 September 2015

Adolf Wala
Deputy Chairman, Member of the Board of the Financial Markets Holding Company of the Republic of Austria (FIMBAG) and former Director General of the Austrian National Bank (OeNB)
from 26 to 28 September 2015

Friedrich Andreae
Delegated by Attestor Capital
Managing Director of Satere GmbH and Gesona Beteiligungsverwaltung GmbH
since 28 September 2015

Katharina Gehra
Delegated by Interritus Limited
Managing Director of Satere GmbH and Gesona Beteiligungsverwaltung GmbH
since 28 September 2015

Jürgen Meisch
Managing Director of Achalm Capital GmbH
since 28 September 2015

Werner Muhm
Director of the Vienna Chamber of Labour and the Federal Chamber of Labour
since 26 September 2015

Stefan Pichler
Professor of Banking and Finance at the Vienna University of Economics and Business
from 26 to 28 September 2015

Franz Hofer
Nominated by the Staff Council
since 28 September 2015

Patrick Höller
Nominated by the Staff Council
since 28 September 2015

Brigitte Markl
Nominated by the Staff Council
Since 9 November 2015

Marc Schimpel
Nominated by the Staff Council
from 28 September 2015 to 9 November 2015

STATE COMMISSIONER

Edeltraud Lachmayer
State Commissioner, Federal Ministry of Finance

Bettina Horvath
Deputy State Commissioner, Federal Ministry of Finance

GOVERNMENT COMMISSIONER FOR THE COVER POOL FOR COVERED BANK BONDS

Alexander Gruber
Government Commissioner, Federal Ministry of Finance

MANAGEMENT REPORT FOR THE BUSINESS YEAR 2015

ECONOMIC FRAMEWORK

Despite the monetary policy measures taken by the European Central Bank (ECB) to stimulate economic activity (quantitative easing) and the low raw material prices, the growth of GDP (gross domestic product) in the euro area remained muted throughout 2015. The European Commission expects 1.6% GDP growth in the euro area for the full year 2015; for Austria, the Austrian Institute of Economic Research (WIFO) projects a growth rate of 0.8%. In contrast, the US economy was marked by increasing momentum and was growing at a rate of 2.5%, despite a slower pace of development in the countries in transition (slow-down in China, recession in Russia and Brazil). Overall, the world economy was characterised by widely diverging developments in 2015.

In view of the uncertainties regarding future developments in the emerging markets and, in particular, concern over the Chinese economy and the steep drop of the oil price, expectations for a recovery of the euro area in the short term remain subdued. According to its winter forecast (February 2016), the European Commission expects a rate of economic growth of 1.7% for 2016, both in the euro area and in Austria. The USA is not completely immune to the worldwide mood of uncertainty and had to revise its original, more optimistic economic growth projections downward by 0.1% to 2.7%.

A positive change of trend in unemployment has been observed both in Europe and the USA. In the American labour market, the rate of unemployment dropped from 5.6% to 5.0% in 2015 (the lowest level since December 2007). Similarly, unemployment in the euro area fell from 11.5% to 10.4% (lowest level since October 2011). At the same time, unemployment in Austria has been trending upward (from 5.6% at the beginning to 5.8% at the end of 2015).

In 2015, trends in the real economy continued to be influenced significantly by the monetary-policy measures taken by the central banks, above all the ECB and the US Federal Reserve System (Fed). In January 2015, the ECB decided to implement an asset purchase programme intended to stimulate the economy and to step up inflation to the target level of 2% per year. As a result, spreads on government bonds in the euro area declined significantly. The programme, which was launched in March 2015, provides for a monthly volume of purchases of government bonds and other pre-defined securities of up to EUR 60 billion. It was accompanied by a set of special measures intended to stimulate the economy in Europe, such as the investment offensive of the European Commission ("Juncker Plan") announced at the end of 2014. Over a period of three years, public and private investments in the real economy in a volume of at least EUR 315 billion are to be mobilized in Europe. Furthermore, based on the decisions taken by the Basel Committee on Banking Supervision, the European Commission and the ECB adopted far-reaching new regulatory provisions for banks and are currently in the process of updating them in preparation for the new rules of Basel IV. As a consequence of the new provisions, credit origination and the holding of long-term assets will become more difficult for banks. Thus, while measures are being taken to stimulate the economy, legislative measures aimed at increased bank stability produce the opposite effect.

Despite the monetary-policy measures taken by the ECB, inflation remained very low in the euro area, with consumer prices rising by no more than 0.1% in 2015. In Austria, inflation was significantly above the EU average at +1.1%. Given such weak price dynamics and the ECB's inflation target of 2%, the ECB further lowered its deposit rate from -0.2% to -0.3% in December 2015 and announced the continuation of its government bond buying programme until at least March 2017. The ECB's key lending rate has been at a record low of 0.05% p.a. since the beginning of September 2014. Further measures have been announced for March 2016.

The expansionary money supply policy in Europe and Asia (interest rate cuts by the Chinese central bank and quantitative easing by the Bank of Japan) contrasts with a slight trend to the contrary in the USA. On 16 December 2015, the Fed increased its key lending rate (the "federal funds rate") to a range of 0.25% to 0.5%. At the same time, the Fed confirmed its future interest rate policy, which it had already announced a few months earlier: by 2018, the key lending rate is to be around 3.3%, but the steps taken toward this target have been rather hesitant. The Fed already stopped its bond buying programme in the autumn of 2014.

These developments led to a significant devaluation of the euro against the US dollar. The EUR/USD exchange rate, standing at 1.21 at the end of 2014, dropped to 1.06 by mid-March 2015, the lowest value of the single currency against the dollar since 2002. Over the year, positive economic reports from the euro area led to a slight recovery of the euro (1.09 as at 31-12-2015). However, the most significant event in the monetary-policy arena in 2015 was the decision taken by the Swiss National Bank in January 2015 to unpeg the CHF/EUR exchange rate and to give up the maximum rate of CHF 1.20 against 1 EUR, which had been introduced more than three years ago. This had a major impact on the international competitiveness of the Swiss economy and the level of CHF debt of borrowers outside Switzerland. On 31 December 2015, the CHF was trading at 1.08 for one euro.

The European Banking Union and the EU's Bank Recovery and Resolution Directive

As one of the core measures of the EU intended to stabilise the financial markets, the negotiators of the European Council and the European Parliament agreed in March 2014 on the foundation of the European Banking Union. The three pillars of the European Banking Union are the Single Supervisory Mechanism (SSM), set up within the organisational structure of the ECB, the Single Resolution Fund (SRF), to be endowed with a total capital of EUR 55 billion, and the Single Resolution Mechanism (SRM) for the resolution of banks in financial distress. Besides the Single Resolution Mechanism, the Bank Recovery and Resolution Directive (BRRD) was adopted in May 2014, according to which insolvency proceedings for non-viable banks are to be replaced by a mechanism for restructuring or resolution which provides for creditor bail-in. In Austria, the Directive was transposed into national law through the Federal Act on the Reorganisation and Resolution of Banks (*Bundesgesetz über die Sanierung und Abwicklung von Banken – BaSAG*), effective as of 1 January 2015, which replaces the earlier Act on Bank Intervention and Restructuring

(*Bankeninterventions- und -restrukturierungsgesetz – BIRG*). The act covers the following areas:

- “Prevention”: the act makes it mandatory for banks to draw up restructuring plans and requires the resolution authority to prepare resolution plans; the resolution authority is given the power to eliminate obstacles to resolution.
- “Early intervention”: measures are to be taken at an early point in time and additional powers of intervention are granted to the regulatory authorities.
- “Resolution”: a national resolution authority is to be established and equipped with the requisite powers and resolution tools.

These measures are to ensure an orderly market exit of banks without significant negative impacts on financial stability and, at the same time, protect deposit holders and bank clients while keeping the input of public funds as low as possible.

As a “less significant institution”, KA is not subject to the Single Supervisory Mechanism of the ECB, but is regulated by the Financial Markets Authority (FMA) as the national regulator (“national competent authority” – NCA).

Budget consolidation / The Austrian stability programme

On 21 April 2015, the Council of Ministers decided to extend the Austrian stability programme, which is aligned to the requirements of the European Fiscal Compact in force since the beginning of 2013, until 2019. Budget consolidation as a prerequisite for sustainable growth continues to be the priority goal. As laid down in the stability programme, the federal budget deficit, defined in accordance with the Maastricht criteria, is to amount to 2.2% of GDP in 2015 and drop to 1.6% of GDP in 2016. By 2019, the structural deficit is to be reduced to 0.5% of GDP. Currently, the Austrian Institute of Economic Research projects a budget deficit of 1.6% for 2015. The Federal Budget Framework Act provides for an increase of the government debt ratio to 86.8% by the end of 2015, to be followed by a reduction to 79.9% between 2016 and the end of 2019.

ECONOMIC FRAMEWORK FOR LOCAL AUTHORITIES

Municipal financial management plays an important role in meeting the targets of budget consolidation provided for by the Austrian stability programme. In line with a trend established in previous years, the municipalities continued to observe the principles of budgetary discipline prescribed by the stability pact and reported positive results. This is confirmed by the 2015 Municipal Finance Report[1], a publication produced by Kommunalkredit Austria AG (KA) in cooperation with the Association of Austrian Municipalities and the Association of Austrian Cities and Towns and supported by Statistics Austria. The Austrian local authorities reported a positive balance of revenues and expenses of EUR 1.61 billion and a result according to the Maastricht criteria of EUR 185 million or 0.06% of GDP for 2014, the fourth consecutive year to close with a positive result. Moreover, at EUR 1.82 billion the level of reserves was the highest since 2000. At the same time, municipal investments increased by EUR 325 million to EUR 2.15 billion, exceeding the two million euro mark for the first time since 2009, while municipal debt decreased by EUR 80 million to EUR 11.3 billion. The most important municipal indicators developed as follows:

[1] Available online at http://www.kommunalkredit.at/gemeindefinanzbericht2014

Table: Municipal indicators

in EUR million	2013	2014	Change
Total revenues minus total expenses	1,550	1,609	+59
Free funding portion	496	543	+47
Result according to Maastricht criteria (ESA) [1)]	132	185	+53
Debt level	11,351	11,271	-80
Reserves	1,678	1,816	+138
Capital expenditure	1,823	2,149	+326

[1)] European System of Accounts

This budgetary situation results primarily from an increase in revenues. In 2014 the municipal share in federal tax revenues increased by 3.5% or EUR 201.4 million to EUR 5.95 billion, and capital transfer payments by public-law entities rose by 9.2% or EUR 96.6 million to EUR 1.15 billion. Revenues from the municipalities' own sources also increased significantly: revenues from local charges increased by 2.6% or EUR 81.7 million to EUR 3.21 billion, and income from services grew by 2.7% or EUR 41.0 million to EUR 1.55 billion.

Municipal expenses for social services, health care and education (including kindergartens) continued to increase. Taken together, expenses in these three cost categories rose by EUR 198 million or 4.6% to EUR 4.5 billion, with social services and health care accounting for 74.0% of the rise. Transfer payments (social welfare, hospitals, levies paid to the provincial governments) also increased significantly by 6.0% to EUR 3.45 billion.

In view of the projected moderate macroeconomic development and the expected negative impact of the 2016 tax reform on municipal revenues, 2016 is expected to be a more challenging year for municipalities than 2015.

As from the end of December 2015, the municipal finance data are not only published in the Municipal Finance Report, but can also be viewed on the transparency platform www.gemeindefinanzen.at developed by KA in cooperation with the Association of Austrian Municipalities and the Austrian Press Agency (APA), which is based on data provided by Statistics Austria. The financial data of all Austrian municipalities for the past five years can be retrieved and compared.

SIGNIFICANT EVENTS OF THE BUSINESS YEAR

Privatisation of Kommunalkredit Austria AG

Kommunalkredit Austria AG (KA), as presented in this Management Report, was established through the demerger for new incorporation of the former Kommunalkredit Austria AG (KA Old) as of 26 September 2015; on 28 September 2015, the bank was successfully privatised through the closing of a sales transaction signed in March 2015. These transactions met the requirements of the European Commission (EC) / Directorate-General for Competition, which, in its amended restructuring decision of 19 July 2013, provided for the sale of KA in the extent of up to 50% of the assets of KA Old as at 19 July 2013. Thus, an essential step in the restructuring of the former Kommunalkredit was successfully completed.

In compliance with the EC's amended restructuring decision, the former majority shareholder of KA Old, the Financial Markets Holding Company of the Republic of Austria (*Finanzmarktbeteiligung Aktiengesellschaft des Bundes - FIMBAG*), launched a public tender on 14 August 2014, inviting bids for the banking operations of KA Old, with its total assets pursuant to the Austrian Company Code reduced to approx. EUR 4.5 billion (as at 01-01-2015), including all its subsidiaries. After completion of a comprehensive due diligence process, a purchase contract was signed with a consortium of buyers consisting of the

English company Interritus Limited (Interritus) and the Irish company Trinity Investments Limited (Trinity).

After all the necessary regulatory approvals had been obtained, the demerger for new incorporation of KA was implemented on 26 September 2015. The entire business operation of KA Old (including all its subsidiaries), with total assets pursuant to the Austrian Company Code in the amount of approx. EUR 4.5 billion, was transferred to a newly established company (KA) by way of a proportionate demerger for new incorporation. As announced through an ad-hoc disclosure dated 26 June 2015, special rights held in KA Old (participation capital and supplementary capital) were compensated for and terminated. The part of KA Old remaining after the demerger, with total assets of approx. EUR 6.7 billion, was merged into KA Finanz AG (KF). The portfolio transferred to KF upon the demerger of KA Old comprised high-quality assets with an average rating of AA- as well as positive equity values and funding. The demerger was not carried out according to the "good bank – bad bank" principle, but was executed to comply with the anti-trust conditions imposed by the European Commission. It is to be emphasised that in the course of the sales transaction there was no requirement for asset guarantees, nor did the newly incorporated KA require any funding support.

The individual steps in the privatisation process were communicated through ad-hoc disclosures published by KA Old on 11 August 2014, 13 March 2015, 26 June 2015 and 25 September 2015, and through a press release published by KA on 28 September 2015.

New ownership structure

Gesona Beteiligungsverwaltung GmbH (Gesona) owns 99.78% of KA. The remaining 0.22% continues to be held by the Association of Austrian Municipalities. Both owners support the strategic goals of KA in the infrastructure sector and the management of support programmes; they intend to continue and expand the banking business.

Gesona is a holding company through which Interritus and Trinity – via Satere GmbH (Satere) – hold their participations in KA; Interritus and Trinity respectively hold 55% and 45% of Satere, which in turn holds 100% of Gesona. The shareholders of Interritus are long-term investors and family offices. The Irish Trinity is managed by Attestor Capital LLP (Attestor). Trinity's capital is provided by a broad-based group of investors with an equally long-term orientation.

The Association of Austrian Municipalities is a body representing the interests of the Austrian municipalities. Through its provincial organisations it represents 2,089 out of 2,100 Austrian municipalities.

Appointments to the Supervisory Board and the Executive Board

Upon the change of ownership on 28 September 2015, the new Boards of KA (Supervisory Board and Executive Board) were appointed. Ulrich Sieber, delegated by Interritus Limited, was elected Chairman of the Supervisory Board; Christopher Guth, delegated by Attestor, was elected Deputy Chairman of the Supervisory Board. The other members of the Supervisory Board are Friedrich Andreae, delegated by Attelstor and Managing Director of Satere and Gesona, Katharina Gehra, delegated by Interritus and Managing Director of Satere and Gesona, Jürgen Meisch, Managing Director of Achalm Capital GmbH, and Werner Muhm, Director of the Vienna Chamber of Labour and the Federal Chamber of Labour; the members delegated by the Staff Council are Franz Hofer, Patrick Höller and Brigitte Markl.

Alois Steinbichler, previously Chairman of the Executive Board of KA Old, was appointed Chief Executive Officer (CEO) of KA; Wolfgang Meister, previously Head of Strategy and Legal Affairs at KA Old, was newly appointed to the Executive Board of KA as Chief Operating Officer (COO). As planned, Jörn Engelmann was appointed to the Executive Board of KA as Chief Risk Officer (CRO) on 1 February 2016. Prior to his appointment, Jörn Engelmann held the position of Head of Credit Risk Management (back office) at Berenberg Bank.

Strategic orientation of KA

Following the completion of the privatisation process, KA is again in a position to offer its expertise in the structuring and financing of infrastructure projects and in support programme management – through Kommunalkredit Public Consulting (KPC), its 90% subsidiary – without restrictions to its many customers in Austria and throughout Europe. The main focus of the bank's activities is on its core segments, i.e. **"Social Infrastructure", "Energy and Environment"** and **"Transport"**. The restrictions and reporting requirements to which KA Old was subject under the conditions imposed by the European Commission no longer apply to KA.

In its business policy, KA takes full account of the significant changes in the strategic framework for infrastructure projects:

- As the financial latitude allowed to public entities is increasingly limited on account of the need for budget consolidation, infrastructure project financing has become more difficult and demands an innovative approach.
- Regulatory requirements to be met by banks in accordance with the Basel III rules, such as the net stable funding ratio (reduced possibilities for maturity transformation), make it more and more difficult for banks to carry long-term assets on their balance sheets and increase the costs of long-term loans.
- Faced with a historically low level of capital market yields, with base rates of 0.5% for 10-year investments and just over 1% for 30-year investments, institutional investors have to broaden their investment universe. Public-sector-related infrastructure projects with stable cash flows are an attractive target segment.

KA has been anticipating this development since the beginning of the restructuring process in 2008 and has positioned itself as a niche player in infrastructure project business for public-sector clients. It covers the entire value chain from project advisory and structuring services to the provision of finance and/or the placement of projects with institutional investors.

The bank bridges the gap between the needs of project sponsors for structuring and financing solutions, on the one hand, and institutional investors (insurance companies, investment funds, etc.) looking for investment opportunities, on the other hand. The bank's direct focus is on project structuring and financing of the construction phase; to a growing extent, long-term finance for the operational phase will be provided, above all, by institutional investors.

Moreover, KA continues to operate successfully in the management of support programmes. In 2015, funds from support schemes in the amount of EUR 501.7 million were disbursed; across all support instruments, almost 83,730 projects were approved and 80,000 settled. The underlying volume of investments thus supported amounted to EUR 2.55 billion. Support for capital expenditure is particularly important, as it stimulates economic activity at the regional and local levels.

OTHER MATERIAL DISCLOSURES

Service Level Agreement / Service Agreement between KA and KF

The service agreement (SA) and the service level agreement (SLA), which have been in place between KA Old and KA Finanz AG (KF) since 2009, will remain in effect under the new ownership structure. Under these agreements, Kommunalkredit Austria AG (KA) provides operational services for KF’s banking operations. KA’s expenses under the SA/SLA are charged to KF on the basis of detailed time records and a clearly specified cost base. Moreover, as of 31 December 2015, 15 staff members of KA were working exclusively for KF on the basis of a staff leasing agreement.

Corporate Governance and Risk Management

KA has a clear corporate governance and risk management structure, as follows:

Supervisory Board

In 2015, the Supervisory Board performed its tasks, as defined in the articles of association and the rules of procedure, within the framework of a number of ordinary and extraordinary meetings. The members of the supervisory board elected by the constituent meeting on 30 July 2015 held a constituent supervisory board meeting, a nomination committee meeting and an extraordinary supervisory board meeting for “KA in the process of incorporation”; upon incorporation, they established the committees required by law (nomination committee, risk committee, remuneration committee) as well as a credit committee. The Shareholders’ Meeting on 28 September 2015 elected the new Supervisory Board, which subsequently held its constituent meeting and appointed the Executive Board. At the same time, rules of procedure were adopted for the Supervisory Board and the Executive Board, and the assignment of responsibilities to the individual Executive Board members was decided.

Executive Board

The Executive Board of KA, with two members appointed on 28 September 2015, has had three members since 1 February 2016. The assignment of tasks and the procedures for cooperation within the Executive Board are laid down in the rules of procedure of the Executive Board. The members of the Executive Board continuously exchange information among themselves and with staff members in executive positions reporting to them. The Executive Board provides the Supervisory Board with regular, timely and comprehensive information on all relevant issues of business development, including the risk situation and risk management of the company and its material subsidiaries. Moreover, in the interest of good corporate governance, regular exchanges take place between the Chairman of the Supervisory Board and the CEO on all matters within the remit of the Supervisory Board. These include, in particular, discussions on the company’s strategy and business development as well as its risk management. The latter issues are also brought to the attention of the chairman of the Risk Committee.

The agenda of the weekly Executive Board meetings comprises decision-making and reporting items, which are recorded in the minutes; follow-up items are agreed and strictly monitored.

Internal audit / Compliance and money laundering

The internal audit unit reports monthly to the Executive Board and quarterly to the Supervisory Board. Apart from ongoing contacts within the framework of day-to-day business, the compliance unit submits quarterly reports to the Executive Board and reports directly to the Supervisory Board once a year. The compliance officer, in his capacity as anti-money-laundering officer, is also responsible for ensuring compliance with §§ 40 and 41 of the Austrian Banking Act (*Bankwesengesetz – BWG*) regarding the "special duty of diligence in the fight against money laundering and the financing of terrorism".

ICAAP (Internal Capital Adequacy Assessment Process)

As stated in its rules of procedure, the members of the Executive Board share the responsibility for ICAAP (Internal Capital Adequacy Assessment Process). ICAAP is a core element of Pillar 2 of the Basel Accord, comprising all procedures and measures applied by a bank to secure appropriate identification, measurement and limitation of risks, a level of capitalisation in line with the risk profile of the business model, and the use and continuous further development of suitable risk management systems.

KA uses a detailed risk-bearing-capacity analysis for the quantitative assessment of its capital adequacy. Depending on the target pursued, three different control loops are applied:

- Regulatory perspective (regulatory control loop)
- Liquidation perspective (economic control loop)
- Going-concern perspective (going-concern control loop)

Moreover, regular stress tests are performed to test the robustness of the business model and to ensure capital adequacy under stressed conditions.

The risk management and ICAAP methods of the bank are reviewed annually. The monthly meetings of the Risk Management Committee (RMC) deal with credit, liquidity, market, operational and other risks on the basis of comprehensive reports. Other committees dealing with credit, capital and liquidity issues meet at least once a week (see also Risk Report under Note 70).

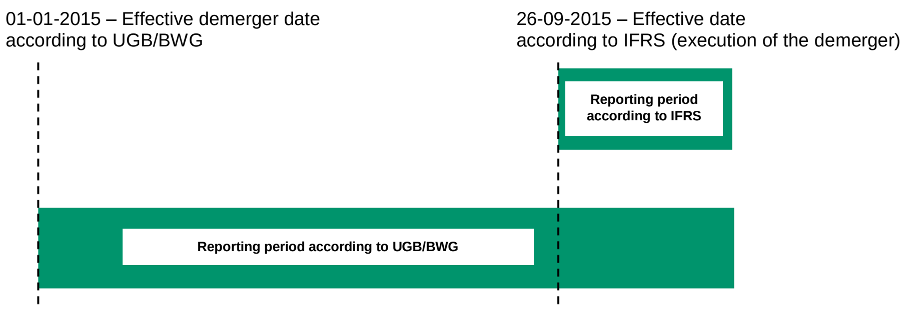
ASSETS, FINANCIAL POSITION AND INCOME

Effects of the demerger for new incorporation on the reporting period

As a result of the demerger for new incorporation on 26 September 2015, the reporting period based on the International Financial Reporting Standards (IFRS) differs from the reporting period based on the provisions of the Austrian Company Code (*Unternehmensgesetzbuch – UGB*) and/or the Austrian Banking Act (*Bankwesengesetz – BWG*).

As shown in the diagram below, the relevant accounting date in accordance with IFRS is 26 September 2015 (date of execution of the demerger and entry in the Companies' Register). The IFRS result of Kommunalkredit Austria AG (KA) for the year 2015 therefore covers the period from 26 September 2015 to 31 December 2015.

Diagram: Reporting period according to IFRS and UGB/BWG



Unlike the accounts based on IFRS accounting rules, the 2015 accounts prepared in accordance with UGB/BWG, in line with regulatory requirements, cover the reporting period from 1 January 2015 to 31 December 2015; i.e. the 2015 result pursuant to UGB/BWG is calculated for the period starting on 1 January 2015.

Financial performance indicators of Kommunalkredit Austria AG according to the Austrian Company Code/Austrian Banking Act *(Unternehmensgesetzbuch/Bankwesengesetz - UGB/BWG)*

Table: Selected key financials according to UGB/BWG,

Financial performance indicators of Kommunalkredit Austria AG according to UBG/BWG in EUR million	31-12-2015	01-01-2015 [1)]
Total assets	3,540.0	4,492.6
Debt instruments of public bodies and bonds	108.1	165.4
Loans and advances to banks	240.2	532.9
Loans and advances to customers	2,771.3	3,191.5
Amounts owed to banks	469.2	1,233.6
Amounts owed to customers	372.9	390.4
Securitised liabilities	2.310.8	2,444.8
Fund for general banking risks pursuant to § 57 (3) BWG	15.00	0.0

[1)] Opening balance sheet (UGB/BWG) as at 01-01-2015

Financial performance indicators of Kommunalkredit Austria AG according to UGB/BWG In EUR million	31-12-2015	01-01-2015
Net interest income	42.3	-
General administrative expenses after amounts charged to other entities under the SLA	-18.5	-
Operating result	23.7	-
Loan impairment, net valuation and trading result	11.4	-
Profit on ordinary activities before tax	35.1	-
Appropriation to the fund for general banking risks pursuant to § 57 (3) BWG	-15.0	-
Profit for the year after tax	18.3	-

Key indicators In EUR million or %	31-12-2015	01-01-2015
Risk-weighted assets relative to credit risk according to Basel III	544.7	664.7
Own funds requirement	60.9	71.7
Own funds [2)]	259.9	234.6
Total capital ratio	34.1 %	26.2 %
CET 1 core capital after deduction of non-eligible components (tier 1) [2)]	194.9	169.6
,CET 1 ratio	25.6 %	18.9 %
Leverage ratio	5.0 %	-
Number of shares	31,007,059	31,007,059

[2)] Own funds/ CET 1 core capital taking into account the profit for the year of KA according to UGB/BWG in the amount of EUR 18.3 million, minus the proposed dividend of EUR 8.0 million.

Rating	31-12-2015	01-01-2015
Long-term DBRS	BBB (low)	-
Short-term DBRS	R-2 (mid)	-
Covered bonds Moody's	Baa2 [3)]	Aa3

[3)] Downgrade of covered bond rating by Moody's from Baa2 to Baa3 as of 04-02-2016 based on 10% voluntary over-collateralisation

Balance sheet structure

As at 31 December 2015, KA reported total assets according to UGB/BWG of EUR 3.5 billion (01-01-2015: EUR 4.5 billion). The reduction of total assets compared with the opening balance sheet as at 1 January 2015 is due, in particular, to lower collateral requirements resulting from the runoff of demerger-related mirror swaps between KA and KF[2], reduced cash reserves (balances with central banks), and the maturing of asset items.

Loans and advances to customers amounted to EUR 2.8 billion as at 31 December 2015 (01-01-2015: EUR 3.2 billion); loans and advances to banks amounted to EUR 0.2 billion (01-01-2015: EUR 0.5 billion). The volume of debt instruments of public bodies and bonds amounted to EUR 0.4 billion (01-01-2015: EUR 0.3 billion).

Risk-weighted assets and equity

As at 31 December 2015, KA had a sound capital position with own funds in a total amount of EUR 259.9 million (01-01-2015: EUR 234.7 million); its common equity tier-1 amounted to EUR 194.9 million (01-01-2015: EUR 169.6 million). With total risk-weighted assets of EUR 761.8 million (01-01-2015: EUR 896.6 million), the bank reported a total capital ratio of 34.1% (01-01-2015: 26.2%) and a CET 1 ratio of 25.6% (01-01-2015: 18.9%); the leverage ratio was 5.0% as at 31 December 2015.

The bank uses the standardised approach for the calculation of its risk-weighted assets and its operational risk.

Funding structure / Liquidity

Within the framework of the demerger for new incorporation, KA took over not only the asset-side portfolio of KA Old, but also long-term funding in the amount of EUR 3.1 billion, comprising the following nominal values as at 31 December 2015:

[2] KA temporarily held derivatives at KF's risk and cost, until KF concluded the corresponding framework contracts to take over these derivatives, and vice versa. The remaining mirror swaps are to be run off in the course of 2016.

- EUR 1.8 billion in senior unsecured bonds (private placements), bonded loans
- EUR 1.2 billion in covered bonds (public and private placements), and
- EUR 0.1 billion in EIB funding

The remaining short-term funding requirement can be met, if need arises, through the utilisation of eligible assets. Based on the funding structure described above, there was no need to raise funding in the capital market in 2015. Including the large portfolio of eligible assets, KA had a liquidity reserve of EUR 1.0 billion as at 31 December 2015.

The structure of liabilities is as follows:

Table: Liabilities 31-12-2015 and 01-01-2015

in EUR billion	31-12-2015	01-01-2015
Securitised liabilities	2.5	2.4
Amounts owed to customers	0.4	0.4
Amounts owed to banks	0.5	1.2

Public-sector covered bonds / Cover pool

As at 31 December 2015, KA had a well-diversified cover pool with a nominal value of EUR 1.6 billion. At the same time, public-sector covered bonds in a nominal amount of approx. EUR 1.2 billion were outstanding, comprising mainly publicly placed, CHF-denominated covered bonds. As at 31 December 2015, the cover pool mainly included assets from Austria (89%), Switzerland (5%) and Germany (5%); 74% of the cover pool is rated AAA/AA; a mere 11% of the assets in the cover pool have a rating below A.

Within the framework of the rating of its covered bonds, KA Old had agreed with Moody's Investors Service (Moody's) on 27 January 2011 ("over-collateralisation agreement") that it would maintain a certain level of over-collateralisation (nominal over-collateralisation of 28%). The over-collateralisation agreement, which was ceded to KA for the covered bonds transferred to it on 26 September 2015 through the demerger of KA Old, was terminated by KA on 2 October 2015, as provided for in the agreement. KA thus exercised its right to terminate the agreement in the event of a demerger, observing the three-month period of notice. In its ad-hoc disclosure published on 2 October 2015, KA announced its intention to maintain a voluntary level of over-collateralisation of 10% from 2 January 2016.

Rating

KA mandated the DBRS rating agency to rate KA's unsecured debt issues. On 30 September 2015, DBRS published a long-term rating of BBB (low) and a short-term rating of R-2 (mid) for KA.

For covered bonds, the rating relationship that had existed between KA Old and Moody's was continued by KA. Following the termination of the nominal over-collateralisation of 28% and the maintenance of a voluntary nominal over-collateralisation in the range of 10% of the redemption amount of the covered bank bonds in circulation, communicated through the ad-hoc disclosure of 2 October 2015, Moody's published its covered bond rating of Baa3 on 4 February 2016.

All KA ratings have a stable outlook.

Income position

The 2015 result, as shown in the financial statements prepared in accordance with the Austrian Commercial Code/Austrian Banking Act (UGB/BWG) in compliance with regulatory requirements, corresponds to the reporting period from 1 January 2015 to 31 December 2015; i.e. accounting in accordance with the Austrian Commercial Code covers the data from 1 January 2015. On this basis, KA reports a profit on ordinary activities (UGB/BWG) of EUR 35.1 million. Taking into account the appropriation of EUR 15 million to the "fund for general banking risks" pursuant to § 57 (3) BWG, the profit for the year after tax amounts to EUR 18.3 million, which corresponds to the net profit shown in the separate financial statements in accordance with UGB/BWG.

The material income and expense items (in accordance with UGB/BWG) are as follows:

- *Net interest income*
  Net interest income for the business year 2015 in accordance with UGB amounted to EUR 42.3 million, resulting from the asset portfolio of EUR 3.3 billion and debt instruments issued to raise funding, both taken over through the demerger; the figures show that the portfolio generates stable earnings.

- *Net fee and commission income*
  KA's net fee and commission income is slightly negative at EUR -0.1 million; fee and commission income from the lending business and other services (primarily consultancy services) of EUR 0.3 million is booked against fee and commission expenses, primarily from the securities business, of EUR -0.4 million. Unlike the consolidated financial statements according to IFRS, the separate financial statements of KA prepared in accordance with the Austrian Commercial Code do not comprise the gross revenues of Kommunalkredit Public Consulting (KPC).

- *Dividend income*
  Dividend income in the amount of EUR 0.5 million comprises dividends paid out by Kommunalkredit Public Consulting in the amount of EUR 0.3 million and by Kommunalkredit Beteiligungs- und Immobilien GmbH in the amount of EUR 0.2 million.

- *General administrative expenses*
  General administrative expenses, before services charged to KF and KPC under the SLA, amounted to EUR -30.6 million. The total comprises personnel expenses of EUR -19.6 million and other administrative expenses of EUR -11.0 million. Income from personnel and other administrative services charged to KF and KPC, recognised in other operating income, amounted to EUR 12.0 million. The resulting net amount of general administrative expenses after services charged to other entities amounted to EUR -18.5 million.

- *Other operating income and expenses*
  Other operating income in the amount of EUR 12.8 million included, in particular, the aforementioned income from personnel and other administrative services charged to KF and KPC in the amount of EUR 12.0 million. Other operating expenses of EUR -1.0 million exclusively include the stability tax payable by KA since the transfer of ownership as of 28 September 2015.

- *Loan impairment and net valuation result*
  KA's net result of loan impairment and valuation (without the change in provisions pursuant to § 57 (3) BWG "Fund for general banking risks") totalled EUR 11.4 million in 2015. It included the following material components:

  - EUR 8.7 million from the sale of derivatives in connection with the exercise of rights to call own issues
  - EUR 2.9 million from the buy-back of own issues

- *General risk provisions pursuant to § 57 (3) BWG*
  Given the positive development of business in 2015, an amount of EUR 15.0 million was appropriated to risk provisions pursuant to § 57 (3) BWG; the amount appropriated was recognised in extraordinary expenses.

Based on the net profit of EUR 18.3 million reported in the separate financial statements prepared in accordance with UGB/BWG, the Executive Board will propose to the Shareholders' Meeting that a dividend of EUR 8.0 million be paid out and the balance of EUR 10.3 million be carried forward to new account.

NON-FINANCIAL PERFORMANCE INDICATORS

Personnel

Within the framework of the demerger, Kommunalkredit Austria AG (KA) took over the entire business organisation of KA Old, including all its employees.

As at 31 December 2015, KA employed 165 FTEs (full time equivalents, including Executive Board). Fifteen of these employees of KA worked exclusively for KF, while the other employees of KA also provided operational services for KA Finanz AG (KF) under a service agreement (SA) and a service level agreement (SLA). Another 98 persons were employed with Kommunalkredit Public Consulting GmbH (KPC) as at 31 December 2015. Across all fully consolidated subsidiaries, the headcount of the KA Group, including the Executive Board, was 263 FTEs as at 31 December 2015.

46% of the employees of KA are women. The percentage of university graduates remains high at 60% (108 persons in total, 35 of whom are women and 73 men). As at 31 December 2015, 10 women and three men were on parental leave. In the course of 2015, two men were on paternity leave and one man took advantage of a provision introduced in the collective bargaining agreement as of 1 July 2011, which allows new fathers to stay home for one month after the baby's birth. Of the 34 executives, 9 (26%) are women. The average age of employees is 40; the average length of service with KA and/or KA Old is nine years.

The remuneration policy and practice of KA meet the legal requirements for variable remuneration in banks pursuant to § 39b of the Austrian Banking Act. The Supervisory Board has installed a remuneration committee. The principles of the bank's remuneration policy and practice are described in the Disclosure Report pursuant to Art.450 CRR.

Communication

In the course of 2015, KA's communication measures served to maintain open and regular contacts with Kommunalkredit's clients, investors, employees and other stakeholders, especially with a view to the ongoing privatisation process.

As an infrastructure specialist, KA – newly incorporated after the demerger of KA Old as of 26 September 2015 – constitutes an essential link between project sponsors in need of structuring and financing services on the one hand, and institutional investors (insurance companies, mutual funds, etc.) looking for investment options on the other. This positioning was maintained consistently throughout the year. Based on its clear strategic orientation and its expertise gained over many years, KA continues to exercise its function as a knowledge platform in matters relating to municipal infrastructure. Some of the major communication initiatives are summarised below.

- *Municipal Summer Symposium*
  As a regular feature of the municipal calendar of events, the annual "Municipal Summer Symposium", organised in cooperation with the Association of Austrian Municipalities, took place for the tenth time in 2015. Devoted to the theme of "Rural Regions – Strategies and Challenges", the event brought over 250 municipal representatives to Bad Aussee for a discussion with politicians and experts in plenary sessions and workshops on strategies to improve the economic situation of rural communities. The prerequisites and entrepreneurial instruments needed to attract business and industry to a particular location and to boost the economic development of countries, regions and municipalities were discussed intensively. KA will continue to support this important event.

- *Municipal Dialogue*
  Within the framework of the "Municipal Dialogue" series, KA invites experts and renowned representatives of the business community and academia from Austria and abroad to reflect on and discuss municipal issues going forward, mainly in the field of infrastructure, from the viewpoints of theory, economic policy and practice. In 2015, an event on "Project Structures, Project Bonds & Co: New Approaches to Infrastructure Finance" was organised in cooperation with the Federal Economic Chamber. Various financing options for the implementation of infrastructure projects are available to the public sector. Financing infrastructure projects via project structures is an alternative to conventional procurement.

- *Public breakfast / Public brunch*
  The well-established "Public Breakfast" series of business information events, which is organised in cooperation with PwC, was also continued by KA. Public-sector decision makers are invited to discuss topical public finance issues. The main topics discussed in 2015 included IT for local authorities, broadband guidelines for 2020, and the corresponding support policies of the Federal Ministry of Transport, Innovation and Technology. KA continued the series by organising information events on "Fiscal changes under the 2015 Non-Profit Organisations Act" and "Infrastructure as a new asset class: what has changed?"

- *Participation in the Congresses of Austrian Cities and Municipalities and in specialised events*
  As a specialist in infrastructure financing and consulting, KA Old actively participated in the two most important municipal events of the year – the Congress of Austrian Cities and Towns and the Congress of Austrian Municipalities. Moreover, representatives of KA Old and/or KA and KPC contributed their know-how to numerous specialised events in Austria and abroad.

- *Municipal Finance Report*
  The 2015 Municipal Finance Report (for the financial year 2014) was published in December 2015. It offers a detailed overview of the income and expenditure situation of all Austrian municipalities and local authorities. It analyses the most important results of the financial year 2014 and contains forecasts for the coming years. The Municipal Finance Report is published in cooperation with the Association of Austrian Municipalities and the Association of Austrian Cities and Towns with support from Statistics Austria. Moreover, www.kommunalnet.at, the common Intranet platform of the Association of Austrian Municipalities, its provincial units and Kommunalkredit, serves as a financial benchmarking tool for all Austrian municipalities, based on the data from the Municipal Finance Report. The Municipal Finance Report can be downloaded at https://www.kommunalkredit.at/Gemeindefinanzbericht2015.

- *Municipal Finance online*
  As an add-on to and extension of the Municipal Finance Report, the transparency platform www.gemeindefinanzen.at went online at the end of December 2015. This database is accessible to all citizens who want to gain an insight into the financial situation of the Austrian local authorities. The financial data of each municipality for the past five years (based on data from Statistics Austria) can be retrieved, compared and displayed in a variety of ways.

- *Studies*
  At the beginning of 2015, the study on “Investing in Renewable Energy 2015”, produced by KA Old in cooperation with SCWP Schindhelm and greenpilot gmbh, was updated and published in a new edition. The study provides a brief and up-to-date overview of the conditions for investments in wind-power, solar-power and hydro-power plants in Austria, Germany and the CEE region, guiding potential investors through the maze of governmental regulations and tariff systems. The study can be downloaded at https://www.kommunalkredit.at/DE/Info-Corner/Studien/Erneuerbare%20Energie/STUDIE+INVESTIEREN+IN+ERNEUERBARE+ENERGIE.aspx.

- *RFG Journal and series of publications*
  The specialised quarterly magazine “RFG – Recht und Finanzen für Gemeinden” (Manz Publishing House) provides information for local authorities on topics of municipal law, municipal tax law and municipal finance. KA is co-editor of the journal.

- *Investor relations*
  In the year under review, communication with investors, analysts and business partners focused, above all, on the privatisation of the bank. The quantitative and qualitative implications of the demerger and the privatisation, as well the orientation of KA’s business model, were intensively discussed in personal conversations and telephone conferences.

- *Staff information*
  Regular staff information events, in combination with timely information disseminated via the Intranet, have proved to be successful means of internal communication. The range of measures taken was supplemented by the activities of the sustainability team and the Staff Council.

BRANCH OFFICES

The Kommunalkredit Group has no branch offices.

RESEARCH AND DEVELOPMENT

Given the sector in which the company operates, statements on research and development do not apply.

SIGNIFICANT EVENTS AFTER THE BALANCE-SHEET DATE

Executive Board

As planned, Jörn Engelmann joined the Executive Board of KA as Chief Risk Officer (CRO) as of 1 February 2016. Jörn Engelmann looks back on many years of experience in risk management; his most recent position before his appointment to the KA Executive Board was Head of Credit Risk Management (back office) at Berenberg Bank.

RISK MANAGEMENT

Risk management strategies and procedures

The instruments used by KA for the complete identification of the risk drivers of the business model are risk assessments and a risk map. Within the framework of risk assessment, the main types of risk for the bank are identified through a structured analytical process. Based on the results of the assessment, a risk map is drawn up for the bank as a whole, which contains a definition of risks, broken down by risk type, and assesses the individual risks in terms of significance, risk transparency, control frequency and limitation. The risk map serves to establish a uniform understanding of the risk concept and a uniform view of risk priorities, and to review the system for completeness and identify potential control gaps. The types of risk covered are those which are classified as highly relevant, but are characterised by low risk transparency and a low control frequency and are therefore given top priority in respect of further development needs. This analysis is performed annually.

For the main types of risk (mainly liquidity risk, credit default risk, market risk), the economic capital required to cover the risk is calculated according to recognised internal bank management procedures. In addition, a risk buffer is provided to cover risks that cannot be adequately quantified (mainly operational risk, reputational risk, legal risks and other risks) as well as potential model inaccuracies.

Within the framework of the risk strategy, the Executive Board specifies the principles for the adequate management and limitation of the main risk types and limits the economic capital allocated to each risk type and field of business and for the bank as a whole in accordance with the risk-carrying capacity (ICAAP – Internal Capital Adequacy Assessment Process and/or ILAAP – Internal Liquidity Adequacy Assessment Process) and the risk appetite of the bank. Monthly reviews are performed to check the level of utilisation of the risk budget for the entire bank and to verify that it is not overrun. Counterparty limits as well as the operational risk limits for the trading book and the open FX position are reviewed on a daily basis. KA’s business operations do not include any trading activities.

Organisational structure of risk management and risk monitoring

The overall responsibility for the ICAAP lies with the Executive Board. The risk-policy principles and the risk strategy are derived from KA's business policy strategy. The Executive Board also decides on the risk management procedures to be applied and regularly informs the Supervisory Board and/or its committees (above all the Risk Committee, the Audit Committee and the Credit Committee) on KA's risk position.

Pursuant to § 39d of the Austrian Banking Act, a Risk Committee has been set up within the Supervisory Board. The committee's mandates include, in particular, advising the management on the current and future risk appetite and risk strategy of the bank, monitoring the implementation of this risk strategy in connection with the management, monitoring and limitation of risks, and monitoring of the capital position and the liquidity position of the bank.

KA has established an organisational structure for risk management, which clearly defines and sets out the tasks, competences and responsibilities within the framework of the risk management process. Risk-taking organisational units (front office) are clearly separated from organisational units in charge of the monitoring and communication of risks (back office) at all levels below the Executive Board. The risk monitoring function is independent of the market and exercised by the credit risk management and risk controlling units in close coordination and on the basis of clearly defined spheres of responsibility. Thus, the organisational structure fully meets the regulatory requirement of separation between front-office and back-office functions.

Risks are managed and monitored by the Risk Management Committee (RMC), the Asset-Liability Committee (ALCO) and the Credit Committee.

The Risk Management Committee (RMC) constitutes the central element of the comprehensive risk management process, providing information to the Executive Board on the overall risk position of the bank on a monthly basis. In organisational terms, the risk controlling unit is in charge of this committee. The RMC is responsible for the establishment of guidelines for the implementation of the risk strategy and is in charge of limit setting (except country and counterparty limits) and limit monitoring by type of risk.

The weekly Asset Liability Committee (ALCO) supports the operational management of market and liquidity risks. In organisational terms, the risk controlling unit is in charge of this committee. At its meetings, the committee evaluates the market situation, monitors the limits and discusses the management of interest rate and liquidity risks. In addition, a detailed daily liquidity monitoring process is in place.

The weekly Credit Committee (CC) meeting is the central element of the credit approval process and the continuous portfolio and single-name review process. In organisational terms, the credit risk unit is responsible for this committee (analysis and assessment of single-name risks, casting of a second vote on credit approval and/or review, management of single-name risks and/or other risks, work-out cases, qualitative portfolio analyses and rating).

The controlling unit is responsible for the quantification of risks and the risk-carrying capacity and for the performance of stress tests.

The risk controlling and credit risk management units perform the tasks of a risk management department pursuant to § 39(5) of the Austrian Banking Act; they are independent of KA's operational business and have direct access to the Executive Board of KA.

The objective of asset and liability management is to optimise the use of capital resources in terms of risk and return within the framework of the bank's risk appetite and risk-carrying capacity.

The strategies, methods, reporting rules and organisational responsibilities for the management of risks are documented in writing in the ICAAP manual, in risk management manuals for each type of risk and in organisational guidelines, which can be downloaded via the Intranet in their current versions at any time by all staff members concerned.

The following types of risk are identified and monitored at KA:

- <u>Credit risk</u>
  Default and counterparty risk
  Concentration risk
  Rating migration risk
  Country risk
  Settlement risk
  Investment risk

- <u>Liquidity risk</u>
  Structural liquidity risk
  Funding risk
  Market liquidity risk

- <u>Market risk</u>
  Interest rate risk – banking book
  Interest rate risk – trading book
  Basis spread risk
  FX risk
  Commodity risk
  Credit spread risk
  Equity risk
  Option price risk
  OIS risk

- <u>Operational risk</u>
  Operational risk
  Legal risk
  Residual risk from credit risk mitigation techniques
  Risk from service level agreement (SLA) with KA Finanz AG

- <u>Funding risk</u>
  BCVA risk*
  Replacement risk through rating trigger
  **Comprises CVA risk and DVA risk. As the DVA portion accounts for a larger part of the BCVA risk, the latter is allocated entirely to the funding risk.*

- Other risks
    - Strategic risk
    - Risk from demerger liability
    - Equity risk
    - Reputational risk
    - Business risk
    - Excessive debt risk
    - Risk of money laundering and terrorism financing
    - Systemic risk from a financial institution
    - Macroeconomic risk
    - Placement and syndication risk

A formalised and structured approval and implementation procedure has been set up for the introduction of new fields of business, new markets or new products, ensuring that these are adequately reflected in all areas of processing, risk management and reporting, accounting and financial reporting.

Risk-policy guidelines for risk management

The guidelines followed at KA are based on the following risk management principles:

- The limitation of risks at KA is commensurate with the bank's earning strength and its equity base.
- The expertise of KA staff and the systems in place must correspond to the complexity of the business model and have to be developed together with the core fields of business.
- In terms of organisational structure, a clear separation between risk-taking on the one hand and risk calculation and/or risk management on the other hand is essential. Conflicts of interest for staff members are avoided through a clear separation of the different fields of activity.
- Risk management is an integral component of the business process and is based on recognised methods of risk measurement, monitoring and control. For credit and market risks, this principle is applied on an economic basis (value-at-risk approach).
- All measurable risks are subject to a limit structure; regular monitoring of the observance of limits on the basis of transparent and uniform principles is obligatory. An escalation process applies in the event of limits being exceeded. A capital buffer is kept for risks that have been identified but are not / not yet sufficiently measurable.
- The value-at-risk calculations have to be validated through back-testing and/or model tests.
- The risk measurement results have to be subjected to regular stress testing and taken into account in determining the risk-bearing capacity of the credit institution. The results of stress testing have to be related to a limit and/or a hedging target.
- KA's system of risk management provides for comprehensive, regular and standardised risk reporting, with reports on the risk position of KA being produced at least once a month and, if necessary, supplemented by ad-hoc risk reports.
- An integrated IT infrastructure, as a prerequisite for the systematic reduction of risks from interfaces and data inconsistencies and as a basis for efficient reporting and data processing processes, constitutes an essential organisational and risk-policy objective.

Securing minimum capital adequacy

ICAAP (internal capital adequacy assessment process) is a core element of Pillar 2 of the Basel Accord and comprises all procedures and measures applied by a bank to secure the appropriate identification, measurement and limitation of risks, a level of capitalisation in line with the risk profile of the business model, and the use and continuous further development of suitable risk management systems.

KA uses the method of risk-carrying-capacity analysis for the quantitative assessment of its capital adequacy. Depending on the target pursued, three different perspectives may be applied:

- Regulatory perspective (regulatory control loop)

Target: Securing compliance with regulatory capital adequacy requirements
Regulatory capital requirements are compared with regulatory risk coverage capital (total own funds); a free capital buffer is defined.
Risk status: As at 31-12-2015, the total capital ratio of KA, after profit and dividend, was 34.1%; the tier-1 ratio was 25.6%. As of 1 January 2016, the minimum requirements to be met by KA are a total capital ratio of 8.625% and a tier-1 ratio of 6.625%.

- Liquidation perspective (economic control loop)

Target: The main focus is on the protection of creditors and on securing a level of capitalisation to ensure that, in the event of liquidation of the company, all lenders can be satisfied with a defined probability.
Economic capital requirements (internal risk measurement) are compared with the company’s own funds, adjusted for hidden burdens and reserves. A confidence level of 99.95% is used in determining the economic risk.
Risk status: As at 31-12-2015, the economic risks correspond to 23.9% of the risk-carrying capacity, the **risk buffer** being **76.1%**.

- Going concern perspective (going concern control loop)

Target: If the risks materialise, the survival of the bank as a going concern without additional equity is to be secured with a certain degree of probability. The defined level of protection from risk under the going-concern perspective is a minimum tier-1 ratio of 13%.
All risks impacting on profit and loss must be covered by the budgeted annual result, realisable reserves and the “free tier-1” capital. Free tier-1 is the tier-1 portion over and above the capital required to secure a tier-1 ratio of 13%. Risk coverage capacity is broken down into primary and secondary coverage capacity, always considering possible realisation and external effects; early warning levels have been introduced. A confidence level of 95% is used in determining the economic risk.
Risk status: As at 31-12-2015, the economic risks correspond to 48.4% of the risk-carrying capacity, the **risk buffer** being **51.6%**.

To cover other, non-quantifiable risks as well as model inaccuracies, an adequate risk buffer is provided for.

Moreover, stress tests are performed every six months to test the robustness of the business model and to ensure capital adequacy. For this purpose, two different economic scenarios (general recession scenario and KA-portfolio-specific stress) are defined and their impact on the bank’s risk coverage capacity is defined. In addition to the stressed risk coverage capacity, a stressed three-year budget is drawn up for each scenario in order to test the stability of the business model over time. In addition to the economic stress tests, reverse stress tests are performed. This is a regulatory requirement intended to show the extent to which parameters and risks can be stressed before regulatory or internal minimum requirements can no longer be met.

Credit risk management

Credit risk is the risk of financial losses arising from a counterparty not meeting its contractual payment obligations.

Personal forms of collateral (sureties and guarantees) play an important role in securing credit exposures. If personal collateral is available, the exposure can be counted towards the guarantor, depending on the assessment of the risk, and included in the portfolio model and the limit system. Financial collateral include netting arrangements and cash collateral that reduce the counterparty risk. In that case, the exposure is transferred to the guarantor and included in the portfolio model and the limit system. Financial collateral received reduces the existing exposure.

Based on the current CRR standardised approach for all classes of receivables, KA primarily uses external ratings. If no external ratings are available, ratings are derived from internal scoring and/or rating models.

Every active customer is assigned an external or internal rating, which is updated at least once a year. Thus, assets on the banking book and off-balance-sheet transactions can be classified fully according to probability of default and collateralisation. On the basis of an internal rating scale (master scale), the probabilities of default are grouped in categories, to which external ratings can be assigned. To ensure a uniform determination of the probabilities of default, all internal and external rating procedures and/or ratings have to be calibrated against the master scale. The discriminatory power of the rating procedures and their ability to forecast defaults are checked regularly and adjusted, if necessary.

Unexpected loss

Monthly credit VaR calculations are performed to quantify the unexpected loss and to determine the economic capital required within the framework of risk-carrying-capacity analyses. KA uses a default model based on the CreditRisk+ approach to quantify the risk of unexpected default for credit risks. To calculate the credit VaR, rating-dependent one-year probabilities of default (PD) as well as regional and sector-specific loss ratios (LGD) are used. These parameters are reviewed and updated at least once a year and documented in a validation report.

From the **liquidation perspective**, the potential unexpected loss from credit defaults for a holding period of one year as at 31-12-2015 amounted to 6.4% relative to the economic risk coverage capacity.

From the **going-concern perspective**, the unexpected future loss from credit defaults for a holding period of one year as at 31-12-2015 amounted to 15.4% relative to the economic risk coverage capacity.

The model used is based on statistical methods and assumptions. It should be pointed out, however, that statistically well-founded conclusions drawn from the past do not always apply to future developments. To take account of this fact, the model calculations are supplemented by additional, event-triggered analyses and regular stress tests, and adequate risk buffers are maintained.

Breakdown by rating

The breakdown of credit exposure by rating shows that the exposure is concentrated in the top rating categories: as at 31 December 2015, 60.5% of the exposure was rated AAA/AA, 93.6% was rated investment grade. Overall, the KA portfolio has an excellent asset quality; the exposure-weighted average rating of the total exposure is A+ (according to Standard & Poor's rating scale).

Table: Breakdown of credit exposure by rating) as at 31 December 2015*

31-12-2015 in EUR million	Exposure	Proportion	of which securities	of which guarantees	of which loans
AAA	60	1.8 %	0	0	60
AA	1,918	58.6 %	97	2	1,808
A	694	21.2 %	108	0	444
BBB	388	11.9 %	62	1	256
BB	18	0.6 %	0	0	18
B	191	5.9 %	0	0	191
CCC	0	0.0 %	0	0	0
D	0	0.0 %	0	0	0
non-rated	0	0.0 %	0	0	0
Total	**3,270**	**100 %**	**267**	**3**	**2,777**

*) Breakdown of exposure according to S&P rating scale

Concentration risk

Risk concentrations are monitored in the process of loan origination and in the course of the monthly credit risk reports submitted to the RMC and shown in reports to the Credit Committee and the Supervisory Board. The total portfolio is broken down according to different parameters (breakdown by country, region, top 20/100 groups of related customers, rating, sector); limits are set by top risk drivers, sectors and geographic regions. In addition, risk concentrations in individual sub-portfolios are identified by the credit risk management unit, which performs sub-portfolio analyses. Portfolio analyses comprise correlating regional and/or sectorial risks or risk concentrations and permit the early detection, limitation and management of risk portfolios under current and future conditions. Depending on the risk assessment, reviews are performed at different intervals, but at least once a year. Event-triggered portfolio reviews may also be required on an ad-hoc basis and between the scheduled intervals.

The exposure of the top-20 "group of related customers" comprises an exposure of EUR 1.1 billion to the Republic of Austria and the Austrian provinces, accounting for 57.5% of the total exposure. It includes broadly diversified mortgage loans in a total amount of EUR 160 million that are guaranteed by the Austrian provinces concerned. Excluding Austria and the Austrian provinces, the exposure of the top-20 "group of related customers" comprises 23.5% of the total exposure.

Country transfer risk

KA defines country risk as a political transfer risk. Credit exposures are recognised in the respective country of establishment, not in the country of the parent. The country risk of KA is reported monthly to the RMC and at least annually to the Credit Committee of the Supervisory Board. For each country, information on the country rating, exposure by product type, expected and unexpected loss, and limit utilisation is monitored.

Geographically, most of the exposure is accounted for by EU Member States (EU, incl. Austria, 96.7%). The exposure to non-EU Europe, i.e. 3% of the total exposure, is accounted for entirely by Switzerland. As at 31 December 2015, KA had no exposure to Russia and Ukraine.

Table: Breakdown of credit exposure by region as at 31-12-2015

31-12-2015 in EUR million	Exposure	Proportion	of which securities	of which guarantees	of which loans
Austria	2,533	77.5%	97	3	2,370
EU-28 (European Union excl. Austria)	630	19.3%	170	0	309
of which EU-18 (euro area excl. Austria)	*324*	*9.9%*	*10*	*0*	*212*
Non-EU Europe	99	3.0%	0	0	98
Other	8	0.2%	0	0	0
Total	**3,270**	**100.0%**	**267**	**3**	**2,777**

Exposure to sovereigns and territorial authorities as at 31 December 2015

Direct exposures to sovereigns and territorial authorities as well as exposures guaranteed by sovereigns in the countries of the euro area (EU-18) are broken down as follows:

31-12-2015 in EUR million	Risk-relevant exposure	of which sovereign	of which territorial authority	of which government-guaranteed
Austria	1,866.2	2.9	1,863.4	2.2
Germany	72.5	21.6	51.0	21.6
Spain *)	10.3	10.3	0.0	0.0

*) country under EU support measures

EUR 10.3 million of the total exposure to the EU-18 is accounted for by countries under EU support measures. Except for Spain, there is no further exposure to the PIGS countries.

Exposure to Austrian provinces as at 31 December 2015

Of KA's total exposure to Austria in a volume of EUR 2,532.7 million, the following exposures are to Austrian provinces and/or provincial entities guaranteed by provincial governments:

31-12-2015 in EUR Mio.	Direct exposure	Exposure guaranteed by provincial governments	Total exposure
Province of Upper Austria	12.0	258.9	270.9
Province of Carinthia	0.0	176.0	176.0
Province of Lower Austria	33.9	131.3	165.2
Province of Styria	0.0	151.1	151.1
Province of Burgenland	0.0	103.3	103.3
City of Vienna	24.7	0.0	24.7
Total	**70.6**	**820.6**	**891.2**

The exposure to the Province of Carinthia exclusively refers to financing transactions with entities divested from the Province of Carinthia with redeeming structures and regular debt service (maturities 2017 to 2034). The total exposure is covered by guarantees (§ 880a of the Code of Civil Law) of the Province of Carinthia.

In addition to the exposures listed in the above table, KA holds housing loans of Austrian provinces secured by mortgages in a total volume of EUR 160.1 million, which are guaranteed by the provinces concerned (Burgenland 105.3 million; Upper Austria EUR 54.8 million).

Portfolio quality

Given the good ratings (weighted average rating of the total portfolio A+) and the degree of diversification, the portfolio quality is sound. This is also reflected in the non-performing-loan ratio of 0.00% as at 31 December 2015. KA had no financial assets (receivables) on its books that were more than 90 days past due, nor any substantial payment arrears of between 0 and 90 days.

Loan loss provisions

The portfolio is reviewed regularly for objective indications of impairments of customer exposures or exposures to groups of related customers. Assessments of impairment are performed in the course of the annual rating updates, the annual rating review or on an event-triggered basis. Impairments to be booked for defaulting loans are determined by the risk management unit, subject to approval by the Executive Board.

Counterparties with increased credit risk

A multi-stage risk control process is applied to identify, monitor and manage counterparties with increased credit risks; all exposures/counterparties are classified in four risk classes.

- Risk class 0: Regular business
- Risk class 1: Intensive management / performing
- Risk class 2: Workout / restructuring
- Risk class 3: Workout / resolution

As at 31 December 2015, the exposure (nominal value) in risk class 1 (intensive management / performing) amounted to EUR 194.9 million. None of KA's exposures were classified as risk classes 2 and 3.

The credit risk management unit continuously updates the list of counterparties with increased credit risk and submits monthly reports to the Credit Committee meeting, which then decides on the measures to be taken. Moreover, quarterly reports on counterparties at increased risk of default are submitted to the Executive Board and the Supervisory Board.

Investment risk

Given the nature of the participations held, the investment risk as a component of credit risk is of minor importance. As at 31 December 2015, the book value of investments in associates (at equity) amounted to EUR 2.3 million; the book value of investments in assets available for sale amounted to EUR 3.0 million.

Counterparty default risk from derivatives, repo transactions and securities transactions

Legally binding netting arrangements for derivatives and repo transactions (close-out netting) have been concluded with all counterparties. For derivatives, credit support agreements and/or collateral annexes to framework contracts providing for daily collateral margining have been concluded with almost all bank counterparties.

The counterparty default risk from derivatives is calculated as a credit valuation adjustment (CVA) according to IFRS 13. KA calculates CVA and DVA (debt valuation adjustment), summarised as BCVA (bilateral CVA), on the basis of the potential exposure method by means of Monte Carlo simulations. The risk of BCVA fluctuations (BCVA risk) is determined by means of a VaR-based approach. As the DVA portion accounts for the larger part of the BCVA risk, the latter is allocated entirely to the funding risk.

Repo transactions are cleared in the form of genuine repos via platforms with daily margining. If a counterparty risk remains from the haircut in repo transactions made as cash taker, this risk is allocated to the counterparty and considered in the exposure calculation.

Securities transactions are cleared exclusively on the basis of “delivery against payment” via Euroclear or Clearstream.

Given the clearing principles outlined above, the counterparty risk from derivatives, repo transactions and securities transactions is immaterial.

Liquidity risk management

Based on the ILAAP (Internal Liquidity Adequacy Assessment Process) definition, KA distinguishes between the structural liquidity risk, the funding risk and the market liquidity risk. The structural liquidity risk (liquidity risk in the narrow sense of the term) arises if funding for asset portfolios cannot be secured according to the maturity schedules. The funding risk is determined by the degree of diversification of funding sources and the risk of potentially restricted access to certain main funding markets under stressed market conditions. The market liquidity risk consists in a possible increase of liquidity costs due to bank-specific or idiosyncratic factors (liability-side market liquidity risk), on the one hand, and the necessary acceptance of discounts or time delays in the realisation of a position due to its relative size and/or the absence of a liquid market (asset-side market liquidity risk).

KA distinguishes between short-term (up to one year) and long-term (more than one year) liquidity management.

Central elements of liquidity risk management include the following:
- Analysis of the liquidity position
- Reporting to the Executive Board and the Supervisory Board
- Determination of the medium- and long-term funding requirements, including a liquidity plan
- Scenario-based dynamic liquidity forecast and liquidity coverage ratio (LCR) simulation
- Management and further development of the liquidity model
- Regular review and setting of internal transfer prices
- Securing of operational liquidity by defining time-to-wall hedging targets for the base case and the stress case. Thus, the survival of the bank for the defined minimum period is secured even without access to money and capital markets.
- Internal limitation of maturity transformation by setting limits on structural liquidity gaps

- Regulatory limitation of maturity transformation through the liquidity coverage ratio and the net stable funding ratio
- A liquidity emergency plan with clearly defined responsibilities, reporting requirements and measures is in place in case a liquidity crisis occurs.

Operational liquidity risk (< 1 year)

For the purposes of short-term liquidity management, the management uses short and medium term liquidity scenarios drawn up on a daily basis. These scenarios include not only contractual cash flows, but also expected cash flows from new issues, the termination of transactions, cash-out from new transactions, repo prolongations and liquidity demand for appropriations to cash collateral (under credit support agreements/ISDA arrangements). The resulting liquidity gaps are managed daily in the short-term liquidity scenario, subsequently to be followed by monthly management.

The following table shows the expected liquidity gaps after the measures planned, the free liquidity reserve, and the net liquidity position resulting from the liquidity gap and the liquidity reserve:

in EUR million as at 31-12-2015	Expected liquidity gap	Available liquidity reserve	Liquidity position
Up to 1 month	27	948	975
More than 1 month up to 3 months	85	-16	68
More than 3 months up to 1 year	-275	-67	-342
Total	**-164**	**865**	**701**

KA has an excellent liquidity position. The capital-weighted residual maturity of liabilities exceeds that of assets. Moreover, KA has a large portfolio of free assets eligible as collateral.

The daily management of cash collateral for derivative contracts practiced at KA reduces the credit risk and allows faster generation of liquidity in the event of market-value-related margin calls on counterparties.

Structural liquidity risk (>= 1 year)

For the purposes of liquidity management and the structural analysis of its liquidity risk position, KA analyses the expected capital flows over the entire term of all on-balance and off-balance transactions. Overhangs from capital inflows and capital pay-outs are monitored by maturity range and at cumulative level and provide the basis for strategic liquidity management.

Organisation and reporting

A liquidity forecast, including an assessment of additional liquidity available, is drawn up every other day, reported regularly to the Executive Board member in charge and submitted monthly to the full Executive Board within the framework of the RMC. In addition, weekly ALCO meetings on operational and strategic liquidity management are held. The long-term liquidity risk is monitored and managed by the monthly RMC.

Emergency plan

The bank's liquidity emergency plan specifies the tasks and the composition of emergency units to be set up in a crisis, the internal and external communication channels and, if necessary, the measures to be taken. The emergency plan permits efficient liquidity management in a market environment in crisis and is activated by clearly defined events and/or early warning indicators. In the event of an emergency, liquidity management is taken over by the emergency unit, which then decides on the specific measures to be taken.

ILAAP

Introduced alongside ICAAP within the framework of Pillar 2 of the Basel Accord, the internal liquidity adequacy assessment process (ILAAP) serves the purpose of safeguarding the adequacy of the bank's own liquidity risk management procedures.

The individual components of ILAAP cover:

- Liquidity risk strategy and tolerance
- Organisation / policies / processes
- Risk measurement and reporting
- Stress testing
- Liquidity ICS framework
- Emergency plan
- Funding plan

All ILAAP components have been fully implemented at KA and form an integral part of the more comprehensive ICAAP, which covers all bank-specific risks, including the liquidity risks in all its forms.

<u>Analysis of financial liabilities</u>

The following table shows the maturities of contractual, non-discounted cash flows from financial liabilities as at 31-12-2015 (net for derivatives, gross for cross currency swaps, positive value for pay-out overhang):

in EUR million as at 31-12-2015	Liabilities at amortised cost	Derivatives designated as hedging instruments	Trading*)
Up to 1 month	67.99	38,78	5.62
More than 1 month up to 3 months	57.46	52,75	6.92
More than 3 months up to 1 year	465.42	15,34	22.59
More than 1 year up to 5 years	1,111.90	69,06	112.73
More than 5 years	1,944.93	29,50	87.87
Total	**3,647.69**	**205,42**	**235.73**

*) *The derivatives are not formally embedded in a micro-hedge as defined in IFRS, but serve for risk management at portfolio level. KA does not engage in any trading activities.*

As at 31-12-2015, the nominal amount of interest-rate and currency swaps was EUR 6.15 billion.

Besides redemptions, the cash flows also comprise interest payments. For liabilities with variable cash flows, future cash flows are determined on the basis of forward rates.

As a matter of principle, the amounts are allocated on the basis of their contractual rather than expected residual maturity. If the date of repayment is at the lender's discretion, the amount is allocated to the maturity range with the earliest possible redemption. Payments that have been pledged but not yet called are included in liabilities at amortised cost.

Market risk management

Interest rate risk

In 2015, the European Banking Authority (EBA) published its “Guidelines on the management of interest rate risk arising from non-trading activities”, which entered into force on 1 January 2016. The guidelines, which are intended for regulators and financial institutions, focus on the identification and hedging of interest rate risks on the banking book. KA’s management of the interest rate risk meets the requirements defined in the guidelines.

For the measurement, management and limitation of interest rate risks from positions not held in the trading book, KA distinguishes between the period-oriented repricing risk and the NPV-oriented risk of changing interest rates.

For the purpose of efficiently managing the interest-rate risk and net interest income, KA uses an analysis and simulation tool (interest rate gap structure by currency, interest rate VaR, sensitivity analyses, simulation trades), which permits the forecast and targeted management of the bank’s interest-rate risk from positions not held in the trading book, the P&L sensitivity of the fair value portfolio according to IFRS, and net interest income for the period. To calculate the interest rate VaR, the variance/co-variance approach with a holding period of 20 trading days and a confidence interval of 95% is used, based on equally weighted historical volatilities and correlations.

KA’s portfolio mainly comprises positions with clearly defined interest rate and capital commitment. As a rule, non-linear risks are completely hedged. Open positions are strictly limited and monitored. There are no private savings deposits that would require modelling of interest rate and capital commitments. Non-linear risks that are not hedged are quantified through a scenario analysis and added to the interest rate VaR. KA uses the fully integrated SAP/SEM-IT system for risk quantification.

For interest rate risk management by the RCM and ALCO, the gap structures, broken down by currency, are analysed and the price sensitivity of the overall position as well as the impact of interest rate changes on the net interest income of the period (repricing risk) are quantified for different scenarios. The repricing risk is measured daily for the main currencies of KA (EUR, USD, CHF, JPY) and communicated to the treasury unit as a basis for risk management.

For risk management purposes, KA differentiates between the following sub-portfolios:

- less-than-twelve-months interest-rate position (short-term ALM)
- more-than-twelve-months interest-rate position (long-term ALM)
- equity investment portfolio (“equity book”)
- IFRS fair value position

An analysis and management tool is used for the daily management of short-term, less-than-twelve-months interest risk positions, which permits the efficient management of the repricing risk by currency.

- Annual net interest income effect from KA’s repricing risk as at 31-12-2015 in million EUR in the event of a parallel rise of short-term interest by +100bp:

EUR	USD	CHF	JPY	Other	**Total**
+1.7	0.0	-3.0	+0.3	0.0	**-1.0**

- NPV risk of interest rate changes in KA’s banking book as at 31-12-2015 in million EUR in the event of a +25bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	**Total**	**Total VAR**
-2.9	-0.4	-1.2	+1.4	-3.4	**-4.3**

- NPV risk of interest rate changes of the IFRS interest-rate risk position carrying through profit or loss in million EUR as at 31-12-2015 in the event of a +25bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	**Total**	**Total VAR**
+3.6	0.0	-1.6	-0.1	0.0	**+1.9**	**-1.6**

Currency risk

The currency risk is the risk of losses in foreign exchange positions caused by an unfavourable change in the exchange rate, the open FX position being the difference between the sum total of asset positions and the sum total of liability positions, including FX derivatives, in a given currency.

To measure the risk, a VaR of the open FX position is determined daily, based on a variance/co-variance approach with a holding period of one trading day and a confidence interval of 99%, using exponentially weighted historical volatilities and correlations.

Except for a small residual position, the open FX position is closed daily. The FX VaR as at 31-12-2015 was EUR 0.007 million.

Spread widening risk

The spread widening risk is the risk of losses in value due to market-related changes in credit spreads.

The credit spread risk on P&L according to IFRS in the event of spreads widening by one basis point (CS01) amounted to EUR -0.5 million as at 31-12-2015, resulting from fair value portfolios against Austrian public borrowers.

Basis spread risk

The basis spread risk is the risk resulting from a change in basis spread, which is factored into the variable interest rate conditions for non-standard reference interest rates and payment frequencies.

Except for residual risks, the basis spread risk is hedged in the individual currencies.

As at 31-12-2015, the basis spread risk in the event of basis spreads widening by 1 basis point was EUR +0.2 million.

Option price risk

The option price risk for KA is the risk of changes in the market values of open option positions.

To measure the option price risk, a scenario matrix is used to determine interest rate shifts (-/+ 50bp), volatility shifts (-/+30%) and combined shifts.

The option price risk in the banking book calculated on the basis of the scenario matrix amounted to EUR -4.3 million as at 31 December 2015. However, the open option price risk in the banking book results almost exclusively from unilateral call rights of KA for own issues (i.e. KA has the right to call). As at 31 December 2015, there were no P&L-relevant option price risks.

Operational risk

KA defines operational risk as the possibility of losses occurring due to the inadequacy or failure of internal processes, people and systems or as a result of external events. The legal risk is part of the operational risk. External events classified as pure credit risk, market risk, liquidity risk or other types of risk with no operational background are not covered by this definition. Operational risk management (ORM) is intended to generate added value for the bank through the ORM process.

An operational risk officer and a deputy have been appointed. Operational risk correspondents (ORC), appointed by the management in consultation with the operational risk officer, act as points of contact for the individual units and support the ORM process.

An operational default database as well as risk and control self-assessments are the instruments available for the management of operational risk. The operational default database represents a retrospective view, i.e. realised gains/losses from operational events in the past are recorded in the database and cleared for further processing by the line managers in charge. Operational risk and control self-assessments represent a prospective, future-oriented view. Risks are identified and their severity is subjectively assessed. In KA these assessments are performed as coached self-assessments, i.e. individual risks are assessed and evaluated by the units concerned. The entries in the operational default database serve as input and provide feedback for the revaluation of risks. The management is informed about operational risks at the monthly RMS meetings and on a quarterly basis at the Executive Board meetings.

KA uses the standardised approach to quantify its capital adequacy requirements. The capital held on this basis is significantly in excess of actual losses suffered in the past.

Business Continuity Management

Business continuity management (BCM) ensures the adequate, comprehensive and efficient management of business continuity. This includes the elaboration and management of continuity and re-start-up plans as well as the implementation of measures designed to minimise interruptions of critical business processes. This includes the provision of alternative workplaces in the event of KA’s office premises being out of order.

The annual resource assessment was performed, and the resources required in the event of a crisis were established. The annual business impact analysis (BIA), performed within the framework of the resource assessment, served to assess business processes and IT services for their criticality and to verify the time to full restoration of services. The emergency plans were revised at the same time. The annual emergency exercise was performed at the beginning of December. Moreover, the BCM team carried out a survey to test the knowledge of employees regarding BCM.

INTERNAL CONTROL SYSTEM (ICS)

Introduction

The objective of the internal control system (ICS) is to support the management in the implementation of effective and continuously improving internal controls, especially as regards compliance with the relevant legal provisions, the regularity of accounting practices, the reliability of financial reporting and the effectiveness and efficiency of operational processes. The ICS is intended, on the one hand, to ensure compliance with guidelines and regulations and, on the other hand, to create the prerequisites for specific control measures to be applied in key accounting and financial reporting processes. Its primary goals include the correct and transparent disclosure of the assets, the financial position and the income of the company, as well as ensuring compliance with regulatory requirements.

The internal control system of KA comprises five interrelated components: control environment, risk assessment, control measures, information and communication, and supervision.

Control environment

The corporate culture as the overall framework for all management and staff activities represents the fundamental aspect of the control environment. The responsibility (for control) and the scope of action at top management level are defined and/or limited through the establishment of Supervisory Board committees with different function and the adoption of rules of procedure of the Executive Board. Central organisational principles concern the avoidance of conflicts of interest through a strict segregation of front-office and back-office operations, the transparent documentation of core processes and control steps, as well as the consistent implementation of the four-eyes principle.

The internal audit unit independently audits all departments for compliance with the internal rules on a regular basis. The head of the internal audit unit and the compliance officer report directly to the Executive Board and the Supervisory Board.

Risk assessment

KA's risk management is aimed at discovering all identifiable risks and, if necessary, initiating defensive and preventive measures through optimised processes. The risk management system comprises all processes serving to identify, analyse and assess risks. Risks are assessed and monitored by the management. Special attention is paid to risks regarded as material. The internal control measures taken by the units in charge are evaluated on a regular basis.

Control measures

KA has a regulatory system which defines the structures, processes, functions and roles within the company as well as the related control activities. It provides explicit instructions on how to deal with and/or enforce standard operating procedures or guidelines.

This also applies to information processing, the documentation of information sent and received, as well as the avoidance of transaction errors.

All control measures are implemented to ensure that potential errors or non-compliances in financial reporting are prevented and/or discovered and corrected.

IT security control measures are an essential component of the internal control system. The separation of sensitive activities is supported through a restrictive policy of granting IT user authorisations; compliance with the four-eyes principle is strictly enforced.

Information and communication

The individual units of KA and, in particular, its risk controlling and/or accounting units, submit regular reports, including monthly and quarterly results, to the Executive Board, which in turn reports regularly to the Supervisory Board. The head of the internal audit unit and the compliance officer also report to the Supervisory Board. Moreover, the risk managers of the credit risk management and risk controlling units report to the Risk Committee of the Supervisory Board.

Comprehensive reports are submitted to the Supervisory Board and/or its committees on a regular basis. The flow of information comprises the financial statements (balance sheet and income statement, budget and capital budget, deviations of actual figures from target figures, including comments on significant developments) of the company, comprehensive quarterly risk reports, as well as liquidity risk analyses by the treasury department and analyses of the activities of the market units. The shareholders, investors and market partners as well as the public are informed through the mid-year financial report and the annual financial report. Information is also communicated in the form of ad-hoc disclosures, as required by law.

Supervision

Financial reports to be published are subjected to a final review, to be coordinated with the external auditor, and explicitly released by accounting executives and the Executive Board prior to their submission to the Audit Committee of the Supervisory Board.

By monitoring compliance with all rules, KA hopes to achieve a maximum level of security for all operational procedures and processes and ensure conformity with all Group-wide and legal standards. If risks and weaknesses in the control system are detected, remedial and defensive measures are immediately established and implementation of the follow-up steps is monitored.

To ensure compliance with rules and guidelines throughout the bank, regular audits are performed in accordance with the annual audit plan drawn up by the internal audit unit.

SUSTAINABILITY

An environmental management system according to the EMAS Regulation was institutionalised within Kommunalkredit Austria AG (KA) in 1997, and over the years it has been developed into an integrated sustainability management system. Within the framework of the bank's fundamental values of ENGAGEMENT – COMPETENCE – SUSTAINABILITY, this system constitutes a sound basis for the bank's business activities. The principles of sustainability are firmly embedded in KA's day-to-day activities and reflected in a whole range of social and ecological best practice measures, such a pellet-fired heating system, green electricity, an e-bike and the award of an internal sustainability prize.

Sustainability in the core business areas

KA's commitment to sustainability as an integral element of the company is also reflected in the orientation of its core areas of business. KA has positioned itself as a reliable partner for infrastructure measures in Austria and in Europe. The bank acts as a bridge between project developers and project sponsors in need of structuring and financing services, on the one hand, and institutional investors (insurance companies, mutual funds, etc.) looking for investment options, on the other hand. Interest is focused on the core segments of "Social Infrastructure", "Energy and Environment" and "Transport".

Thanks to its unique combination of expertise in technology, financing and consulting and its long-standing experience in the municipal sector, KA is in a position to implement projects on the basis of life-cycle models – from the original idea to the finished project.

Moreover, through Kommunalkredit Public Consulting (KPC), KA manages support programmes in the environment and energy sector and contributes to the fight against global warming through Climate Austria, a voluntary carbon compensation programme. In the international arena, KPC supports the development and dissemination of environmental and technological standards abroad through its consulting projects (e.g. establishment of credit lines for energy efficiency projects in Russia and Ukraine).

Sustainability ratings

Sustainability rating agencies have rated the company on the basis of its sustainability management system and its willingness to continuously improve its sustainability performance. In the most recent audits, KA Old was rated C+ by oekom research, the best overall rating awarded in a universe of 53 companies of the Financials/Mortgage & Public Sector Finance sector, which qualifies KA as a PRIME company. Sustainalytics ranked KA number 34 (of 63), and the investment research unit of imug (Beratungsgesellschaft für sozial-ökologische Innovationen) gave Kommunalkredit's covered bank bonds its top rating of "very positive". Sustainability ratings by the above rating agencies are being prepared for KA (after the demerger for new incorporation).

Ecological and social issues

As far as ecological measures are concerned, KA continues the established practices. A sparing use of resources – ranging from waste sorting and waste avoidance to recto/verso printing to ecologically minded business travel planning – has been everyday practice for many years. Energy efficiency and the use of renewable resources, e.g. through a pellet-fired heating system in KA's office building, is another priority. In 2015, renewable sources of energy accounted for 70% of the total energy consumed. Furthermore, KPC offsets the CO_2 emissions caused by business travel via www.climataeaustria.at.

Within the framework of the ongoing stakeholder dialogue, KA carried on with a number of successful cooperation projects in 2015, e.g. a series of events on “The Courage to be Sustainable” of the Austrian Environment Agency; KA also cooperated with the Austrian Water and Waste Association and with IG Lebenszyklus Hochbau, an organisation promoting the life-cycle approach in building construction, as well as the Austrian Society for Environment and Technology.

Internally, the sustainability team is a point of contact and a platform for the discussion of all topics and concerns relating to sustainability at the workplace and beyond. These include compliance with EMAS guidelines, the newsletter, information events, the book and video lending library, the sustainability award for private commitment, and the interactive CO_2 monitor tool, which supports individuals wishing to benchmark, monitor and reduce their CO_2 emissions by easy means. KPC chose “Corporate Volunteering” as the motto for its Staff Day in 2015. For a full day, KPC employees enjoyed the hands-on experience of working in the Danube Wetlands National Park.

KA’s annual Sustainability Report is prepared in accordance with the guidelines of the Global Reporting Initiative (GRI) and meets the requirements of Application Level A+. The 2015 report will be the first one to meet the new GRI G4 standard. The Sustainability Report qualifies as an EMAS environmental declaration. The 2014 Sustainability Report of KA is available for download at http://www.kommunalkredit.at/Nachhaltigkeit.

COMPLIANCE AND MONEY LAUNDERING

The Standard Compliance Code of the Austrian banking sector (SCC) signed by Kommunalkredit Austria (KA) specifies requirements of fairness and mutual confidence in the relations of banks with their customers that go beyond the provisions of the law.

On the basis of the SCC, KA adopted an internal compliance code and introduced a compliance organisation headed by a compliance officer. In line with the SCC, the compliance code is primarily aimed at preventing the abuse of information, e.g. through insider trading or market manipulation. Moreover, the compliance unit is responsible for taking the necessary measures to prevent any violation of legal provisions or internal policies that might jeopardise the reputation of the company. It also ensures that the compliance code is kept up to date and observed throughout the Group. The compliance officer of KA acts as a point of contact for all staff members, informing them regularly about the rules and regulations in effect.

In his capacity as anti-money-laundering officer, the compliance officer is also responsible for ensuring compliance with §§ 40 and 41 of the Austrian Banking Act regarding the “special duty of diligence in the fight against money laundering and the financing of terrorism”.

OUTLOOK

The business year 2015 of Kommunalkredit Austria AG (KA) was marked, above all, by the demerger for new incorporation and the subsequent privatisation of the company, which was successfully completed on 28 September 2015. Since that time, KA has again been in a position to offer its expertise in the structuring and financing of infrastructure projects and in the field of support programme management without restrictions to its many customers in Austria and throughout Europe. Following the change of ownership, KA is no longer subject to any anti-trust conditions imposed by the European Commission.

The main focus of KA's business model is on public-sector-related infrastructure projects in its core segments, i.e. **"Social Infrastructure"** (care homes, health care and educational facilities), **"Transport"** (commuter transport, road and rail transport) and **"Energy and Environment**" (sustainable sources of energy). This business model takes full account of the following significant changes in the strategic environment of the infrastructure sector:

- the limited financial latitude allowed to public budgets due to the need for budget consolidation;
- the regulatory requirements to be met by banks (e.g. Basel III), which make long-term lending more difficult and more expensive;
- the historically low level of interest rates, which has been compelling institutional investors to broaden their investment universe.

The environment described above demands new approaches to the financing of long-term infrastructure projects, which KA has pursued since the beginning of the restructuring of the former Kommunalkredit in 2009. KA acts as a bridge by reconciling the needs of institutional investors (insurance companies, pension funds, professional pension schemes, etc.) looking for investment opportunities, on the one hand, with the requirements of infrastructure project developers, on the other hand.

KA benefits from a wealth of experience in project consulting and the arrangement of infrastructure project finance. For many years, KA has cooperated closely with national and international institutions, such as the EIB, the EBRD and KfW. For project structuring, KA has access to the comprehensive technological expertise of Kommunalkredit Public Consulting (KPC), its subsidiary specialising in support programme management.

KA covers the entire value chain, i.e. project consulting, project structuring and, in particular, financing of the construction phase; as stated above, long-term finance for the operational phase is provided, above all, by institutional investors. This strategic approach is supported by the new majority owners of KA and by the Association of Austrian Municipalities (which continues to hold a 0.22% stake in KA as a strategic investment).

Since the completion of its successful privatisation, KA has had a sound capital base. The asset quality of the EUR 3.3 billion portfolio transferred to KA upon the demerger of KA Old is high with an average rating of A+ and an NPL ratio of 0.0%. Based on the liabilities transferred within the framework of the demerger (in particular, covered bank bonds and senior unsecured bonds / loans) and taking into account the eligibility of the bank's assets for central bank funding, KA's existing portfolio is fully funded up to maturity; thus, KA has a sound and secure earnings base. With a CET 1 ratio of 25.6% and a total capital ratio of 34.1% (values as at 31 December 2015), KA is very well capitalised.

The 2015 result confirms the targets of the business plan underlying the sales transaction. According to the budget for 2016, the current year is also expected to close with a positive result, to be generated, above all, from the fully funded asset portfolio taken over with the demerger, assuming a conservative plan for the expansion of new business.

In its new business, KA's main focus will be on the expansion of existing customer relations and the implementation of measures to generate new consulting, structuring and financing business from public-sector-related infrastructure projects, always in line with the bank's business strategy. Accordingly, the provision of finance for new projects will target, above all, the construction phase. Long-term finance for the operational phase is to be provided mainly through placements with institutional investors.

The Executive Board and the staff of KA are highly motivated and look forward to the business opportunities expected to arise from the new ownership structure. The management and the employees of the bank will make every effort to live up to the confidence expressed by the new owners through the privatisation of the bank. At the same time, the Executive Board wishes to thank the owners and the boards of KA Old most cordially for their long-standing support and the trust shown in the course of the restructuring phase. The Executive Board also extends sincere thanks to the entire staff for their hard work and extraordinary dedication during the restructuring process.

Vienna, 9 March 2016

The Executive Board of
Kommunalkredit Austria AG

Alois Steinbichler, MSc
Chairman of the Executive Board

Jörn Engelmann
Member of the Executive Board

Wolfgang Meister
Member of the Executive Board

REPORT OF THE SUPERVISORY BOARD TO THE SHAREHOLDERS' MEETING

Dear Shareholders:

Kommunalkredit Austria AG (KA) was established as of 26 September 2015 through the demerger for new incorporation of the former Kommunalkredit Austria AG (Companies Register No. 45776v, KA Old), followed by the successful privatisation of KA on 28 September 2015. These measures were implemented in accordance with the relevant legal provisions and after the necessary regulatory approvals had been obtained; in particular, the transactions met the requirements of the European Commission (EC), which, in its amended restructuring decision of 19 July 2013, permitted the sale of KA in the extent of up to 50% of the assets of KA Old as at 19 July 2013. Thus, an essential step in the restructuring of the former Kommunalkredit was successfully completed.

The entire business operation of KA Old (including all its subsidiaries), with total assets pursuant to the Austrian Company Code in the amount approx. EUR 4.5 billion as at 31 December 2015, was transferred by way of a proportionate demerger for new incorporation to the newly established KA, Companies Register No. 439528s.

In the course of the privatisation process, Gesona Beteiligungsverwaltung GmbH (Gesona), which is indirectly held – via Satere GmbH (Satere) – by the English company Interritus Limited and the Irish company Trinity Investments Limited, the latter managed by the London-based asset manager Attestor Capital LLP (Attestor), acquired 99.78% of the shares of KA from the Financial Markets Holding Company of the Republic of Austria (FIMBAG). The remaining 0.22% of the shares of KA continues to be held by the Association of Austrian Municipalities.

At the constituent meeting on 30 July 2015, Klaus Liebscher (Chairman of the Supervisory Board), Adolf Wala (Deputy Chairman of the Supervisory Board), Werner Muhm and Stefan Pichler were appointed to the supervisory board of "KA in the process of incorporation". Upon the change of ownership on 28 September 2015, the members of the new boards of the company were appointed as follows:

Ulrich Sieber, delegated by Interritus Limited, was appointed Chairman of the Supervisory Board; Christopher Guth, delegated by Attestor, was appointed Deputy Chairman of the Supervisory Board. The other members of the Supervisory Board are Friedrich Andreae, delegated by Attestor and Managing Director of Satere and Gesona, Katharina Gehra, delegated by Interritus and Managing Director of Satere and Gesona, Jürgen Meisch, Managing Director of Achalm Capital GmbH, and Werner Muhm, Director of the Vienna Chamber of Labour and the Federal Chamber of Labour; the members delegated by the Staff Council are Franz Hofer, Patrick Höller and Brigitte Markl.

Alois Steinbichler, previously Chairman of the Executive Board of KA Old, was appointed Chief Executive Officer (CEO) of KA; Wolfgang Meister, previously Head of Strategy and Legal Affairs at KA Old, was newly appointed to the Executive Board of KA as Chief Operating Officer (COO). Jörn Engelmann was appointed to the Executive Board of KA as Chief Risk Officer (CRO) as of 1 February 2016.

Following the completion of the privatisation process, KA is again in a position to offer its expertise in the structuring and financing of infrastructure projects and in the field of support programme management – through Kommunalkredit Public Consulting (KPC), its 90% subsidiary – to its many customers in Austria and throughout Europe without being bound by the restrictions previously imposed by the EC.

The main focus of the bank's activities will continue to be on its core segments, i.e. **"Social Infrastructure", "Energy and Environment"** and **"Transport"**.

The Supervisory Board performed its tasks, as defined in the articles of association and the rules of procedure, within the framework of a number of ordinary and extraordinary meetings. Moreover, it established various committees, adopted rules of procedure for the Supervisory Board and the Executive Board, and decided on the assignment of responsibilities of the individual Executive Board members.

The supervisory board in office during the phase of incorporation held a constituent meeting, a nomination committee meeting and an extraordinary supervisory board meeting; it established the committees required by law (nomination committee, risk committee, remuneration committee) as well as a credit committee. The Supervisory Board wishes to thank the members in office during the incorporation phase for their work.

The new Supervisory Board was elected at the Shareholders' Meeting on 28 September 2015 and subsequently held its constituent meeting, a Nomination Committee meeting and an extraordinary Supervisory Board meeting at which the Executive Board was appointed. At the same time, rules of procedure were adopted for the Supervisory Board and the Executive Board, and the assignment of responsibilities to the individual Executive Board members was made. Moreover, the Supervisory Board dealt with Executive Board matters at a further Nomination Committee meeting and an extraordinary Supervisory Board meeting; the tasks to be performed pursuant to the rules of procedure as well as the organisation and the work programme of the committees were dealt with at one meeting each of the Audit Committee, the Remuneration Committee, the Risk Committee and the Credit Committee.

In the course of the meetings of the Supervisory Board and its committees, as well as through regular information obtained orally and in writing, the Supervisory Board was continuously updated on the development of business, the position and the performance of the company and its business policy plans. In accordance with the fit-and-proper guideline (based on the European Banking Authority Guideline), the members of the Boards of the bank underwent comprehensive fit-and-proper training covering changes and innovations in the regulatory sphere.

These Financial Statements and the Management Report were audited by the appointed external auditor, PwC Wirtschaftsprüfung GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna. The audit did not identify any non-compliance. All legal requirements had been met by the bank, and therefore the auditors issued an unqualified audit opinion. A representative of the external auditor participated in the meetings of the Audit Committee and the Supervisory Board dealing with the financial statements and explained the audits performed. Having examined the financial statements, the Supervisory Board endorsed the result of the audit and, at its meeting on 17 March 2016, approved the 2015 Financial Statements, which have thus been formally adopted. Moreover, the Supervisory Board examined and took note of the Consolidated Financial Statements as at 31 December 2015, including the Management Report.

The Supervisory Board

Ulrich Sieber
Chairman

Vienna, 17 March 2016

SEPARATE FINANCIAL STATEMENTS OF KOMMUNALKREDIT AUSTRIA AG FOR THE BUSINESS YEAR 2015

I. BALANCE SHEET

ACCORDING TO THE AUSTRIAN BANKING ACT

	Assets in EUR	Note	31-12-2015		Opening balance sheet 01-01-2015
1.	**Balances with central banks**			**79,692,968.69**	**267,026,429.38**
2.	**Public-sector debt instruments eligible**			**108,076,218.13**	**165,354,343.12**
	as collateral for central bank funding	5.1.	108,076,218.13		165,354,343.12
3.	**Loans and advances to banks**	5.2.		**240,233,710.92**	**532,910,220.28**
	a) repayable on demand		240.233.710.92		
	b) other receivables		0.00		
4.	**Loans and advances to customers**	5.3.		**2,771,338,620.66**	**3,191,534,293.15**
5.	**Bonds and other fixed-income**				
	Securities	5.4.		**255,891,419.52**	**154,675,776.36**
	a) of public issuers		81,914,401.66		83,022,730.80
	b) of other issuers		173,977,017.86		71,653,045.60
	of which:				
	Own bonds issued		*107,262,711.75*	,	*0.00*
6.	**Participations**	5.5.		**1,825,070.00**	**850,070.00**
	of which:				
	In banks		*0.00*		*0.00*
7.	**Investments in associates**	5.5.		**6,339,848.12**	**6,339,848.12**
	of which:				
	In banks		*0.00*		*0.00*
8.	**Intangible non-current**				
	Assets	5.6.		**383,589.87**	**357,793.82**
9.	**Property, plant and equipment**	5.6.		**1,904,193.39**	**1,904,193.39**
10.	**Other assets**	5.7.		**67,475,380.47**	**149,290,917.17**
11.	**Accruals**	5.8.		**6,883,542.40**	**22,327,149.40**
	Total assets			**3,540,044,562.17**	**4,492,571,034.18**

	Off-balance-sheet items				
1.	Foreign assets			836,412,586.09	

Liabilities In EUR		Note	31-12-2015		Opening balance sheet 01-01-2015
1.	**Amounts owed to banks**	5.9.		**469,214,282.74**	**1,233,621,209.64**
	a) repayable on demand		332,437,31.41		
	b) with fixed maturity or period of call		136,776,963.33		
2.	**Amounts owed to customers**	5.10.		**372,939,123.08**	**390,408,869.74**
	Other liabilities				
	of which:				
	aa) repayable on demand		*7,549,254.32*		
	bb) with fixed maturity or period of call		*365,389,868.76*		
3.	**Securitised liabilities**	5.11.		**2,310,774,507.34**	**2,444,769,987.04**
	a) Bonds issued		1,703,423,870.08		
	b) Other securitised liabilities		607,350,637.27		
4.	**Other liabilities**	5.12.		**92,350,432.06**	**149,454,762.78**
5.	**Accruals**	5.13.		**8,050,028.83**	**24,292,177.19**
6.	**Provisions**	5.14.		**15,909,740.15**	**12,496,699.17**
	a) Provisions for severance pay		3,938,439.48		
	b) Provisions for pensions		1,322,234.27		
	c) Tax provisions		2,066,398.04		
	d) Other		8,582,668.36		
6A.	**Fund for general banking risks (§ 57 (3) BWG)**	5.15.		**15,000,000.00**	**0.00**
7.	**Supplementary capital**	5.16.		**67,525,194.00**	**67,527,328.62**
8.	**Subscribed capital**	5.17.		**159,491,290.16**	**159,491,290.16**
9.	**Revenue reserves**	5.18.		**508,709.84**	**508,709.84**
	a) Statutory reserves		508,709.84		508,709.84
	b) Other reserves		0.00		0.00
10.	**Statutory reserve pursuant to § 57 (5) BWG**	5.19.		**10,000,000.00**	**10,000,000.00**
13.	**Net profit**	5.20.		**18,281,253.07**	**0.00**
	Total liabilities			**3,540,044,562.17**	**4,492,571,034.18**
	Off-balance-sheet items				
1.	Contingent liabilities	6.1.		3,260,440.00	3,260,440.00
	of which:				
	a) Liabilities from sureties and guarantees from the assignment of collateral		*3,260,440.00*		*3,260,440.00*
2.	Credit risks	6.2.		36,598,854.87	68,795,334.00
	of which:				
	Liabilities from repo transactions		*0.00*		*0.00*
3.	Liabilities from trust transactions	6.3.		231,581,841.42	247,829,219.43
4.	Eligible own funds pursuant to Part 2 of EU Regulation 575/2013	7.1.		234,616,409.97	234,642,206.18
	of which:				
	Supplementary capital pursuant to Part 2 Title I Chapter 4 of EU Regulation 575/2013		*65,000,000.00*		*65,000,000.00*
5.	Own funds requirements pursuant to Art.92 of EU Regulation 575/2013	7.1.		60,947,310.04	71,735,271.84
	of which:				
	Own funds requirements pursuant to Art 92.1.a of EU Regulation 575/2013 CET 1 capital ratio		*22.26 %*		*18.92 %*
	Own funds requirements pursuant to Art 92.1.b of EU Regulation 575/2013 core capital ratio		*22.26 %*		*18.92 %*
	Own funds requirements pursuant to Art.92.1.c of EU Regulation 575/2013 total capital ratio		*30.80 %*		*26.17 %*
6.	Foreign liabilities			2,988,895,615.13	

II. INCOME STATEMENT
ACCORDING TO THE AUSTRIAN BANKING ACT

	in EUR	Note			01-01 to 31-12-2015
1.	Interest and similar income				298,101,089.89
	of which:				
	from fixed-income securities			*12,649,692.22*	
2.	Interest and similar expenses				-255,760,052.49
I.	**Net interest income**	8.1.1.			**42,341,037.40**
3.	Income from securities and investments	8.1.2.			520,700.00
	a) Income from investments			0.00	
	b) Income from investments in affiliated companies			520,700.00	
4.	Fee and commission income	8.1.3.			273,234.67
5.	Fee and commission expenses	8.1.3.			-403,621.96
6.	Income/expenses from financial transactions				50,104.27
7.	Other operating income	8.1.5.			12,817,992.90
II.	**Operating income**				**55,599,447.28**
8.	General administrative expenses	8.1.4.			-30,568,026.16
	a) Personnel expenses	8.1.4.1.		-19,609,456.15	
	of which				
	aa) Salaries		*-15,313,992.52*		
	bb) Expenses for statutory social charges, salary-dependent charges and compulsory contributions		*-3,476,037.51*		
	cc) Other social expenses		*-558,842.75*		
	dd) Expenses for pension costs		*-422,384.65*		
	ee) Appropriation to/release of pension provision		*253,149.78*		
	ff) Expenses for severance pay and contributions to company pension plans		*-91,348.50*		
	b) Other administrative expenses (non-personnel)	8.1.4.2.		-10,958,570.01	
9.	Valuation adjustments of assets reported under asset items 8 and 9				-277,698.89
10.	Other operating expenses	8.1.6.			-1,048,645.44
III.	**Operating expenses**				**-31,894,370.49**
IV.	**Operating result**				**23,705,076.79**
11.	Balance of income/expenses from the impairment of receivables and provisions for contingent liabilities and credit risks	8.1.7.			-134,609.45
12.	Balance of income/expenses from the impairment of investment securities and from participations and investments in affiliated companies	8.1.7.			11,540,497.97
V.	**Profit on ordinary activities**				**35,110,965.31**
13.	Extraordinary expenses				-15,000,000.00
	of which:				
	Appropriations to the fund for general banking risks	8.1.8.		*-15,000,000.00*	
14.	**Extraordinary result**				**-15,000,000.00**
15.	Taxes on income	8.1.9.			-1,796,314.19
16.	Other taxes not to be reported under item 15	8.1.9.			-33,398.05
VI.	**Profit for the year / Net profit**				**18,281,253.07**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF KOMMUNALKREDIT AUSTRIA AG FOR THE BUSINESS YEAR 2015

1. GENERAL INFORMATION

Kommunalkredit Austria AG[3] (KA), with its registered office in Vienna, Tuerkenstrasse 9, is focused on the provision of finance for public infrastructure projects and on management and consultancy services for public-sector clients (through its 90% subsidiary Kommunalkredit Public Consulting GmbH/KPC). It is registered with the Commercial Court of Vienna under Companies Register number 439528s.

KA was established through the demerger for new incorporation of the former Kommunalkredit. In compliance with the EC's amended restructuring decision, the former majority shareholder of KA Old, the Financial Markets Holding Company of the Republic of Austria (*Finanzmarktbeteiligung Aktiengesellschaft des Bundes - FIMBAG*), launched a public tender on 14 August 2014, inviting bids for the banking operations of KA Old with total assets pursuant to the Austrian Company Code reduced to approx. EUR 4.5 billion (as at 01-01-2015), including all its subsidiaries. After completion of a comprehensive due diligence process, a purchase contract was signed with a consortium of buyers consisting of the English company Interritus Limited (Interritus) and the Irish company Trinity Investments Limited (Trinity) on 13 March 2015.

[3] In these financial statements the following names are used for the entities involved:
- Kommunalkredit Austria AG prior to the demerger until 25-09-2015: KA Old
- Kommunalkredit Austria AG since the demerger on 26-09-2015: KA
- KA Finanz AG: KF

After all the necessary regulatory approvals had been obtained, the demerger for new incorporation of KA was implemented on 26 September 2015. The entire business operation of KA Old (including all its subsidiaries) with total assets pursuant to the Austrian Company Code of approx. EUR 4.5 billion was transferred to a newly established company (KA) by way of a proportionate demerger for new incorporation. As announced through an ad-hoc disclosure dated 26 June 2015, special rights held in KA Old (participation capital and supplementary capital) were compensated for and terminated. The part of KA Old remaining after the demerger, with total assets of approx. EUR 6.7 billion, was merged into KA Finanz AG (KF). The portfolio transferred to KF upon the demerger of KA Old comprised high-quality assets as well as positive equity values and funding.

The remaining 0.22% continued to be held by the Association of Austrian Municipalities. The individual steps in the privatisation process were communicated through ad-hoc disclosures published by KA Old on 11 August 2014, 13 March 2015, 26 June 2015 and 25 September 2015, and through a press release published by KA on 28 September 2015.

Gesona Beteiligungsverwaltung GmbH (Gesona) owns 99.78% of KA. The remaining 0.22% is held by the Association of Austrian Municipalities. Both owners support the strategic goals of KA in the infrastructure sector and the management of support programmes and intend to continue and expand the banking business.

Gesona is a holding company through which Interritus and Trinity – via Satere GmbH (Satere) – hold their participations in KA; Interritus and Trinity respectively hold 55% and 45% of Satere, which in turn holds 100% of Gesona.

The consolidated financial statements of KA, based on IFRS, are prepared pursuant to § 59a of the Austrian Banking Act in conjunction with § 245a of the Austrian Commercial Code. In its capacity as issuer of exchange-listed securities, KA publishes a Management Report pursuant to § 82 (4) of the Stock Exchange Act as part of this Annual Financial Report.

The consolidated financial statements of KA are registered with the Commercial Court of Vienna under Companies Register number 439528s. KA is an affiliated company of Satere Beteiligungsverwaltungs GmbH (Satere), which prepares the consolidated financial statements for the largest scope of consolidation. The consolidated financial statements of Satere are deposited with the Companies Register of the Commercial Court of Vienna under number 428981f.

2. ACCOUNTING RULES GOVERNING THE DEMERGER, NEW INCORPORATION AND PRIVATISATION

The demerger for new incorporation was executed on the predecessor basis of accounting pursuant to § 202 (2.1) of the Austrian Commercial Code with 31 December 2014 as the demerger date. The provisions of Article VI of the Reorganisation Tax Act apply.

Since the company was newly incorporated as of 26 September 2015, comparative figures for the previous year are not shown.

3. ACCOUNTING RULES APPLIED

These financial statements were prepared in accordance with the relevant provisions of the Austrian Banking Act (*Bankwesengesetz – BWG*) and the provisions of the Austrian Commercial Code (*Unternehmensgesetzbuch – UGB*) applicable to financial institutions.

4. ACCOUNTING AND MEASUREMENT RULES

4.1. General remarks

The financial statements were prepared in compliance with generally accepted accounting principles and the general standard requiring the presentation of a true and fair view of the assets, the financial position and the income of the company.

The principle of completeness was complied with in the preparation of the financial statements. The assets and liabilities were measured on an item-by-item basis on the assumption of a going concern. The principle of prudence, considering the specificities of the banking business, was observed insofar as only profits realised on the reporting date were recognised and all identifiable risks and impending losses were taken into account.

Income and expenses are accrued/deferred pro-rata-temporis and recognised in profit or loss of the period to which they are economically attributable. Interest is recognised as it accrues in net interest income, considering all contractual arrangements made in connection with the financial assets or liabilities. Dividend income is booked on the date on which the legal claim to payment arises.

Fees and commissions for services provided over a certain period of time are recognised over the period of service provision. Fees related to the completion of service provision are booked as income at the time of completion. Contingent commissions are recognised when the required performance criteria are met.

All purchases and sales of financial instruments are recognised on the trade date.

4.2. Currency translation

The reporting and functional currency is the euro. Assets and liabilities denominated in foreign currencies are translated at the rates notified by the European Central Bank (ECB) on the balance sheet date pursuant to § 58(1) of the Austrian Banking Act. Forward transactions not yet settled are translated at the forward rate on the balance sheet date.

4.3. Receivables

Receivables purchased from third parties are recognised at cost. All other loans and advances to banks and loans and advances to customers are recognised at their nominal value.

Specific loan loss provisions are set up for identifiable risks.

In addition, a portfolio loan loss provision is calculated. For this purpose, the financial assets are classified in comparable groups according to their risk profile. On the basis of empirical values and the monitoring processes in place, the loan loss provisioning requirement is calculated, considering the loss identification period (LIP), the probability of default (PD) and the loss given default (LGD).

4.4. Securities

Securities to be held for the company's business operations on a permanent basis are classified as non-current assets. Securities acquired with the intention of trading are assigned to the trading book. Securities that are neither classified as non-current assets nor assigned to the trading portfolio are classified as current assets. As at 31 December 2015, all securities were classified as non-current assets.

Securities are recognised at cost, based on the mitigated lower-of-cost-or-market principle for non-current assets and the strict lower-of-cost-or-market principle for current assets. Securities of the trading portfolio are recognised at the market value on the balance sheet date.

For securities classified as non-current assets, the company opts for writing off pro-rata temporis the acquisition cost exceeding the amount repayable. The possibility of adding the amount exceeding the amount repayable on a pro-rata temporis basis is used as well.

The differences pursuant to § 56(2) and § 56(3) of the Austrian Banking Act are as follows:

in EUR	31-12-2015
Difference pursuant to § 56(2) Austrian Banking Act (Difference between higher acquisition cost and redemption value of securities)	1,773,560.05
Difference pursuant to § 56(3) Austrian Banking Act (Difference between lower acquisition value and redemption value of securities)	296,300.00

Moreover, investment securities include the following hidden reserves and/or hidden burdens (not considering the corresponding interest rate swaps):

Calculation of hidden reserves in EUR	31-12-2015
Book value	568,997,894.61
Fair value	645,894,432.27
Hidden reserves	76,896,537.66

Calculation of hidden burdens in EUR	31-12-2015
Book value	10,225,858.25
Fair value	9,199,759.89
Hidden burdens	-1,026,098.36

Hidden reserves mainly result from fixed-income securities, the high fair value being due to the low level of interest.

Hidden burdens mainly result from one security item and are recognised under loans and advances to customers. The credit risk of the security concerned is regularly analysed and measured. On the basis of these analyses, no special write-off pursuant to § 204(1.2) of the Austrian Company Code was required, as the impairment is not expected to be of a permanent nature.

Hidden reserves and hidden burdens are booked against the market values of interest rate derivatives concluded for hedging purposes.

Fair value measurement

In general, the methods used to measure the fair value can be classified in three categories:

Level 1: Prices are available in an active market for identical financial instruments. In this category, KA refers to asset bid quotes from Bloomberg and Reuters.

Level 2: The inputs for the valuation are observable in the market. This category includes the following pricing methods:
- Pricing on the basis of similar instruments
- Pricing on the basis of market-derived spreads (benchmark spreads)

Level 3: The inputs cannot be observed in the market. This category includes, above all, prices based mainly on expert estimates.

Broken down by the above categories, the differences between the fair values and book values of securities are as follows:

in EUR	Level 1	Level 2	Level 3
Fair value	196,058,240.68	290,099,967.68	168,935,983.80
Book value	180,051,461.62	243,687,517.55	155,484,773.69
Difference	**16,006,779.06**	**46,412,450.13**	**13,451,210.11**

4.5. Participations and investments in affiliated companies

Participations and investments in affiliated companies are measured at cost, unless persistent losses or a reduction in equity require their value to be written down to the pro-rata equity held or the value of the income generated.

4.6. Intangible assets

Intangible assets exclusively comprise purchased software. Amortisation is based on an assumed useful life of three to four years.

4.7. Property, plant and equipment

All office furniture and equipment, except works of art, are accounted for at Kommunalkredit Beteiligungs- und Immobilien GmbH on a Group basis. Property, plant and equipment is recognised at acquisition cost less straight-line depreciation. Works of art are not subject to straight-line depreciation.

Minor-value assets up to single-item acquisition costs of EUR 400.00 are shown in the Schedule of Non-current Asset Transactions as additions in the year of acquisition and depreciated fully in the year of purchase. They are derecognised after three years.

4.8. Liabilities

Liabilities are recognised at the amount repayable.

4.9. Securitised liabilities

Securitised liabilities are recognised at the amount repayable. Costs incurred through an issue, which are directly related to funding, are booked as expenses. The remaining difference between the income from the issue and the amount repayable (premium/discount) is booked under deferred expenses and/or prepaid income and recognised in net interest income as an interest component distributed on a linear basis over the term of the liability.

Zero bonds are recognised according to the equity method.

4.10. Provisions

Provisions for pensions, severance pay and jubilee bonus obligations are calculated annually by an independent actuary according to the projected unit credit method pursuant to § 211(1) of the Austrian Commercial Code in accordance with IAS 19. The "AVÖ 1999-P calculation bases for pension insurance – Pagler & Pagler", in their version for salaried employees, are used as a calculation basis. The actuarial discount rate was determined on the basis of the yields of prime, fixed-income corporate bonds, with due consideration given to the terms of the obligations to be met.

The most important parameters underlying the calculation are:

- an actuarial discount rate of 2.25% for pension obligations, 1.75% for obligations from severance pay, and 0.75% for obligations from jubilee bonuses,
- an incremental rate of active salary and pension payments of 2%,
- a career trend of 1.5%, and
- assumed pensionable ages of 60 for women and 65 for men, taking into account the transitional provisions of the 2003 Budget Framework Act and the provisions on age limits for women of the Act on Occupational Old-Age Provision.

All pension obligations to active staff have been transferred to a pension fund. The provisions reported therefore only contain entitlements within the framework of the collective bargaining agreement (1961 pension reform, as amended on 1 January 1997), not covered by the pension fund, as well as entitlements from defined-benefit pension obligations resulting from direct commitments within the framework of the 1961 pension reform prior to the transfer to the pension fund or from individual contracts. The pension plan is a defined-benefit plan under which benefits for active staff, relative to the risk of death and invalidity, depend on the salary earned. Benefits for staff reaching retirement age are already fixed and therefore only subject to adjustment in line with the annual increase agreed through collective bargaining. As the defined-benefit components are fully funded, supplementary allocations will only be required in the event of underperformance or "premature" payment of benefits. The full actuarial obligation for pensions amounts to EUR 1,731,848.11, of which entitlements in the amount of EUR 409,613.84 have been transferred to the pension fund. The resulting provisioning requirement amounts to EUR 1,322,234.27. All actuarial gains and losses carry through profit or loss.

Provisions in the amount of EUR 3,938,439.48 for severance pay and EUR 274,385.38 for jubilee bonuses have been set up.

For other long-term employee benefits, i.e. jubilee bonus entitlements, a jubilee bonus provision, calculated according to the same principles, is set up. Actuarial gains and losses are immediately recognised in personnel expenses and pass through profit or loss.

Other provisions were set up in the amount of their expected use in accordance with the principle of prudence, based on all identifiable risks and on liabilities not yet quantifiable.

4.11. Fund for general banking risks pursuant to § 57(3) of the Austrian Banking Act

As at 31 December 2015, an amount of EUR 15,000,000.00 was appropriated to the fund for general banking risks pursuant to § 57(1) of the Austrian Banking Act. The resulting increase of provisions pursuant to § 57(3) of the Austrian Banking Act is recognised in the extraordinary result, as required under the Austrian Banking Act.

4.12. Derivatives

Swap transactions of the banking book are made by KA primarily to hedge interest-rate and/or currency risks, with the hedges accounted for either as micro-hedges (recognition as units of account) or as macro-hedges. For derivatives that are neither micro-hedges nor macro-hedges, the principle of single measurement applies, with a provision for impending losses set up in the event of a negative fair value on the day of closing and recognised under other provisions.

- Units of account

For hedge accounting (units of account), the AFRAC (Austrian Financial Reporting and Auditing Committee) Opinion on "Accounting for Derivatives and Hedging Activities" (version of December 2012) contains provisions aimed at avoiding economically unjustified effects on the Income Statement due to the different measurement of hedged underlying transactions and hedging instruments. Underlying transactions are individually recognised assets and liabilities at fixed interest rates as well as pending transactions already concluded at the time of classification. The rules on units of account permit the changes in the value of hedging instruments and the hedged transactions to be recognised mostly as mutually offsetting. Proof of an effective hedging relationship between the underlying transaction and the hedging transaction is required as a prerequisite for the application of these rules. A hedging relationship is considered effective if the results from the hedging instrument and the compensatory results from the hedged underlying transaction – relative to the hedged risk – offset each other within a range of 80% to 125%. KA verifies compliance with these requirements through prospective (matching of the components determining the market value) and retrospective effectiveness tests. In a prospective effectiveness test, all parameters of the underlying transaction and the hedging transaction that determine the extent of the hedged value change are compared in order to verify whether the hedged fair value of the structure (underlying and hedging transactions) is within a range of 80% to 125% maximum. A retrospective effectiveness test verifies whether the hedged fair value of the structure (underlying and hedging transactions) fluctuates within a range of 80% to 125% maximum between two specified dates. Hedging transactions at KA are concluded until maturity of the underlying transaction.

- Macro-hedge

Interest rate derivatives serving to manage the interest rate risk of the banking book and/or a clearly defined sub-portfolio are accounted for according to the "Circular Letter of the FMA on accounting issues relating to interest rate derivatives and valuation adjustments of derivatives pursuant to § 57 of the Austrian Banking Act" (version of December 2012). As an exception to the principle of individual measurement, compensatory interest-rate-induced earning effects or value increases from the hedged underlying transactions are considered in the assessment of provisioning requirements. If negative swap market values are not fully offset by the compensatory interest-rate-induced earning effects of the underlying transactions, a provision for impending losses is made for the remaining negative value.

As a basis for risk management and limitation decisions concerning the interest rate risk in the banking book, the fixed-interest gap and its sensitivity to interest rate changes affecting the market value of the banking book position are identified. The risk of fixed-interest gaps is highlighted through gap analyses and sensitivity analyses with annual maturity bands.

Based on the information thus obtained, the risk of interest rate changes is assessed, managed and limited for assets and liabilities relative to the risk appetite and the risk-carrying capacity of the bank, and/or a management instrument is designated.

When a new interest rate derivative contract is concluded, the quantitative suitability of the derivative as an instrument to hedge and limit the risk of interest rate changes for assets and liabilities is verified through a prospective test of the hedging effect using scenario analyses. The net-present-value risk of the position as a whole as well as broken down by currency is quantified for a parallel shift and for two turn-around scenarios (steeper – flatter).

Owing to its exceptional character, application of this measurement method is conditional on compliance with formal and substantive conditions, such as:

- a need for hedging in view of fixed-interest gaps;
- the existence of a hedging strategy and proof of compliance with this strategy;
- the qualitative suitability of the derivative as a hedging instrument.

The above prerequisites are met and documented by KA.

The interest claims related to the swap contracts are accrued at matching maturities and recognised on a gross basis in the Income Statement. Payments made to compensate for contracts not in accordance with prevailing market terms are also accrued at matching maturities.

Derivatives are measured by means of an internal model based on the discounted cash flow method, considering all current yield and basis spread curves. Embedded options are measured by means of commonly used option pricing models. For the measurement of interest-sensitive products with variable indicators, yield curves with different spread premiums are used, depending on the indicator (e.g. 3-month Libor, 12-month Libor). These refer to the indicator concerned and are used to derive forward rates for cash flow determination. In the case of derivatives in several currencies (e.g. cross-currency swaps), a cross-currency basis is used according to prevailing standards, in addition to the adaptation of forwards by basis swap spreads. OIS curves (overnight index swaps) are used for discounting the cash flows of OTC derivatives. To determine the fair value of derivatives, counterparty and own risks (credit value adjustment and debt value adjustment) are also taken into consideration. To this end, the net present value is adjusted by the BCVA (bilateral CVA adjustment). KA determines the BCVA for all derivatives without bilateral daily cash collateral margin calls at counterparty level. A provision for impending losses is set up for negative BCVAs, whereas positive BCVAs are not taken into consideration. For collateralised derivatives with daily calls the BCVA is considered to be immaterial. The BCVA is calculated by the potential exposure method.

Swap transactions of the trading book, if any, are measured at their fair values determined according to the principles outlined above and recognised under other receivables and other liabilities.

5. NOTES TO THE BALANCE SHEET

5.1. Public-sector debt instruments eligible as collateral for central bank funding

Securities of public bodies eligible as collateral for funding from the ECB are shown under this item. No such securities will fall due in 2016.

On the balance-sheet date, the volume of EUR 108,076,218.13 was classified in its entirety as non-current assets.

5.2. Loans and advances to banks

in EUR	31-12-2015
Collateral for negative market values from derivative transactions	216,980,590.21
Cash balances with banks	23,253,120.71
Total	**240,233,710.92**

Loans and advances to banks do not include any bills receivable. As at 31 December 2015, no subordinated claims were held against banks. All loans and advances to banks are repayable on demand.

5.3. Loans and advances to customers

Loans and advances to customers comprise the following:

in EUR	31-12-2015
Loans	2,424,084,905.34
Non-listed securities	331,816,102.11
Collateral for negative market values from derivative transactions	15,650,162.21
Portfolio loan loss provisions	-212,549.00
Total	**2,771,338,620.66**
of which:	
Loans and advances to affiliated companies	20,577,483.17
Loans and advances to companies in which an equity investment is held	45,739,163.33

The non-listed securities included in this item in the amount of EUR 331,816,102.11 are classified in their entirety as non-current assets.

As at 31 December 2015, KA booked a portfolio loan loss provision in the amount of EUR 212,549.00.

Broken down by maturity (residual maturity), loans and advances to customers are as follows:

in EUR	31-12-2015
Repayable on demand	15,299,840.88
Other receivables	
a) up to 3 months	142,827,082.24
b) more than 3 months up to 1 year	223,027,834.37
c) more than 1 year up to 5 years	901,433,563.15
d) more than 5 years	1,488,962,849.02
	2,756,251,328.78
Portfolio loan loss provision	-212,549.00
Total	**2,771,338,620.66**

5.4. Bonds and other fixed-income securities

All instruments reported under bonds and other fixed-income securities are exchange-listed.

in EUR	31-12-2015
Securities of public issuers	81,914,401.66
Securities of other issuers	173,977,017.86
of which:	
Own issues	*107,262,711.75*
Total	**255,891,419.52**

Bonds and other fixed-income securities in the amount of EUR 51,229,255.41 will fall due in 2016.

As at the balance-sheet date, all securities reported under this item were classified as non-current assets. None of the bonds and other fixed-income securities held in the portfolio are subordinated.

5.5. Participations and investments in affiliated companies

The composition of participations and investments in affiliated companies (all of them non-listed), including the presentation of their economic situation, is shown in Annex 1.

5.6. Property, plant and equipment and intangible non-current assets

The development of property, plant and equipment and intangible non-current assets is shown in the Schedule of Non-current Asset Transactions (Annex 2).

5.7. Other assets

in EUR	31-12-2015
Interest accruals from derivatives in the banking book	57,778,431.10
Accruals/deferrals between spot rate and forward rate in FX swaps	3,499,918.01
Receivables from deferred interest	2,774,979.97
Foreign currency valuation of derivatives in the banking book	362,182.14
Other	3,059,869.25
Total	**67,475,380.47**
of which:	
recognised as cash items after the closing date	*63,613,280.32*

The foreign currency valuation of derivatives in the banking book results from exchange-rate fluctuations between the date of closing of currency swaps and the balance-sheet date. This valuation is booked against foreign currency valuations of assets and liabilities as well as negative foreign currency valuations of derivatives recognised under other liabilities. KA's open foreign currency position is continuously monitored and strictly limited. Therefore, there are no material currency risks.

5.8. Accrued income

Accrued income comprises the following items:

in EUR	31-12-2015
Accrued fees from derivative transactions	3,679,047.47
Capitalised offering discounts of bonds issues	2,296,499.02
Other	907,995.90
Total	**6,883,542.40**

5.9. Amounts owed to banks

Broken down by maturity (residual maturity), amounts owed to banks are as follows:

in EUR	31-12-2015
Repayable on demand	332,437,319.41
Other liabilities	
a) up to 3 months	30,983,776.43
b) more than 3 months up to 1 year	2,833,206.61
c) more than 1 year up to 5 years	33,591,896.43
d) more than 5 years	69,368,083.86
	136,776,963.33
Total	**469,214,282.74**

5.10. Amounts owed to customers

Broken down by maturity (residual maturity), amounts owed to customers are as follows:

in EUR	31-12-2015
Repayable on demand	7,549,254.32
Other liabilities	
a) up to 3 months	12,430,631.98
b) more than 3 months up to 1 year	6,968,761.21
c) more than 1 year up to 5 years	12,999,876.83
d) more than 5 years	332,990,598.74
	365,389,868.76
Total	**372,939,123.08**

5.11. Securitised liabilities

Securitised liabilities are broken down as followsL

in EUR	31-12-2015
Bonds issues	1,703,423,870.08
Other securitised liabilities	607,350,637.27
Securitised liabilities	**2,310,774,507.35**

Bonds issued in the amount of EUR 1,703,423,870.08 are exchange-listed; the securities reported under other securitised liabilities are non-listed.

Bonds issued with book values of EUR 377,100,599.78 and other securitised liabilities in the amount of EUR 6,429,686.78 will fall due in 2016. Securitised liabilities do not comprise any subordinated liabilities.

5.12. Other liabilities

in EUR	31-12-2015
Interest accruals of derivatives	33,551,393.48
Foreign currency valuation of derivatives in the banking book	29,985,506.24
Accruals/deferrals between spot rate and forward rate of FX swaps	26,426,081.13
Other	2,387,451.21
Total	**92,350,432.06**
of which:	
recognised as cash items after the closing date	*35,938,844.69*

The foreign currency valuation of derivatives in the banking book results from exchange-rate fluctuations between the date of closing of currency swaps and the balance-sheet date. This valuation is booked against foreign currency valuations of assets and liabilities as well as positive foreign currency valuations of derivatives shown under other assets. KA's open foreign currency position is continuously monitored and strictly limited. Therefore, there are no material currency risks.

5.13. Accrued expenses

in EUR	31-12-2015
Accrued fees from derivative transactions	3,938,939.50
Issuing discounts of bonds issues	2,373,773.22
Loan fees accrued over the term	1,737,316.10
Other	**8,050,028.83**

5.14. Provisions

For details on personnel provisions, see 4.11 Provisions.

Other provisions mainly include provisions for personnel-related expenses in the amount of EUR 5,076,883.96, provisions for the Bank Resolution Fund in the amount of EUR 750,000.00, as well as provisions for auditing, legal and consulting expenses in the amount of EUR 327,778.88. Moreover, provisions in the amount of EUR 1,524,008.78 in connection with derivatives are reported under other provisions.

5.15. Fund for general banking risks pursuant to § 57(3) of the Austrian Banking Act

For prudential reasons and in order to cover special banking risks, KA appropriated an amount of EUR 15,000,000.00 to the fund for general banking risks in 2015.

5.16. Supplementary capital pursuant to Part 2, Title I, Chapter 4 of the Regulation (EU) 575/2013

As at 31 December 2015, supplementary capital comprised eight EUR-denominated issues in a total nominal amount of EUR 65,000,000.00 with residual maturities of up to 31 years. None of these issues will fall due in 2016.

The supplementary capital meets the conditions of Part 2, Title I, Chapter 4 of the Regulation (EU) 575/2013:

ISIN	Interest rate as at 31-12-2015 in %	Maturity	Currency	Nominal in EUR	Right to call	Conversion into capital
Subordinated liabilities pursuant to § 23(8) Austrian Banking Act, original version						
Subordinated bond 2006-2021	5.4	30-10-2021	EUR	5,000,000.00	Issuer in case of tax event	no
Subordinated bonded loan 2007-2022	4.67	23-02-2022	EUR	10,000,000.00	no	no
Subordinated bonded loan 2007-2022	4.67	23-02-2022	EUR	10,000,000.00	no	no
Subordinated bonded loan 2007-2037	5.08	09-02-2037	EUR	10,000,000.00	Issuer	no
Subordinated bonded loan 2007-2037	5.08	09-02-2037	EUR	800,000.00	Issuer	no
Subordinated bonded loan 2007-2037	5.08	09-02-2037	EUR	10,200,000.00	Issuer	no
Subordinated bonded loan 2007-2047	5.0175	07-03-2047	EUR	10,000,000.00	Issuer	no
Subordinated bonded loan 2007-2047	5.0175	07-03-2047	EUR	9,000,000.00	Issuer	no

Expenses for all subordinated liabilities in 2015 amounted to EUR 3,221,991.28.

5.17. Subscribed capital

The share capital as at 31 December 2015 amounted to EUR 159,491,290.16. 30,938,843 no-par-value shares, i.e. 99.78% of the share capital, are held by Gesona Beteiligungsverwaltung GmbH; 68,216 no-par-value shares, i.e. 0.22% of the share capital, are held by the Association of Austrian Municipalities. Each no-par-value share represents an equal part of the share capital. There are no shares that have been issued but not fully paid in. Each no-par-value share represents a share of EUR 5.14 in the share capital. There are no authorised shares.

5.18. Revenue reserve

The revenue reserve amounts to EUR 508,709.84.

5.19. Statutory reserve pursuant to § 57(5) of the Austrian Banking Act

As at the balance-sheet date, the statutory reserve amounted to EUR 10,000,000.00, thus meeting the legal requirements.

5.20. Net profit / Profit distribution

The Executive Board will propose to the Shareholders' Meeting that from the net profit in the amount of EUR 18,281,253.07 an amount of EUR 8,000,000.00 be distributed and the balance of EUR 10,281.253.07 be carried forward to new account.

6. OFF-BALANCE-SHEET ITEMS

6.1. Contingent liabilities

The off-balance-sheet item of contingent liabilities in the amount of EUR 3,260,440.00 exclusively concerns guarantee lines granted, including a guarantee in the amount of EUR 1,350,000.00 for companies in which an equity investment is held.

6.2. Credit risks

Credit risks relate to loan commitments and unused lines from the current lending business in the amount of EUR 36,598,854.87 and a pay-out obligation for an investment in equity instruments in the amount of EUR 3,175,000.00. There are no unused credit lines for affiliated companies. For companies in which an equity investment is held, unused credit lines granted amount to EUR 1,582,212.01.

6.3. Trust transactions

KA holds financial instruments in a nominal amount of EUR 231,581,841.42 in trust in its own name but at KF's cost and risk.

7. SUPPLEMENTARY DISCLOSURES

7.1. Own funds and own funds requirements

KA is subject to the own funds requirements pursuant to Article 92 CRR in conjunction with the transitional provisions of Article 465 CRR. On the basis of these provisions, a common equity tier-1 ratio of at least 4%, a core capital ratio of at least 5.5%, and a total capital ratio of at least 8% are required as at 31 December 2015.

As at 31 December 2015, KA's eligible own funds, reported in the annual financial statements as the sum total of items pursuant to Article 25 CRR and Article 71 CRR, amounted to EUR 259,897,663.04; common equity tier 1 amounted to EUR 194,897,663.04. With risk-weighted assets of EUR 544,673,364.14 and own funds requirements of EUR 60,947,310.04, the total capital ratio comes to 34.11%.

The eligible own funds reported include the net profit shown for 2015 in the separate financial statements of KA pursuant to UGB/BWG in the amount of EUR 18,281,253.07 minus the proposed dividend of EUR 8,000,000.00.

KA’s own funds and own funds requirements show the following composition and development:

Assessment base in EUR	31-12-2015
Risk-weighted assets relative to credit risk according to Basel III	544.673.364,13
Own funds requirements	
of which credit risk	*43,573,869.13*
of which operational risk	*7,755,605.99*
of which CVA charge	*9,611,731.17*
of which default fund of a qualified counterparty	*6,103.75*
Total (own funds target)	**60,947,310.04**

Own funds in EUR	31-12-2015
Common equity tier 1	194,897,663.04
Additional own funds after deductible items	65,000,000.00
Eligible own funds (tier 1 and tier 2)	**259,897,663.04**
Free equity	198,950,353.00
Total capital ratio	34.11 %
CET 1 ratio	25.58 %

7.2. Total of assets and liabilities denominated in foreign currencies

As at 31 December 2015, assets denominated in foreign currencies in the amount of EUR 262,242,530.58 were shown on the balance sheet. Liabilities in foreign currencies amounted to EUR 1,692,034,802.25. Open currency positions are closed through corresponding swap contracts. KA’s open foreign currency position is continuously monitored and strictly limited; therefore, there are no material currency risks.

7.3. Expenses for subordinated liabilities

Expenses for all subordinated liabilities in the year under review amounted to EUR 3,221,991.28.

7.4. Derivative transactions not yet settled at the balance-sheet date

To hedge currency and interest rate risks, the following derivative transactions were made in the banking book (fair values including interest accruals), which were not yet settled on the balance-sheet date:

31-12-2015 in EUR	Nominal	Positive fair value	Negative fair value
Interest rate swaps	6,053,356,566	539,757,892	-371,172,142
of which in macro-hedge	2,788,536,512	133,102,265	-266,525,021
of which in unit of account	3,158,820,054	406,512,877	-104,218,947
of which interest rate derivatives based on the principle of single-item measurement	106,000,000	142,750	-428,174
Currency swaps	107,420,717	796,525	-28,626,151
of which in unit of account	107,420,717	796,525	-28,626,151
FX forward transactions	1,594,484,311	3,501,483	-27,379,104
Total	**7,755,261,594**	**544,055,900**	**-427,177,397**

Interest accruals, foreign currency valuations and accrued fees from derivative transactions in the amount of EUR 65,319,578.72 are reported under other assets and accrued income on the assets side, and EUR 93,901,920.36 under other liabilities and accrued expenses on the liabilities side of the balance sheet. Moreover, provisions in the amount of EUR 1,524,008.78 relating to derivatives are recognised under other provisions. As at 31 December 2015, no provision for impending losses from macro-swaps was required.

7.5. Trading book

In line with its business strategy, KA does not engage in any relevant trading activities. As at 31 December 2015, KA therefore had no trading portfolio.

7.6. Other obligations

a. Liability arising from the demerger

Pursuant to § 15 (1) of the Demerger Act, KA is liable jointly and severally with KF for obligations having arisen prior to the entry of the demerger in the Companies Register on 26 September 2015 and transferred from KA Old to KF. Equally, KF is liable jointly and severally with KA for the obligations transferred to KA. This liability does not concern obligations that have arisen after the effective date of the demerger. The liability arising from the demerger is limited to the net assets of the respective entity. According to the purchase contract of 13 March 2015, KA holds an own covered bond with a nominal value of EUR 107,000,000.00, which was pledged to KF as collateral for liability arising from the demerger.

b. Other obligations

Obligations in the amount of EUR 1,953,600.00 arise from rental contracts (with affiliated companies) in 2016. The corresponding obligations for the years 2016 to 2020 are expected to total EUR 10,061,200.00.

Pursuant to § 93 of the Austrian Banking Act, KA is obliged to undertake proportional safeguarding of depositors' accounts within the framework of the deposit guarantee regime of Banken und Bankiers Gesellschaft mbH, Vienna.

7.7. Assets pledged as collateral

Based on ISDA/CSA arrangements, credit balances with banks in a nominal value of EUR 216,900,000.00 and credit balances with customers (non-bank financial institutions) in a nominal value of EUR 15,650,000.00 were pledged as collateral for negative market values of derivative transactions. Amounts owed to banks include collateral received in a nominal value of EUR 327,170,772.00; amounts owed to customers include collateral received in a nominal value of EUR 4,100,000.00.

For funding raised through participation in the ECB tender, KA pledged securities in a nominal amount of EUR 30,000,000.00 as collateral as at 31 December 2015. The collateral taker has the right to realise the collateral only in the event of the debtor’s default.

KA has assigned assets in the form of securities in a nominal amount of EUR 65,600,000.00 as collateral for global loans and other funding from the European Investment Bank in Luxembourg. The collateral taker has the right to realise the collateral only in the event of the debtor’s default.

For covered bonds issued by KA as at 31 December 2015 in a nominal value of EUR 1,225,061,836.67, loans in a nominal amount of EUR 1,301,969,818.53 and securities in a nominal amount of EUR 317,830,971.95 have been allocated to a cover pool which can only be drawn on with the approval of a government commissioner, as well as interest rate swaps with a market value of EUR 97,002,570.00.

Moreover, am amount of EUR 1,054,656.79 was put up as collateral for other funding as at 31 December 2015.

According to the purchase contract of 13 March 2015, KA holds an own covered bond with a nominal value of EUR 107,000,000.00, which was pledged to KF as collateral for liability arising from the demerger.

7.8. Deferred taxes

KA did not opt for capitalisation of deferred taxes in the amount of EUR 4,429,968.01 pursuant to § 198(10) of the Austrian Company Code. As at 31 December 2015, the tax loss carryforward, for which the Austrian Company Code/Austrian Banking Act does not allow capitalisation, amounted to EUR 200,651,544.32 for the tax group described in Note 8.1.9.

8. NOTES TO THE INCOME STATEMENT

8.1. Presentation of material Income Statement items

8.1.1. Net interest income

Interest and similar income In EUR	2015
Lending business	92.727,612,80
Investments in banks	15,786.43
Fixed-income securities	12,649,692.22
Swap income	192,707,998.44
Total interest income	**298,101,089.89**

Interest and similar expenses In EUR	2015
Deposit business	-26,496,718.02
Own issues	-100,560,594.11
Swap expenses	-128,702,740.36
Total interest expenses	**-255,760,052.49**

Total net interest income	**42,341,037.40**

KA's net interest income of EUR 42,341,037.40 resulted primarily from the existing portfolio, including funding, taken over upon the demerger.

Interest income and interest expenses are recognised according to the accruals concept. Interest expenses and interest income from interest-rate swaps are recognised as gross amounts, broken down into incoming and outgoing payments, and are not offset against interest income and expenses from the underlying transactions.

In 2015, negative interest was paid in the amount of EUR 368,570.56 for credit balances with the Austrian National Bank and in the amount of EUR 85,507.02 for other borrowings from credit institutions.

8.1.2. Dividend income

Dividend income in the amount of EUR 520,700.00 includes dividends of EUR 290,700.00 paid out by Kommunalkredit Public Consulting (KPC) and EUR 230,000.00 paid out by Kommunalkredit Beteiligungs- und Immobilien GmbH.

8.1.3. Net fee and commission income

Fee and commission income In EUR	2015
Lending business	173,539.67
Other service business	99,695.00
Total fee and commission income	**273,234.67**

Fee and commission expenses In EUR	2015
Lending business	-77,069.54
Securities business	-230,726.73
Money and FX trading	-95,825.69
Total fee and commission expenses	**-403,621.96**

Total net fee and commission income	**-130,387.29**

8.1.4. General administrative expenses

in EUR	2015
Personnel expenses before expenses charged to other entities	-19,609,456.15
Other administrative expenses before expenses charge to other entities	-10,958,570.01
General administrative expenses before expenses charged to other entities	**-30,568,026.16**
Expenses charged to other entities	12,029,841.56
General administrative expenses after expenses charged to other entities	**-18,538,184.60**

8.1.4.1. Personnel expenses

in EUR	2015
Salaries	-15,313,992.52
Expenses for statutory social charges, salary-dependent charges and compulsory contributions	-3,476,037.51
Other social expenses	-558,842.75
Expenses for pension costs	-422,384.65
Appropriation to/release of pension provision	253,149.78
Expenses for severance pay and contributions to company pension funds	-91,348.50
Total personnel expenses	**-19,609,456.15**

Personnel expenses include expenses for contributions to company pension funds in the amount of EUR 160,776.23.

8.1.4.2. Other administrative expenses

Other administrative expenses were as follows:

in EUR	2015
Occupancy costs	-2,252,824.42
Data processing	-1,700,906.95
Communication	-1,539,507.21
Third-party services	-1,404,965.56
Advertising and entertainment	-1,185,826.01
Consulting and auditing costs	-1,097,395.37
Bank Resolution Fund	-750,000.00
Other non-personnel expenses	-1,027,144.49
Total before expenses charged to other entities	**-10,958,570.01**

8.1.4.3. Administrative expenses charged to other entities

KA acts as a service provider for other entities, including KF (for the management of banking operations) and KPC. The services to be provided are defined in service level agreements. Based on detailed working time records kept by the employees, pro-rata personnel expenses and other administrative expenses in the amount of EUR 12,029,841.56 were charged to the entities concerned, the gross amounts being recognised in other operating income. In the business year 2015, general administrative expenses after services charged to other entities (net general administrative expenses) amounted to EUR -18,538,184.60.

8.1.5. Other operating income

in EUR	2015
Income from services charged to KF and KPC	12,029,841.56
Other	788,151.34
Total other operating income	**12,817,992.90**

8.1.6. Other operating expenses

Other operating expenses in the amount of EUR 1,048,645.44 exclusively include the stability tax, which has been payable by KA since the transfer of ownership on 28 September 2015.

8.1.7. Loan impairment and valuation result

The loan impairment and valuation result (items 11 to 12 of the Income Statement) includes:

in EUR	2015
Gains realised through the sale of derivatives in connection with the exercise of rights to call own issues	8,670,488.28
Proceeds from the buy-back of own issues	2,873,768.67
Changes in portfolio loan loss provisions	-74,087.00
Other	-64,281.43
Total	**11,405,888.52**

In 2015, derivatives were closed out in connection with the exercise of rights to call own issues (EUR 8,670,488.28); moreover, proceeds from the buy-back of own issues (EUR 2,873,768.67) carried through profit or loss.

8.1.8. Extraordinary expenses

Extraordinary expenses in the amount of EUR 15,000,000.00 reported in 2015 are due exclusively to the appropriation to the fund for general banking risks pursuant to § 57(3) of the Austrian Banking Act.

8.1.9. Taxes on income

Effective as of 2015, a tax group pursuant to § 9 of the Corporate Income Tax Act was formed, with KA as the group parent and KBI, KPC and TrendMind IT Dienstleistung GmbH (TrendMind) as group members. On the basis of a group and tax contribution agreement, the stand-alone method was chosen for the calculation of the tax contributions. According to this method, the amount of the tax contributions of the group members depends on the amount of corporate income tax the group member would have had to pay if its tax result had not been counted toward the group parent. If a group member's negative income is counted toward the group parent, the (negative) tax contribution is 25% of the negative income, provided it is covered by a positive result of the group parent. The part not covered by a positive result of the group parent is kept on record as a loss carryforward and netted against the positive income of the group member in subsequent years. Upon termination of the tax group or elimination of a group member, a final compensation has to be paid for tax losses not yet reimbursed. As at 31 December 2015, no tax losses of group members were on record.

The tax expense, which exclusively concerns ordinary business operations, comprises the following items:

Corporate income tax	31-12-2015
Corporate income tax expense KA	-2,066,398.04
Tax contributions by KPC KBI TrendMind	 154,960.00 128,251.00 25,945.41
Corporate income tax from previous years	-39,072.56
Total	**-1,796,314.19**

8.1.10. Result for the year and return on assets

KA closed the year under review with a net profit of EUR 18,281,253.07. The return on assets (calculation: profit for the year after tax divided by total assets as at balance-sheet date) stood at 0.52%. The return on equity (calculation: profit for the year after tax divided by average equity) as at 31 December 2015 stood at 10.2%.

8.2. Presentation of revenues by geographic market (§ 237 of the Austrian Company Code)

Interest and similar income In EUR	2015
Austria	215,152,858.51
Western Europe	54,541,953.52
Central and Eastern Europe	28,406,260.12
Rest of the world	17.73
	298,101,089.89

Fee and commission income In EUR	2015
Austria	30,232.62
Western Europe	243,002.05
Central and Eastern Europe	0.00
Rest of the world	0.00
	273,234.67

Other operating income In EUR	2015
Austria	12,817,992.90
Western Europe	0.00
Central and Eastern Europe	0.00
Rest of the world	0.00
	12,817,992.90

9. DISCLOSURE PURSUANT TO PART 8 CRR

In accordance with the requirements of Part 8 CRR, material qualitative and quantitative information relating to the bank is published in a separate Disclosure Report, which can be accessed on the KA website (www.kommunalkredit.at) under “Investor Relations / Financial Information & Reports”.

10. DISCLOSURES REGARDING THE BOARDS OF THE BANK AND ITS EMPLOYEES

10.1. Average number of employees during the business year

As at 31 December, KA had 165 employees.

The average number of employees during the year under review was 166, including two Executive Board members and excluding employees on leave; part-time employees are weighted according to the extent of employment.

10.2. Remuneration, advances and loans to Executive Board and Supervisory Board members, guarantees assumed for Board members

in EUR	2015
Active Executive Board members after amounts charged to other entities	694,636.66
Active Supervisory Board members	65,178.00
Total after amounts charged to other entities	**759,814.66**

Up to the date of privatisation, the Executive Board members also served as Executive Board members of KF. Of their total remuneration, an amount of EUR 339,728.35 was charged to KF on the basis of the service level agreement. Thus, the total remuneration paid by KA for the business year 2015 amounts to EUR 1,034,365.01; income from amounts charged to KF is included in the other operating result.

As at 31 December 2015, no loans to members of the Executive Board or members of the Supervisory Board were outstanding. No guarantees were issued by KA for Board members.

As at 31 December 2015, the outstanding volume of loans to employees of the company amounted to EUR 405,613.71.

10.3. Expenses for severance pay and pensions

Expenses for severance pay and pensions include current pension payments, changes in personnel provisions, statutory contributions to a staff pension plan and payments to a pension fund.

Expenses for severance pay and pensions in EUR	2015
Executive Board members and employees in executive positions	-119,667.19
Other employees	380,250.56
	260,583.37

10.4. Disclosures relating to the Boards of the Bank (effective as of the date of the demerger

Members of the Executive Board[4]

Appointed by the Supervisory Board at its constituent meeting on 28 September 2015 for the period from 28 September 2015 to 31 December 2015 and/or appointed by the Supervisory Board at its extraordinary meeting on 14 December 2015.

Alois Steinbichler
Chairman of the Executive Board
since 28 September 2015

Wolfgang Meister
Member of the Executive Board
since 28 September 2015

Jörn Engelmann
Member of the Executive Board
since 1 February 2016

Members of the Supervisory Board[5]

First elected by the extraordinary Shareholders' Meeting on 28 September 2015:

Ulrich Sieber
Chairman
Delegated by Interritus Limited
since 28 September 2015

Christopher Guth
Deputy Chairman
Delegated by Attestor Capital
since 28 September 2015

Friedrich Andreae
Delegated by Attestor Capital
Managing Director of Satere GmbH and Gesona Beteiligungsverwaltung GmbH
since 28 September 2015

Katharina Gehra
Delegated by Interritus Limited
Managing Director of Satere GmbH and Gesona Beteiligungsverwaltung GmbH
since 28 September 2015

Jürgen Meisch
Managing Director of Achalm Capital GmbH
since 28 September 2015

Werner Muhm
Director of the Vienna Chamber of Labour and the Federal Chamber of Labour
since 28 September 2015

[4] From 26 to 28 September 2015: Alois Steinbichler (Chairman of the Executive Board), Helmut Urban
[5] From 26 to 28 September 2016: Klaus Liebscher (Chairman of the Supervisory Board), Adolf Wala (Deputy Chairman of the Supervisory Board), Werner Muhm, Stefan Pichler

Franz Hofer
Nominated by the Staff Council
since 28 September 2015

Patrick Höller
Nominated by the Staff Council
since 28 September 2015

Brigitte Markl
Nominated by the Staff Council
since 9 November 2015

Marc Schimpel
Nominated by the Staff Council
from 28 September 2015 to 9 November 2015

10.5. State Commissioner

Edeltraud Lachmayer
State Commissioner, Federal Ministry of Finance

Bettina Horvath
Deputy State Commissioner, Federal Ministry of Finance

10.6. Government commissioner

Appointed to serve as government commissioner of the cover pool for covered bank bonds in 2015:

Alexander Gruber
Government Commissioner, Federal Ministry of Finance

Vienna, 9 March 2016

The Executive Board of
Kommunalkredit Austria AG

Mag. Alois Steinbichler, MSc	**Jörn Engelmann**	**Mag. Wolfgang Meister**
Chairman of the Executive Board	Member of the Executive Board	Member of the Executive Board

Schedule of Participations as at 31 December 2015 (Annex 1)

Name and registered office in EUR 1,000	Investment in %	Equity 31-12-2015	Acquisition cost 31-12-2015	Book value 31-12-2015	Cumulative depreciation	Profit for the period after tax 31-12-2015	Last audited financial statements
Investments in affiliated companies							
Kommunalkredit Beteiligungs- und Immobilien GmbH, Vienna	100.00%	6,639.9	5,943.3	5,943.3	0.0	400.0	31-12-2015
Kommunalkredit Public Consulting GmbH, Vienna	90.00%	1,349.9	346.5	346.5	0.0	541.6	31-12-2015
Kommunalkredit Vermögensverwaltungs GmbH, Vienna	100.00%	52.7	50.0	50.0	0.0	2.7	-

Pursuant to § 238(2) of the Austrian Company Code, the Schedule of Participations shows all companies in which KA holds a share of at least 20%.

Schedule of Fixed-asset transactions pursuant to § 226(1) of the Austrian Company Code as at 31 December 2015 (Annex 2)

Fixed assets in EUR	as at 01-01-2015	Currency translation	as at 01-01-2015	Additions	Disposals	as at 31-12-2015	Cumulative depreciation and amortisation/ additions 2015	Book value 31-12-2015	Book value 01-01-2015	Disposals 2015	Additions 2015
1. Public-sector debt instruments	160,184,910.63	6,356,377.14	166,541,287.77	0.00	61,541,287.77	105,000,000.00	0.00	105,000,000.00	160,184,910.63	0.00	0.00
2. Loans and advances to customers	353,672,582.81	1,106,300.21	354,778,883.01	0.00	25,595,182.16	329,183,700.85	1,261,758.25	327,921,942.97	352,648,935.18	127,521.59	0.00
3. Bonds and other fixed-income securities	152,060,116.92	0.00	152,060,116.92	107,000,000.00	5,951,100.14	253,109,016.79	-192,793.44	253,301,809.89	152,334,200.34	13,541.07	0.00
4. Participations	850,070.00	0.00	850,070.00	975,000.00	0.00	1,825,070.00	0.00	1,825,070.00	850,070.00	0.00	0.00
5. Investments in affiliated companies	6,339,848.12	0.00	6,339,848.12	0.00	0.00	6,339,848.12	0.00	6,339,848.12	6,339,848.12	0.00	0.00
6. Intangible non-current assets	3,885,714.12	0.00	3,885,714.12	300,523.64	114,591.50	4,071,646.26	3,688,056.39	383,589.87	357,793.82	274,727.59	0.00
8. Property, plant and equipment Office furniture and equipment	2,030,372.27	0.00	2,030,372.27	2,971.30	0.00	2,033,343.57	129,150.18	1,904,193.39	1,904,193.39	2,971.30	0.00
	679,023,614.87	**7,462,677.35**	**686,486,292.22**	**108,278,494.94**	**93,202,161.57**	**701,562,625.59**	**4,886,171.38**	**696,676,454.24**	**674,619,951.37**	**418,761.56**	**0.00**

AUDIT OPINION

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Kommunalkredit Austria AG, Vienna, comprising the balance sheet as at 31 December 2015, the income statement for the year ended 31 December 2015, and the notes to the financial statements.

Responsibility of the Legal Representatives for the Financial Statements

The legal representatives of the company are responsible for the preparation and fair presentation of the financial statements in accordance with Austrian generally accepted accounting principles and the specific requirements for the financial statements of banks. This responsibility includes the design, implementation and maintenance of a system of internal control required in the opinion of the legal representatives to permit the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Austrian standards on auditing, which require that we apply the International Standards on Auditing. In accordance with these standards, we have to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement if the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the legal representatives, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. Based on the result of our audit, in our opinion the financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2015 and its financial performance for the financial year ended 31 December 2015 in accordance with Austrian Generally Accepted Accounting Principles.

Statement on the Management Report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures in the management report are not misleading with respect to the company's position. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements and whether the disclosures pursuant to § 243 a (2) of the Austrian Company Code are appropriate.

In our opinion, the management report is consistent with the financial statements. The disclosures pursuant to § 243a (2) of the Austrian Company Code are appropriate.

Vienna, 9 March 2016

PwC Wirtschaftsprüfung GmbH

signed:

Günter Wiltschek
Certified Public Accountant

STATEMENT BY THE LEGAL REPRESENTATIVES

Kommunalkredit Austria AG
Financial Statements 2015

We herewith confirm to the best of our knowledge that the **Financial Statements** of the parent, prepared in accordance with the relevant accounting standards, present a true and fair view of the assets, the financial position and the income of the company, that the Management Report presents the development of business, the results and the position of the company in such a way that it conveys a true and fair view of the assets, the financial position and the income of the company, and that the Management Report describes the essential risks and uncertainties to which the Company is exposed.

The Executive Board of
Kommunalkredit Austria AG

Mag. Alois Steinbichler, MSc Chairman of the Executive Board	**Jörn Engelmann** Member of the Executive Board	**Mag. Wolfgang Meister** Member of the Executive Board

Vienna, March 2016

IMPRINT

Owner and publisher:
Kommunalkredit Austria AG
Tuerkenstrasse 9, A-1092 Vienna
Phone: +43(0)1/31 6 31, fax-ext.: 105

Communication / Corporate Services
communication@kommunalkredit.at
Phone: +43(0)1/31 6 31-577, fax-ext.: 503

Investor Relations
investorrelations@kommunalkredit.at
Phone: +43(0)1/31 6 31-678, fax-ext. 405

www.kommunalkredit.at

INFRASTRUCTURE IS IN OUR DNA.

Kommunalkredit Austria AG
Tuerkenstrasse 9
A-1092 Vienna
Phone +43 (0)1/31 6 31
www.kommunalkredit.at