2015

ANNUAL REPORT
OF KOMMUNALKREDIT GROUP

INFRA BANKING EXPERTS
ÖSTERREICHS BANK FÜR INFRASTRUKTUR

KOMMUNAL
KREDIT

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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 billion 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/gemeindefinanzbericht2015

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 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 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).

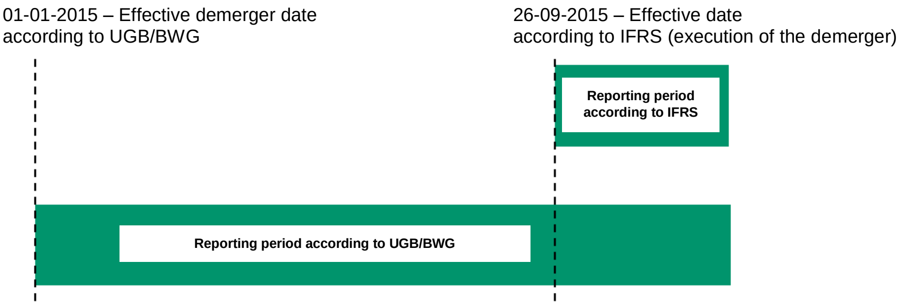
ASSETS, FINANCIAL POSITION AND INCOME

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 to meet the 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 the Kommunalkredit Group according to IFRS

Table: Selected key financials according to IFRS

Selected Balance Sheet and Income Statement figures in EUR million	31-12-2015	26-09-2015 [1)]
Total assets	4,162.0	5,274.7
Loans and advances to banks	241.0	513.1
Loans and advances to customers	2,353.0	2,477.5
Assets at fair value	752.7	761.0
Amounts owed to banks	464.0	1,013.4
Amounts owed to customers	383.0	382.9
Securitised liabilities	2,527.9	2,611.0
Net interest income	9.3	-
Net fee and commission income	4.6	-
Net trading and valuation result	1.7	-
General administrative expenses after services charged to KF	-10.2	-
Profit for the year before tax	4.0	-
Taxes on income	1.6	-
Contributions to the Bank Resolution Fund	-0.8	-
Stability tax	-1.0	-
Profit for the year after tax	5.6	-
Comprehensive income (incl. changes in equity)	5.6	-

[1)] IFRS opening balance sheet as at 26-09-2015

Key indicators in EUR million or %	31-12-2015	26-09-2015 [2]
Risk-weighted assets relative to credit risk according to Basel III	544.7	574.2
Total own funds requirement	60.9	67.0
of which for credit risk	*43.6*	*45.9*
of which for operational risk	*7.8*	*7.8*
of which for CVA risk	*9.6*	*13.3*
Own funds [3]	259.9	234.7
Total capital ratio	34.1%	28.0%
CET core capital after deduction of non-eligible components (tier 1) [3]	194.9	169.7
CET 1 ratio	25.6%	20.2%
Leverage ratio	5.0%	3.5%
Total headcount (incl. Executive Board)	263	260
f which banking operations	*165*	*161*
of which KPC	*98*	*99*

[2] IFRS opening balance sheet as at 26-09-2015
[3] Own funds / common equity tier 1 capital, considering the profit for the year of KA pursuant to UGB/BWG of EUR 18.3 million, minus a proposed dividend of EUR 8.0 million.

Rating	31-12-2015	26-09-2015
Long-term DBRS	BBB (low)	-
Short-term DBRS	R-2 (mid)	-
Covered bonds Moody's	Baa2 [4]	Aa3

[4] 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 IFRS of EUR 4.2 billion, down by EUR 1.1 billion from EUR 5.3 billion reported on the IFRS opening balance sheet on 26 September 2015. Besides the runoff of asset positions, this reduction is mainly due to the demerger. At the time of execution of the demerger, KA had high cash holdings (balances with central banks) of EUR 301.0 million, which were reduced after the demerger to a total of EUR 79.7 million as at 31 December 2015. Moreover, temporary derivative transactions (mirror swaps) were necessary between KA and KF within the framework of the demerger, i.e. KA temporarily held derivatives at KF's risk and cost, until KF had concluded the corresponding framework contracts to take over these derivatives, and vice versa. At the time of the demerger, the market value of these derivatives amounted to EUR 560.8 million, of which EUR 330.7 million were closed by 31 December 2015. The remaining EUR 230.1 million are to be run off in the course of 2016.

KA's total assets include loans to customers (recognised under loans and advances to customers and assets at fair value) in the amount of EUR 2.6 billion (29-09-2015: EUR 2.7 billion). The securities portfolio, recognised under loans and advances to customers, loans and advances to banks, assets at fair value and assets available for sale, amounted to a total of EUR 661.0 million (26-09-2015: EUR 671.8 million).

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 (26-09-2015: EUR 234.7 million); its common equity tier-1 amounted to EUR 194.9 million (26-09-2015: EUR 169.7 million). With total risk-weighted assets of EUR 761.8 million (26-09-2015: EUR 838.1 million), the bank reported a total capital ratio of 34.1% (26-09-2015: 28.0%) and a CET 1 ratio of 25.6% (26-09-2015: 20.2%); the leverage ratio was 5.0% (26-09-2015: 3.5%).

The bank's equity ratios are calculated on the basis of the separate financial statement prepared in accordance with UGB/BWG; 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:

- 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 26-09-2015

in EUR billion	31-12-2015	26-09-2015
Securitised liabilities	2.5	2.6
Amounts owed to customers	0.4	0.4
Amounts owed to banks	0.5	1.0

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 of the Group according to IFRS

As stated above, the date as of which the demerger took effect under civil law, i.e. 26 September 2015, is the relevant reporting date according to IFRS; therefore, the IFRS Income Statement presented in this report exclusively covers the period from 26 September to 31 December 2015. Against the background of the demerger for new incorporation, comparative figures for the previous year cannot be shown.

The IFRS result of the KA Group comprises not only the results of KA, but also those of its fully consolidated subsidiaries Kommunalkredit Public Consulting GmbH (KPC) and Kommunalkredit Beteiligungs- und Immobilien GmbH (KBI). On this basis, KA reports a consolidated after-tax result for the year of EUR 5.6 million according to IFRS; the results shown confirm the Group's business plan.

The material income and expense items are as follows:

- *Net interest income*
  Net interest income for the IFRS reporting period from 26 September to 31 December 2015 amounted to EUR 9.3 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 asset portfolio generates stable earnings.

- *Net fee and commission income*
  KA's net fee and commission income of EUR 4.6 million reflects, above all, revenues generated by KPC through its support programme management and consulting services.

- *Loan impairment*
  The non-performing-loan (NPL) ratio (definition of default according to Basel III) was 0.0%. Loan impairment charges of TEUR -7.8 reflect "incurred but not reported losses" according to IFRS.

- *Net trading and valuation result*
  The net trading and valuation result was positive at EUR 1.7 million. The most important items were:

  - EUR 2.8 million from the early redemption of own issues
  - EUR -1.2 million from the valuation of the fair value portfolio, including derivatives.

- *General administrative expenses*
  General administrative expenses before services charged to KA Finanz AG (KF) amounted to a gross total of EUR 12.7 million. Income from personnel and other administrative services charged to KF under the service agreement amounted to EUR 2.5 million and are recognised in the other operating result. Thus, the net amount of general administrative expenses was EUR 10.2 million.

- *Contributions to the Bank Resolution Fund*
  Pursuant to the Bank Recovery and Resolution Act, contributions to the national bank resolution fund have been payable since 1 January 2015; an expense of EUR 0.8 million has been provisioned for KA's expected contribution.

- *Other operating result*
  The other operating result amounted to EUR 1.7 million, mainly comprising the aforementioned income from personnel and other administrative services charged to KF in the amount of EUR 2.5 million. This item also comprises an expense of EUR 1.0 million for the stability tax to be paid by Austrian banks ("bank levy"), which KA has to pay again following the transfer of ownership as of 28 September 2015.

- *Taxes on income*
  The tax item for the reporting period is positive at EUR 1.6 million as a result of the capitalisation of tax loss carryforwards.

Balance sheet and income position according to the Austrian Company Code/ Austrian Banking Act (Austrian GAAP)

The financial statements prepared in accordance with Austrian GAAP cover the period from 1 January 2015 to 31 December 2015. On this basis, KA reports a profit on ordinary activities of EUR 35.1 million. After the appropriation of EUR 15.0 million to the fund for general banking risks pursuant to § 57 (3) of the Austrian Banking Act, the after-tax result for the year amounts to EUR 18.3 million, based on the separate financial statements pursuant to 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.

Pursuant to UGB/BWG, KA reports total assets of EUR 3.5 billion as at 31 December 2015 (01-01-2015: EUR 4.5 billion). The reduction of total assets is due to the lower collateral requirements after the elimination of mirror swaps (see page 15), a reduced cash balance with central banks, and the runoff of asset items.

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; 26-09-2015: 161, including Executive Board). Fifteen of these employees of KA worked exclusively for KF (26-09-2015: 14), 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 (26-09-2015: 99). Across all fully consolidated subsidiaries, the headcount of the KA Group, including the Executive Board, was 263 FTEs as at 31 December 2015 (26-09-2015: 260).

50% of the employees of the KA Group are women. The percentage of university graduates remains high at 63% (179 persons in total, 69 of whom are women and 110 men). As at 31 December 2015, 17 women and three men were on parental leave. In the course of 2015, seven 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 51 executives, 18 (35%) are women. The average age of employees is 40; the average length of service with KA and/or KA Old is eight years.

The remuneration policy and practice of the KA Group 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.

PARTICIPATIONS

The participations of the KA Group are as follows:

Name and registered office	Investment direct	Investment indirect	Extent of investment in %	Financial statement disclosures (IFRS): Most recent financial statements	Total assets in EUR 1,000	Equity in EUR 1,000	Profit/loss for the year[4] in EUR 1,000
1. Affiliated companies							
1.1. Fully consolidated affiliated companies							
Kommunalkredit Beteiligungs- und Immobilien GmbH (KBI), Wien	x		100.00%	31-12-2015	28,814.1	7,.124.4	400.0
Kommunalkredit Public Consulting GmbH (KPC), Wien	x		90.00%	31-12-2015	7,878.0	1,628.4	368.2
1.2. Other investments of the AFS category							
Kommunalkredit Vermögens-verwaltungs GmbH (KV GmbH), Wien[1) 2)]	x		100.00%	31-12-2015	53.7	52.7	-2.1
TrendMind IT Dienstleistung GmbH (Trendmind), Wien[1) 2)]		x	100.00%	31-12-2015	587.5	328.9	77.8
2. Associates							
2.1. Associates included at equity							
Kommunalleasing GmbH (Kommunalleasing), Wien		x	50.00%	31-12-2015[3)]	97,354.9	4,644.8	432.1
2.2. Sonstige Beteiligungen der Kategorie AFS							
Kommunalnet E-Government Solutions GmbH (Kommunalnet), Wien[1) 2)]		x	45.00%	31-12-2015[3)]	1,002.8	776.2	92.8

[1)] Values according to Austrian Company Code
[2)] Not within the scope of consolidation of the KA Group
[3)] Preliminary unaudited figures
[4)] The consolidated result includes the results of the consolidated companies for the period from 26-09-2015 to 31-12-2015.

Kommunalkredit Public Consulting GmbH

Kommunalkredit Public Consulting (KPC) is a service provider specialising in

- the management of support programmes,
- carbon management / international climate action,
- consulting services for international organisations and financial institutions.

Management of support programmes

In the course of 2015, the business segment of KPC responsible for the management of support programmes disbursed funds in the amount of EUR 501.7 million on behalf of the funding authorities, in particular the Federal Ministry of Agriculture, Forestry, Environment and Water Management, a long-time partner of KPC. The total volume of investments thus initiated was EUR 2.55 billion. KPC manages funding initiatives in the areas of energy supply, energy conservation, water management, the remediation of contaminated sites, transport and mobility. In these segments, almost 83,730 projects were approved and about 80,000 settled in 2015. The number of projects committed in 2015 was 40% higher than in the previous year, and the number of projects settled increased by 22%. The continued increase in the number of projects processed is due, above all, to the “crafts bonus” scheme, which alone accounted for over 44,000 projects. The numbers of projects processed for other support programmes remained constant.

Since 1993, KPC has managed the environmental support programmes of the federal government for Austrian municipalities and enterprises in the fields of residential water management, remediation of contaminated sites and environmental protection measures by industrial operators. In recent years, the range of support programmes serviced by KPC as well as the number of its clients has increased continuously. In particular, KPC now also manages regional support programmes of the European Union (EU), the Climate and Energy Fund, the "klima.aktiv" mobility programme, the renovation initiative of the federal government, and support programmes for protective water management. Moreover, KPC's activities have been extended to the Austrian provinces of Salzburg, Tyrol, Vorarlberg and Vienna. Thus, synergies can be derived from the joint management of federal and provincial programmes, and applicants benefit from simplified procedures. Based on this "one-stop-shop" approach, all applications can now be submitted to a single entity.

Besides the traditional support programmes that have been well established for many years, KPC continued to manage the "crafts bonus" scheme, which the company took over in 2014 on behalf of the Federal Ministry of Finance. Under the "crafts bonus" scheme, private individuals are granted financial support in an amount of up to EUR 600 for home improvement projects, provided they use the services of a qualified craftsman or a licensed craft business. A total amount of EUR 30 million was available for 2014 and 2015.

KPC's most important clients in this business segment are

- the Federal Ministry of Agriculture, Forestry, Environment and Water Management,
- the Federal Ministry of Finance,
- the Climate and Energy Fund,
- the EU's regional support programmes (ERDF, EAFRD)
- the Province of Salzburg,
- the Province of Tyrol,
- the Province of Vorarlberg,
- the Province of Vienna, and
- OeMAG, the Austrian clearing and settlement body for green electricity

The following table shows the key figures relating to the support instruments managed on behalf of the individual funding authorities:

Table: Projects processed and cleared by KPC in 2015

Amounts in EUR million	Projects assessed	Total capital expenditure	Support granted	Projects cleared	Disbursements
Federal environmental support schemes	**2,777**	**1,665.1**	**289.4**	**19,662**	**523.7**
Water management	2,097	648.9	127.7	1,876	339.8
Environmental support in Austria	1,972	465.5	62.0	2,349	82.2
Consultancy services	2,038	4.3	1.2	0	1.2
Renovation support for businesses	200	38.5	7.9	462	18.2
Renovation support for private households	16,449	473.3	59.9	14,954	49.3
Remediation of contaminated sites	21	34.5	30.5	21	33.1
Climate and Energy Fund	**14,622**	**302.1**	**48.0**	**13,906**	**47.4**
Photovoltaics (private households, farmers)	8,051	97.1	10.5	7,207	8.7
Wood-fired heating and solar installations	4,880	67.0	6.0	4,876	6.0
Energy efficiency check	7	0.0	0.0	38	0.0
Mobility management	1,184	93.6	8.9	1,325	10.8
Employment programmes	500	44.3	22.6	460	21.9

Other programmes	46,332	578.9	164.3	45,631	121.4
Protective water management	584	202.3	109.2	604	101.7
Klimaaktiv:mobil	70	3.7	0.1	55	0.1
EU co-financing	995	117.6	16.3	335	0.0
Crafts bonus	44,254	126.4	18.3	44,254	18.3
Green electricity – hydro-power plants	45	112.2	19.4	51	0.0
Waste avoidance initiative	0	0.0	0.0	8	0.1
PV Vorarlberg	29	0.4	0.0	29	0.0
PV Vienna	37	0.6	0.1	47	0.0
Grid connection support in Tyrol	182	8.3	0.4	61	0.5
Salzburg Climate and Energy Pact	136	7.5	0.4	187	0.6
Total	**83,731**	**2,546.0**	**501.7**	**79,199**	**692.6**

Besides the evaluation, processing and settlement of applications for support, amendments to EU legislation on state aid dominated KPC's activities in 2015. In the wake of the comprehensive reform of EU state aid laws and procedures in 2014, national guidelines and funding rules had to be amended and adapted in many areas. The closure of the 2007 – 2013 programming period of EU support programmes was another priority for KPC.

Carbon management / International climate action

KPC has been active in the international carbon market since 2003, buying CO_2 emission certificates from international climate action projects within the framework of the Austrian JI/CDM programme on behalf of the Republic of Austria between 2002 and 2013, the objective being to achieve the Austrian Kyoto target. Activities in the past two years focused primarily on the management of the existing project portfolio; according to the Austrian emissions inventory, the purchase of CO_2 emission certificates has been completed.

In 2014, KPC was mandated by the Federal Ministry of Agriculture, Forestry, Environment and Water Management to manage the Austrian contributions to Climate Finance. Within the framework of this international programme, direct support is provided for projects aimed at avoiding emissions of greenhouse gases and adjusting to the negative effects of climate change, above all in developing countries. The legal basis for the programme was created through the mid-2014 amendment to the Environmental Support Act; 15 projects were managed by KPC in 2015.

Since 2008, KPC has also been running the "Climate Austria" programme, a platform for the voluntary compensation of CO_2 emissions, e.g. from travel. Income generated through KPC's cooperation with Austrian Airlines, which offers its passengers the possibility of carbon compensation with their online flight bookings, remained stable in 2015. Corporate clients contributing to the programme include A1, Österreichische Post AG, Danone, Grasl Druck, Modul University Wien, etc.

The appointment of a member of KPC's staff to the accreditation panel of the Green Climate Fund (GCF) shows that KPC's expertise has won international recognition.

International consulting

In the year under review, KPC successfully continued to broaden its range of consultancy services for national partners as well as international organisations and financial institutions. In its international consulting activities, KPC continues to focus its services on development cooperation, especially with countries in South-Eastern, Central and Eastern Europe.

New clients won by KPC in 2015 include the French Development Bank (AFD - Agence Française de Développement) and the Inter-American Development Bank (IDB).

In 2015, KPC was again mandated by the Austrian Development Agency (ADA) to continue its support services for Austria's water sector policy within the framework of Austrian development cooperation.

Moreover, a consortium led by KPC prevailed against strong international competition and submitted the winning bid for the UREEFF energy efficiency credit line (Ukraine Residential Energy Efficiency Financing Facility) in a call for tenders by the European Bank for Reconstruction and Development (EBRD) in Ukraine. For KPC, this is the biggest consulting project undertaken to date. Its objective is to ensure the optimal implementation of the new energy efficiency credit line of the EBRD in a volume of USD 100 million for the building sector in Ukraine.

KPC also succeeded in consolidating its position as a consultant in the field of climate finance. Within the framework of the pilot auction facility (PAF) for methane avoidance measures, KPC was appointed Third Party Verification Agent by the World Bank. The World Bank intends to promote climate action projects through a novel auctioning mechanism. KPC's task is to verify the project measures and to administer the emission certificates as a trustee.

The SUDEP project (sustainable urban demonstration projects), which the European Commission (EC) entrusted to KPC in 2014, also played an important role in KPC's work programme. Within the framework of this project, to be implemented by KPC in cooperation with its partners over a period of four years, municipal demonstration projects aimed at reducing energy consumption are to be developed. Selected municipalities in Armenia, Georgia, Moldova, Ukraine and Belarus will receive technical support for their projects, and appropriate utilisation of EU funds will be safeguarded.

KPC's renowned consultancy clients include the European Commission (EC), the European Bank for Reconstruction and Development (EBRD), the World Bank, Kreditanstalt für Wiederaufbau (KfW), the French Development Bank (ADF) and the Inter-American Development Bank (IDB).

KPC's ISO certification for the consulting business was re-confirmed in 2015.

Kommunalkredit Beteiligungs- und Immobilien GmbH

As a wholly-owned subsidiary of KA, Kommunalkredit Beteiligungs- und Immobilien GmbH (KBI) holds the real estate used mostly for the Group's own purposes as well as most of the participations of KA, i.e.

- Kommunalnet E-Government Solutions GmbH (45%)
- TrendMind IT Dienstleistung GmbH (100%)
- Kommunalleasing GmbH (50%)

Kommunalnet E-Government Solutions GmbH

45% of Kommunalnet E-Government Solutions GmbH (Kommunalnet) is held by KA (through KBI), 45% by the Association of Austrian Municipalities and 10% by three of its provincial entities. Kommunalnet is the electronic work and information portal for Austrian local authorities, mayors and municipal staff. The platform offers up-to-date news on matters of interest for local authorities, provides access to relevant official databases, and serves as an information and communication hub between the federal, provincial and local levels. Kommunalnet is an official component of the Austrian e-government road map.

Since 2014, Kommunalnet has also been operating as a social network for local authorities. Through this network, local authorities in Austria are able to network with each other, exchange valuable information and experience, and cooperate more efficiently.

At the end of December 2015, Kommunalnet had 13,265 registered users from 2,033 Austrian local authorities and associations of local authorities. Thus, Kommunalnet has a market share of 95.1% in the municipal sector and holds a unique position in the Austrian market.

TrendMind IT Dienstleistung GmbH

TrendMind IT Dienstleistungen GmbH TrendMind) is the IT specialist for financial products, SAP and software for support programme management. The company benefits from many years of experience with the implementation of SAP projects and Internet solutions with a special focus on databases and financial products. TrendMind provides its services mainly for customers in Austria and Germany. In 2015, the company further broadened its customer base.

Kommunalleasing GmbH

Kommunalleasing GmbH is a 50% subsidiary of KBI; the remaining 50% is held by BAWAG P.S.K. LEASING GmbH. Since its establishment in 2002, the company has implemented municipal infrastructure projects, such as fire brigade centres, schools, town halls, etc. worth a total of approx. EUR 140 million, for provincial and local authorities. The company has not engaged in any new business since 2008.

Kommunalkredit Vermögensverwaltungs-GmbH

The company is currently not operational.

RISK REPORTING

For details on the KA Group’s risk management, please refer to the risk report in Note 70 on page 84 of this report.

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 www.kommunalkredit.at.

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 the
Kommunalkredit Group

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

CONSOLIDATED FINANCIAL STATEMENTS OF THE KOMMUNALKREDIT GROUP FOR THE BUSINESS YEAR 2015

I. CONSOLIDATED BALANCE SHEET

Assets in EUR 1,000	Notes	31-12-2015	Opening balance sheet 26-09-2015
Cash and balances with central banks	(26)	79,693.3	301,018.7
Loans and advances to banks	(27)	240,994.6	513,063.9
Loans and advances to customers	(28)	2,353,017.9	2,477,493,4
Assets at fair value	(29)	752,691.9	761,027.6
Assets available for sale	(30)	151,615.3	151,095.6
Derivatives	(31)	544,055.9	1,027,545.5
Investments in associates	(32)	2,322.4	2,274.9
Property, plant and equipment	(33)	27,657.5	27,327.9
Intangible assets	(34)	383.6	332.5
Current tax assets	(36)	3.5	0.0
Deferred tax assets	(36)	1,775.8	121.4
Other assets	(37)	7,802.2	13,445.7
Assets		**4,162,013.8**	**5,274,747.2**

Liabilities and equity in EUR 1,000	Notes	31-12-2015	Opening balance sheet 26-09-2015
Amounts owed to banks	(38)	463,975.7	1,013,390.8
Amounts owed to customers	(39)	383,002.3	382,942.8
Derivatives	(40)	427,177.4	910,426.9
Securitised liabilities	(41)	2,527,894.0	2,611,015.1
Subordinated liabilities	(42)	73,848.2	73,948.3
Provisions	(43)	7,376.9	7,794.2
Current tax liabilities	(44)	3,969.9	7,221.4
Other liabilities	(45)	18,505.7	17,387.3
Equity	(46)	256,263.8	250,620.5
of which subscribed capital		*159,491.3*	*159,491.3*
of which statutory reserves		*10,508.7*	*10,508.7*
of which available-for-sale reserve		*1,578.1*	*1,781.6*
of which other reserves (incl. consolidated result for the year)		*84,527.1*	*78,690.4*
of which non-controlling interests		*158.6*	*148.6*
Liabilities and equity		**4,162,013.8**	**5,274,747.2**

II. CONSOLIDATED INCOME STATEMENT

Income Statement in EUR 1,000	**Notes**	**26-09 to 31-12-2015**
Net interest income	(47)	9,335.7
Interest and similar income		*57.573.5*
Interest and similar expenses		*-48.237.8*
Loan impairment charges	(48)	-7.8
Net fee and commission income	(49)	4,633.3
Fee and commission income		*4,745.9*
Fee and commission expenses		*-112.6*
Income from investments in associates	(50)	47.4
Net trading and valuation results	(51)	1,659.5
General administrative expenses	(52)	-12,668.5
Contributions to Bank Resolution Fund	(53)	-750.0
Other operating result	(54)	1,720.2
Other operating income		*2,775.3*
Other operating expenses		*-1,055.1*
Consolidated profit for the year before tax		**3,969.7**
Taxes on income	(55)	1,580.7
Consolidated net profit		**5,550.5**

of which:	
Attributable to owners	5,540.5
Attributable to non-controlling interests	10.0

III. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Comprehensive income in EUR 1,000	26-09 to 31-12-2015
Consolidated profit for the year	**5,550.5**
Items to be recycled to the Income Statement	**-203.5**
Change in available-for-sale reserve	**-203.5**
Valuation of available-for-sale portfolio	*-271.3*
Deferred tax on available-for-sale reserve	*67,8*
Items not to be recycled to the Income Statement	**296.4**
Change in actuarial gains	**296.4**
Actuarial gains from pension provisions	*395.1*
Deferred tax on actuarial gains from pension provisions	*-98.8*
Comprehensive income	**5,643.3**

of which:	
attributable to owners	5,633.3
attributable to non-controlling interests	10.0

IV. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity according to IFRS developed as follows in 2015:

in EUR 1,000	Subscribed capital	Statutory reserves[1]	Revenue reserves and other reserves	Profit for the year (attributable to owners)	Available-for-sale reserve[2]	Actuarial gains/losses IAS 19	Equity excl. non-controlling interests	Non-controlling interests	Equity
as at 26-09-2015	**159,491.3**	**10,508.7**	**78,690.4**	**0.0**	**1,781.6**	**0.0**	**250,471.9**	**148.6**	**250,620.5**
Profit for the year	***0.0***	***0.0***	***0.0***	***5,540.5***	***0.0***	***0.0***	**5,540.5**	***10.0***	***5,550.5***
Change in AFS reserve	*0.0*	*0.0*	*0.0*	*0.0*	*-203.5*	*0.0*	**-203.5**	*0.0*	***-203.5***
Valuation of AFS portfolio	*0.0*	*0.0*	*0.0*	*0.0*	*-203.5*	*0.0*	**-203.5**	*0.0*	***-203.5***
Recycling of AFS reserve	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	**0.0**	*0.0*	***0.0***
Change in actuarial gains	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*296.4*	**296.4**	*0.0*	***296.4***
Comprehensive income	**0.0**	**0.0**	**0.0**	**5,540.5**	**-203.5**	**296.4**	**5,633.3**	**10.0**	**5,643.3**
as at 31-12-2015	**159,491.3**	**10,508.7**	**78,690.4**	**5,540.5**	**1,578.1**	**296.4**	**256,105.2**	**158.6**	**256,263.8**

[1] Statutory reserves include statutory revenue reserves in the amount of TEUR 508.7 and other statutory reserves of the parent pursuant to § 57(5) Austrian Banking Act in the amount of TEUR 10,000.0.
[2] The available-for-sale reserve comprises deferred taxes of TEUR 526.0 as at 31-12-2015.

For details on equity, see Note 46.

V. CONSOLIDATED STATEMENT OF CASH FLOWS

The Consolidated Statement of Cash Flows shows the current state and the development of the Kommunalkredit Group's cash and cash equivalents. Strictly interpreted, cash and cash equivalents include cash in hand and balances with central banks.

in EUR 1,000	26-09 to 31-12-2015
Consolidated profit for the year after tax	**5,550.5**
Non-cash items included in the profit for the year and reconciliation to cash flow from operating activity	
Depreciation and amortisation on property, plant and equipment and intangible assets	520.0
Appropriation to/release of provisions	-113.2
Non-realised gains/losses from exchange rate fluctuations	1.8
Gains/losses from the valuation of financial assets and gains from the buyback of own issues	-1,661.3
Income tax deferrals	-4,865.3
Profit participations in companies valued according to the equity method	-47.4
Non-cash deferrals and other adjustments	2,170.8
Sub-total	1,555.8
Change in assets and liabilities from operating activities after correction for non-cash items	
Loans and advances to banks	272,099.4
Loans and advances to customers	123,567.4
Assets available for sale and fair-value option	3,424.4
Derivatives	-11,809.2
Other assets from operating activities	5,643.5
Amounts owed to banks	-329,432.8
Amounts owed to customers	-1,339.3
Securitised liabilities	-65,114.0
Other liabilities from operating activities	1,118.4
Cash flow from operating activity	**-286.3**
Proceeds from the sale/redemption of	
financial assets	0.0
property, plant and equipment and intangible assets	0.0
Payments for the acquisition of	
financial assets	0.0
property, plant and equipment and intangible assets	-900.7
Cash flow from investing activity	**-900.7**
Cash inflow from capital increases / cash outflow from capital reductions	0.0
Dividend payments attributable to the owners of the parent	0.0
Dividend payments attributable to non-controlling interests	0.0
Change in funds from other financing activity (ECB tender)	-220,000.0
Change in funds from other financing activity (subordinated capital)	-138.4
Cash flow from financing activity	**-220,138.4**
Cash and cash equivalents at the end of the previous period	**301,018.7**
Cash flow from operating activity	-286.3
Cash flow from investing activity	-900.7
Cash flow from financing activity	-220,138.4
Cash and cash equivalents at the end of the period	**79,693.3**

Cash flows for taxes and interest (included in cash flow from operating activity)	
Interest received	14,358.8
Interest paid	-7,187.5
Taxes on income paid	23.8

NOTES TO THE FINANCIAL STATEMENTS OF THE KOMMUNALKREDIT GROUP FOR THE BUSINESS YEAR 2015

GENERAL PRINCIPLES

1. General information

Kommunalkredit Austria AG (KA), with its registered office in Vienna, Türkenstrasse 9, focuses on the structuring and financing of infrastructure projects as well as management and consultancy services for public-sector clients (through its 90% subsidiary Kommunalkredit Public Consulting/KPC). It is registered with the Commercial Court of Vienna under Companies Register number 439528s.

KA[1] 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.

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.

[1] 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 Alt
- Kommunalkredit Austria AG since the demerger on 26-09-2015: KA
- KA Finanz AG: KF

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% 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 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 hold 55% and 45%, respectively, 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. These consolidated financial statements meet the requirements of § 59a of the Austrian Banking Act. As an issuer of exchange-listed securities, KA publishes a consolidated management report pursuant to § 82(4) of the Stock Exchange Act as part of these financial statements.

2. Accounting rules governing the demerger, new incorporation and privatisation

The demerger for new incorporation executed on 26 September 2015 (for details see Note 1) was a so-called common control transaction according to IFRS (IFRS 3.B1), as all the entities involved were under common control and/or controlled by the same owner (FIMBAG holding the entities in trust for the Republic of Austria). Such transactions are explicitly excluded from IFRS 3 and are outside the scope of IFRS.

In accordance with IAS 8.10, the KA Group therefore had to choose an accounting and measurement method that results in information that is relevant and reliable. The KA Group chose the predecessor basis of accounting for all Group companies, a method generally recognised in the literature, under which all the assets and liabilities transferred were taken over at their carrying amounts as of the effective date of the demerger, i.e. 26 September 2015.

In these first IFRS financial statements of KA New, IAS 1 (Presentation of Financial Statements) was fully applied; IFRS 1 (First-time adoption of IFRS) does not apply. Therefore, all values are to be presented exclusively for 31 December 2015, and comparisons with the opening values as at 26 September 2015 are not required. The opening values as at 26 September 2015 are shown on the balance sheet (see Section I) for the purpose of information and are used for the presentation of balance sheet developments.

3. Standards and interpretations applied

The consolidated financial statements of KA were prepared on the basis of the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) and to be applied on a mandatory basis as of 31 December 2015, as adopted by the EU, as well as the Interpretations by the IFRS Interpretations Committee (IFRIC and SIC).

An overview of the new or amended standards and interpretations, to be applied on a mandatory basis in the EU after transposition into European law for annual periods beginning on or after 1 January 2015, is given below. KA applies these standards and interpretations for the business year 2015.

IFRIC 21 (Levies)
Effective date: Annual periods beginning on or after 1 January 2014 (applicable in the EU as transposed into European law for annual periods beginning on or after 1 July 2014)
Topic: The interpretation clarifies when a liability for a government-imposed levy arises and a provision or liability is to be recognised. Accordingly, a debt item for levies has to be recognised when the event triggering imposition of the levy occurs. This obligating event is subject to the wording of the underlying standard. Thus, accounting depends on the wording of the standard.
Impact: KA applies this interpretation as such situations arise. No significant impact on the reporting period.

Annual improvements cycle 2011–2013 to IFRS 1 (First-time Adoption), IFRS 3 (Business Combinations), IFRS 13 (Fair Value Measurement), IAS 40 (Investment Property)
Effective date**:** Annual periods beginning on or after 1 July 2014 (based on adoption by the EU, applicable for annual periods beginning on or after 1 January 2015)
Topic**:** Within the framework of this improvements cycle, the wording of the above four standards was amended to clarify the existing rules. The amendment to IFRS 1 (First-time Adoption) refers to a clarification of the time of first adoption and the existence of two published versions of a standard at that point in time. The amendment to IFRS 3 (Business Combinations) introduces a new wording of the exception of joint ventures from the scope of IFRS 3. The amendment to IFRS 13 (Fair Value Measurement) refers to the portfolio exception according to IFRS 13.48 and clarifies that this exception for measuring the fair value applies to all contracts within the scope of IAS 39 (Financial Instruments: Recognition and Measurement) or the future IFRS 9 (Financial Instruments), even if they do not meet the definition of a financial asset or a financial liability according to IAS 32 (Financial Instruments: Presentation).The amendment to IAS 40 (Investment Property) clarifies that IAS 40 and IFRS 3 (Business Combinations) are independent of each other and do not exclude one another.
Impact**:** The above amendments (improvements cycle 2011-2013) do not result in any changes for KA.

The new or amended standards and interpretations listed in the following are mandatory for annual periods beginning after 1 January 2015, following adoption by the EU. Their relevance to and/or treatment in future consolidated financial statements of KA is referred to in the following.

IAS 19 (Employee Benefits)
Effective date: Annual periods beginning on or after 1 July 2014 (according to transposition into European law applicable in the EU for annual periods beginning on or after 1 February 2015)
Topic: These minor amendments to IAS 19 are intended to clarify the accounting of employee contributions to defined-contribution plans. The amendments are to facilitate the recognition of employee contributions or third-party contributions to defined-contribution pension plans, provided the contributions are independent of the number of service years. The amendment clarifies that the nominal amount of employee contributions can be deducted from the current service cost of the corresponding service period.
Impact: Not relevant

Amendments to IAS 16 and IAS 38 (Property, Plant and Equipment; Intangible Assets)
Effective date: Annual periods beginning on or after 1 January 2016 (according to transposition into European law applicable in the EU for annual periods beginning on or after 1 January 2016)

Topic: The choice of methods of depreciation and amortisation of property, plant and equipment and intangible assets is clarified. In principle, the depreciation and amortisation of property, plant and equipment and intangible assets is to reflect the expected consumption of the future economic benefit generated by the asset. The IASB stated that depreciation of property, plant and equipment on the basis of revenues derived from the goods produced with such property, plant and equipment is not appropriate.
Impact: Not relevant

Amendments to IAS 16 and IAS 41 (Agriculture; Plants Produced)
Effective date: Annual periods beginning on or after 1 January 2016 (according to transposition into European law applicable in the EU for annual periods beginning on or after 1 January 2016)
Topic: The amendments clarify that plants produced – like self-produced property, plant and equipment – are to be accounted for at cost until they have reached production stage, whereas subsequently IAS 16 applies.
Impact: Not relevant

Amendments to IFRS 11 (Joint Arrangements)
Effective date: Annual periods beginning on or after 1 January 2016 (according to transposition into European law applicable in the EU for annual periods beginning on or after 1 January 2016)
Topic: The amendment clarifies that when an entity acquires an interest in a joint operation that constitutes a business as defined in IFRS 3, it is required to apply all the principles of IFRS 3 and other applicable IFRS rules, unless they are in conflict with the rules of IFRS 11.
Impact: Not relevant

Annual improvements cycle 2010-2012 regarding IFRS 2 (Share-Based Payment), IFRS 3 (Business Combinations), IFRS 8 (Operating Segments), IFRS 13 (Fair Value Measurement), IAS 16 (Property, Plant and Equipment), IAS 38 (Intangible Assets), IAS 24 (Related Party Disclosures)
Effective date: Annual periods beginning on or after 1 July 2014 (according to transposition into European law applicable in the EU for annual periods beginning on or after 1 February 2015)
Topic: Within the framework of this improvements cycle, the wording of the above seven standards was amended to clarify the existing rules. The amendment to IFRS 2 (Share-Based Payment) clarifies the definition of vesting conditions by separately defining a performance condition and a service condition in the appendix to the standard. The amendment to IFRS 3 (Business Combinations) includes adaptations regarding a contingent consideration within the framework of the purchase of an entity (IFRS 3.40 and/or 3.58) and clarifies its recognition and subsequent accounting. In IFRS 8 (Operating Segments) clarifications were added regarding the aggregation of operating segments and their disclosures, with reconciliations required if information on segment assets is included in the financial information to be reported to the bodies responsible for the entity. As regards IFRS 13 (Fair Value Measurement), it was clarified that the IASB did not want to eliminate the possibility of waiving the discounting of short-term receivables and payables in case of immateriality. The amendments to IAS 16 (Property, Plant and Equipment) and IAS 38 (Intangible Assets) clarify the extent to which cumulative depreciation would have to be determined within the framework of application of the re-valuation model at the time of measurement. The amendment to IAS 24 (Related Party Disclosures) extends the definition of related parties to include management entities.
Impact: The above amendments resulting from the 2010-2012 improvements cycle are not relevant for KA.

The new or amended standards and interpretations listed in the following are applicable to annual periods beginning after 1 January 2015. These standards and interpretations have not yet been transposed into European law. Their potential relevance to and/or treatment in future consolidated financial statements of KA is referred to in the following.

IFRS 9 (Financial Instruments)

Effective date: Annual periods beginning on or after 1 January 2018 (transposition into European law still outstanding)

Topic: IFRS 9 is to replace IAS 39 within the framework of a comprehensive project providing for revisions in three parts. The first part of IFRS 9 concerns the classification and measurement of financial instruments. Upon initial recognition, financial assets will have to be classified according to the following categories:

- Debt instruments at amortised cost
- Debt instruments, derivatives and equity instruments at fair value through profit or loss
- Debt instruments at fair value through OCI, with cumulative gains and losses to be recycled to the income statement upon derecognition of the debt instrument
- Equity instruments at fair value through OCI, with cumulative gains and losses to be recognized in OCI without recycling to the income statement.

The classification depends on the business model of the company and the contractual terms of the financial asset. The group of financial assets at amortised cost comprises those financial assets which exclusively provide for a claim to interest and redemption payments and are held within the framework of a business model intended to hold assets.

The second part of IFRS 9 concerns risk provisions and the application of the expected loss model to all financial instruments measured at amortised cost or fair value through OCI. It will require recognition not only of incurred losses, but also of expected losses. The scope of recognition of expected losses will depend on whether the risk of default of financial assets has significantly deteriorated since their addition or not.

The third part contains new rules on hedge accounting, which is to be aligned more closely to the economic risk management system of a company; the relation between the hedged underlying transaction and the hedging instruments will have to correspond to the requirements of a risk strategy. Moreover, the rules on the proof of effectiveness of hedge accounting will change. First adoption, under simplification options, is to be retrospective.

Impact: KA is preparing the transition from IAS 39 to IFRS 9 within the framework of a comprehensive project. The implications of the three parts of IFRS 9 are being analysed in detail.

IFRS 14 (Regulatory Deferral Accounts)

Effective date: Annual periods beginning on or after 1 January 2016 (transposition into European law rejected)

Topic: IFRS 14 (Regulatory Deferral Accounts) permits first-time adopters of IFRS to continue to recognise regulatory deferrals, with few exceptions, in accordance with their previous accounting principles. This applies to first IFRS statements as well as subsequent statements. Regulatory deferral accounts and changes thereof must be shown separately in the presentation of the financial position and in the income statement or in other comprehensive income. Moreover, certain disclosure requirements have to be met.

Impact: Not relevant

IFRS 15 (Revenue from Contracts with Customers)
Effective date: Annual periods beginning on or after 1 January 2017 (transposition into European law still outstanding)
Topic: The objective of the revised standard is to harmonise the existing IFRS rules and the highly detailed and partly industry-specific rules of US-GAAP and thus improve the transparency and comparability of financial disclosures. According to IFRS 15, revenues are to be recognised when the promised goods and services are transferred to the customer who then derives a benefit from them. The primary issue is longer the transfer of material opportunities and risks, as provided for under IAS 18 rules (Revenue). Revenue is to be accounted for at the amount of compensation expected by the entity. The new model of IFRS 15 provides for a five-step process for the determination of revenue and will replace the contents of both IAS 18 (Revenue) and IAS 11 (Construction Contracts).
Impact: The implications of IFRS 15 will be taken into account in due time.

IFRS 16 (Leases)
***Effective date*:** Annual periods beginning on or after 1 January 2019 (transposition into European law still outstanding)
***Topic*:** This project, which is being pursued jointly by the IASB and the FASB, aims to improve the accounting of leases by developing an approach that is more in line with the definition of assets and liabilities in the framework concept. This project will ultimately replace IAS 17 (Leases).
***Impact*:** The implications of IFRS 15 will be taken into account in due time.

Amendments to IAS 1 (Presentation of Financial Statements)
***Effective date*:** Annual periods beginning on or after 1 January 2016 (transposition into European law still outstanding)
***Topic*:** The amendments to IAS 1 are intended to clarify the concept of materiality. The amendments are to eliminate immaterial information from IFRS financial statements and, at the same time, encourage the communication of relevant information. Financial statements are to be made more entity-specific by allowing preparers to use their own judgement. Disclosures in the notes would be required only if their content is not immaterial. This applies explicitly even if an IFRS requires a list of minimum disclosures. The mandatory structure of the notes is eliminated in order to facility an entity-specific presentation; moreover, the amendment clarifies that the entity is free to decide where in the notes the significant accounting and measurement principles are explained.
***Impact*:** The implications of this amendment to IAS 1 for the notes of KA will be taken into account in due time.

Amendments to IAS 27 (Separate Financial Statements)
Effective date: Annual periods beginning on or after 1 January 2016 (transposition into European law still outstanding)
Topic: The amendments will allow investments in subsidiaries, joint ventures and associates to be accounted for according to the equity method in separate financial statements according to IFRS. Upon adoption of this amendment, the following options for the inclusion of such entities in the separate financial statements will be available: recognition at amortised cost; measurement as financial instruments held for sale and recognition according to the equity method.
Impact: Not relevant

Amendments to IFRS 10, 12 and 28 (Consolidated Financial Statements; Disclosure of Interests in Other Entities; Associates)
Effective date: Annual periods beginning on or after 1 January 2016 (transposition into European law still outstanding)
Topic: These amendments serve to clarify issues regarding the exception to consolidation according to IFRS 10, if the parent meets the definition of an investment entity.
Impact: No impact on the consolidated financial statements of the KA Group

Amendments to IFRS 10 and IAS 28 (Consolidated Financial Statements; Associates)
Effective date: to be decided (transposition into European law still outstanding)
Topic: The amendments address an inconsistency identified between IFRS 10 and IAS 28 in the event of the sale of assets and/or the contribution of assets to an associate or a joint venture. In future the entire gain or loss from such a transaction is to be recognised only if the assets constitute a business as defined in IFRS 3, regardless of whether the transaction is a share deal or an asset deal. If the assets do not meet the definition of a business, the gain or loss is to be recognised on a pro-rata basis.
Impact: Not relevant

Annual improvements cycle 2012–2014 regarding IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), IFRS 7 (Financial Instruments: Disclosures), IAS 19 (Employee Benefits), IAS 34 (Interim Financial Reporting)
***Effective date*:** Annual periods beginning on or after 1 January 2016 (transposition into European law still outstanding)
***Topic*:** Within the framework of this improvement project, parts of the wording of the above four standards were amended in order to clarify the existing rules. The amendments to IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) are intended to clarify the reclassification of assets held for sale into the category of assets held for distribution to owners (and vice versa), allowing the continued use of the rules applicable to the group. Moreover, this amendment clarifies when an asset (or a disposal group) no longer meets the definition of held for distribution to owners. As regards IFRS 7 (Financial Instruments: Disclosures), additional guidelines for the disclosure requirements on assets transferred in their entirety were added; in future, disclosures of the continued engagement will be required, if the entity takes an interest in the future earnings strength of the financial asset transferred.
In addition, the applicability of the amendments to IFRS 7 to the disclosure of the netting of financial assets and financial liabilities in interim financial statements was clarified. In principle, such disclosures are not to be included in interim financial statements, unless the general requirements of IAS 34 (Interim Financial Reporting) so demand. The amendments to IAS 19 (Employee Benefits) clarify that the discount rate for benefits after termination of the employment relationship is determined exclusively on the basis of senior corporate or government bonds denominated in the same currency as the payments made. In IAS 34 (Interim Financial Reporting), a statement was added to clarify that the required selected disclosures in the notes to an interim report do not have to be included in the notes, but can be made at another point in the interim report.
***Impact*:** The implications of these amendments for the notes of KA will be taken into account in due time.

4. Scope of consolidation

According to the rules of IFRS 10, the scope of consolidation of the Kommunalkredit Group comprised the following companies, besides KA as the parent, as at 31 December 2015:

Name and registered office	Investment direct	Investment indirect	Share in capital in %	Financial statement disclosures (IFRS) Last financial statements	Total assets in EUR 1,000	Equity in EUR 1,000	Profit/loss 26-09 to 31-12-2015 in EUR 1,000
1. Subsidiaries							
Fully consolidated subsidiaries							
Kommunalkredit Beteiligungs- und Immobilien GmbH (KBI), Wien	x		100.00%	31-12-2015	28,814.1	7,124.4	106.4
Kommunalkredit Public Consulting GmbH (KPC), Wien	x		90.00%	31-12-2015	7,878.0	1,628.4	100.3
2. Associates							
Associates included at equity							
Kommunalleasing GmbH (Kommunalleasing), Wien		x	50.00%	31-12-2015*)	97,354.9	4,644.8	47.4

*) preliminary unaudited figures

The subsidiaries were included in the scope of full consolidation, while the associate was recognised according to the equity method. The balance sheet date of the consolidated companies is the same as that of the parent.

No material risks or restrictions arise for the KA Group from its subsidiaries. The activities of Kommunalleasing GmbH, included at equity, comprise leasing transactions for Austrian local authorities. No material risks arise for the KA Group from its associate.

ACCOUNTING AND MEASUREMENT PRINCIPLES

5. General accounting and measurement methods

The consolidated financial statements of KA have been prepared on a going-concern basis. The financial disclosures in the consolidated financial statements contain the data of the parent together with its subsidiaries, presented as one economic entity. The accounting and measurement principles are applied uniformly throughout the Group and continuously for the reporting periods presented.

The financial statements are intended to give a true and fair view of the assets, the financial position and the income of the Kommunalkredit Group according to IFRS rules, as adopted by the EU.

Acquisitions and disposals of all classes of financial assets are recognised on the day of trading.

Income and expenses are accrued/deferred pro-rata-temporis and recognised in profit or loss in the period they count to economically. 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 completion of service provision are booked as income at the time of completion. Contingent commissions are recognised when the required performance criteria are met.

The reporting currency of these financial statements is the euro, as this is the functional currency of all companies of the Group. Unless otherwise indicated, the figures are rounded to the nearest thousand, which may result in rounding differences in the tables.

6. Consolidation principles

All material subsidiaries controlled by KA (IFRS 10) are fully consolidated.

The consolidation actions taken include capital consolidation, debt consolidation and the consolidation of expenses and income. The fully consolidated companies all present their annual financial statements as at the Group reporting date.

Within the framework of capital consolidation, all identifiable tangible and intangible assets, liabilities and contingent liabilities of the subsidiary at the time of acquisition are re-measured. The acquisition costs are offset against the pro-rata net assets of the subsidiary at the time of transfer of control. The shares held by the other shareholders are determined on the basis of the assets and liabilities measured at their fair value.

Intra-Group receivables and liabilities as well as expenses and income are eliminated, unless they are immaterial. Internal transactions within the Group, balances, and unrealised gains and losses from transactions between Group companies are eliminated, unless they are immaterial.

Companies over which KA has a material influence (associates) are accounted for under the equity method and recognised as investments in associates. According to the equity method, the shares held in associates are recognised at acquisition cost, plus any post-acquisition changes in the shares held by the Group in the net assets of the associate. The most recent financial statements (including reconciliation to IFRS) of the associate are used as a basis. The pro-rata result (minus dividends paid) is recognised in the Income Statement under income from investments in associates.

7. Currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the rate notified by the European Central Bank (euro reference rate) as at the balance sheet date. Non-monetary items measured at historic acquisition costs in a foreign currency are to be translated at the exchange rate on the day of the transaction; non-monetary items measured at fair value in a foreign currency are to be translated at the exchange rate of the day on which the value was established. Results from currency translation are recognised in the Income Statement under the net trading and valuation result. In the case of available-for-sale (AFS) instruments, the translation result is reported in other comprehensive income.

8. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed and/or determinable cash flows, which are not quoted in an active market. Assets of this category are recognised on the Balance Sheet under loans and advances to banks, loans and advances to customers and cash and balances with central banks. After initial recognition at their fair value, taking account of transaction costs, such assets are subsequently measured at amortised cost. Amortised costs are derived from the distribution of differences between the issuing price and the amount redeemed at constant effective interest, reduced by impairment charges, if any. The result of the amortisation of differences at constant effective interest is recognised in the Income Statement under net interest income. Accounting for loans and receivables as underlying transactions in hedging relationships is explained in Note 16.

9. Risk provisions

Risk provisions for loans and advances comprise impairments (for on-balance-sheet lending business) and provisions (for off-balance-sheet lending business), unless designated as at fair value. Risk provisions are set up for all identifiable credit risks, booked on a separate account and recognised under loan impairment. Provisions for risks in the securities business reduce the book value and are booked under the net trading and valuation result.

Impairments are recognised in the amount of the difference between the book value of the financial asset and the net present value of the expected future cash flows, discounted at the original effective interest rate of the financial asset (IAS 39.63). Additionally, impaired assets accounted for at amortised cost are recognised on a non-interest basis, with contractually agreed interest income no longer recognised. Instead, interest income is determined by adding unaccrued interest to the present value of the cash flows expected over the reporting period at the effective interest rate originally used to calculate the impairment loss (IAS 39.A93). Once it has been established that no payment will be received, the receivable is derecognised.

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

Risk class 0: Regular transaction
Standard risk class for all exposures without irregularities and not belonging to any of the following risk classes

Risk class 1: Intensive management – performing
Counterparties with increased credit risk and/or other irregularities and therefore subject to close monitoring (intensive management). However, these counterparties are not considered to be at risk of default and no specific loan loss provisions need to be booked.

Risk class 2: Workout – restructuring
Exposures in workout classified as restructuring cases

Risk class 3: Workout – recovery
Exposures for which restructuring is not expected to produce the desired result and recovery measures are taken instead.

Starting from risk class 1, provisioning requirements are reviewed monthly (impairment test). Specific loan loss provisions are to be set up if partial or full recovery of an amount owed, including interest, is considered unlikely. In any case, the possibility of specific loan loss provisioning is to be examined as soon as an exposure meets at least one of the following criteria:

- Interest waived due to the counterparty's rating

- Significant credit risk adjustment, e.g.:
    - Rating downgrade to B range or lower
    - Default rating by an external rating agency
    - Reduction of current market price by more than 25%
    - Termination and call of receivable due to counterparty's rating

- Concessions granted for reasons of counterparty's rating (forbearance)

- Insolvency proceedings or similar proceedings have been instituted, or commencement of bankruptcy proceedings has been rejected for lack of assets, or the debtor as a legal person has been wound up by decision of a court or an administrative authority.

- Significant negative information available

- Payment arrears of 90 days, with the receivable past due exceeding the approved and communicated overall limit by more than 2.5%, but at least by EUR 250.00.

In addition to specific loan loss provisions, a portfolio loan loss provision is calculated for "incurred but not reported losses" according to IAS 39.64. To determine the provisioning requirement, the financial assets are broken down by risk profile into comparable groups. On the basis of empirical values and the bank's monitoring processes, portfolio loan loss provisions are set up for these groups, the parameters considered being "loss identification period" (LIP), "probability of default" and "loss given default".

10. Assets at fair value

In principle, KA designates receivables and securities as at fair value in order to avoid or significantly diminish the incongruences that occur in the measurement or recognition of assets when their gains or losses are measured or recognised on a different basis (accounting mismatch), or when assets are managed, measured and reported to the management on a fair value basis. They are initially recognised and subsequently measured at fair value. The results are recognised in the Income Statement under the net trading and valuation result.

11. Derivatives

The main purpose of derivatives in KA is to hedge the risk of interest rate changes and/or currency risks.

The derivatives items on the balance sheet comprise derivatives in hedging relationships (fair value hedges) and other derivatives.

Derivatives are recognised at their fair value. Positive fair values are reported as assets under derivatives; negative fair values are reported as liabilities under derivatives. Changes in the value of these derivatives based on the clean price are shown in the Income Statement under the net trading and valuation result, whereas interest income and expenses are recognised in gross interest income.

An embedded derivative is part of a compound financial instrument which also comprises a non-derivative host contract. Therefore, parts of the cash flows of the compound financial instrument are subject to similar fluctuations as a stand-alone derivative. An embedded derivative is recognised separately from the host contract and on the basis of derivative rules only if its economic features and risks are not closely related with the economic features and risks of the host contract, a stand-alone instrument with the same contractual terms would meet the definition of a derivative, and the compound financial instrument is not measured at fair value through profit or loss.

The fair values of derivatives are measured according to IFRS 13, as explained in detail in Note 15.

12. Assets held to maturity (HTM)

This balance sheet item comprises non-derivative financial assets with fixed or determinable cash flows and a fixed term, traded in active markets at the time of addition, which KA has the intention and ability to hold until maturity. Initial recognition is at fair value, taking account of transaction costs, with subsequent valuation at amortised cost. If acquisition costs differ from the repayment amount, the difference is recognised at constant effective interest under interest income. If the impairment test to be performed at regular intervals (see Note 9) indicates impairment, the amount is written down to the extent necessary, as described under Note 9, and recognised in the net trading and valuation result.

Financial instruments of the “assets held to maturity” category are recycled to the “assets available for sale” category, if classification of a financial investment as held to maturity is no longer justified in the absence of a positive intention or ability to hold such instruments to maturity. If more than an insignificant amount of held-to-maturity investments is sold or reclassified, all assets of this category are reclassified to the “assets available for sale” category. Consequently, financial instruments must not be classified as “assets held to maturity” in the current financial year and the two following financial years (tainting). In the event of recycling to the “assets available for sale” category, revaluation is performed at fair value, with the difference between the book value and the fair value recognised in equity (available-for-sale reserve) without carrying through profit or loss. Currently, KA does not hold any assets of this measurement category.

13. Assets available for sale (AFS)

Financial instruments are classified in this category if they are to be held for an indefinite period of time and do not belong to the loans-and-receivables, held-to-maturity or fair-value-through-profit-or-loss (fair value option) categories.

Financial instruments of this category are initially recognised and subsequently measured at their fair values. Changes in valuation are recognised in the Statement of Comprehensive Income and directly change the available-for-sale reserve (AFS reserve) within equity.

If the asset is sold or otherwise derecognised, the amount previously included in the AFS reserve passes through profit or loss. Interest earned on AFS financial instruments is recognised in net interest income, while dividends are reported under income from other investments. The result of the sale or derecognition is recognised in the net trading and valuation result. Any premium or discount is spread proportionately over time and recognised in net interest income. For details on the accounting of assets available for sale representing underlying transactions of hedges, see Note 16.

If the impairment test to be performed at regular intervals indicates impairment of AFS assets (see Note 9), the AFS reserve is recognised at fair value as an expense in the net trading and valuation result in the Income Statement. If the grounds for impairment no longer apply, the impairment is reversed and the debt instrument is again recognised in the Income Statement up to its amortised cost. Amounts in excess of amortised cost are recognised in the AFS reserve. If equity instruments are no longer impaired, the impairment charges recognised in the Income Statement do not carry through profit or loss.

14. Financial guarantees

A financial guarantee is a contract under which the guarantor is obliged to make certain payments to compensate the beneficiary of the guarantee for any losses arising from the failure of a debtor to make payments on schedule and according to the terms and conditions of a debt instrument. The potential obligation to pay is recognised according to IAS 39 as soon as KA becomes a contracting party. Initial recognition is at fair value. In an arm's length transaction, the fair value corresponds either to the premium obtained upon conclusion of the contract, or a value of zero if no premium was paid upon conclusion of the contract, the assumption being an equivalence of service and consideration. Within the framework of subsequent valuation, the need for a provision according to IAS 37 is examined. If KA is the beneficiary of the guarantee, the guarantee is not recognised on the Balance Sheet.

Premiums received and paid are accounted for on an accrual basis and recognised in the Income Statement under net fee and commission income.

15. Measurement of fair value

The fair value according to IAS 39 in conjunction with IFRS 13 is measured on the basis of the fair value hierarchy according to IFRS 13.72 (see also Note 69).

If the conditions of an active market are fulfilled, prices quoted in an active market are used for the measurement of **securities**.

If no prices are quoted, the credit spread of comparable instruments is used to establish the fair value. If there is no active market, the fair value is measured using generally accepted, prevailing measurement methods on the basis of observable data. If necessary, these data are adjusted through risk premiums. If no observable inputs are available, reference is made to non-observable data (e.g. parameter estimates). If none of these valuation options can be applied, indicative third-party prices or expert estimates are used for fair value measurement.

Loans are measured by means of an internal valuation model based on the net present value method. Cash flows are discounted on the basis of current yield curves, considering the prevailing credit spreads. Given the fact that issuing activities of regional and local territorial authorities are rare, no credit spreads derived from quoted prices are available and margins for matching maturities are therefore used as a best approximation. The margins in the corresponding loan segments are observed on the basis of near-time transactions and factored in by maturity for different segments and rating classes.

Derivatives are measured by means of an internal valuation model based on the discounted cash flow method, considering current yield and basis spread curves. Embedded options are measured by means of suitable option valuation models (e.g. Hull-White, Dupire, Libor market model).

OIS curves (overnight index swaps) are used for the discounting of cash flows from OTC (over-the-counter) derivatives. When measuring interest-sensitive products with variable indicators, yield curves with different basis spread premiums are used, depending on the indicator (e.g. 3-month LIBOR, 9-month LIBOR, 12-month LIBOR). These relate to the indicator concerned and are used to derive forward rates for cash flow determination.

For derivatives in several currencies (e.g. cross-currency swaps), a cross currency basis is applied according to prevailing market standards, in addition to the adaptation of forwards by basis swap spreads. In simple trades, the OIS discount factor curve of the leg not corresponding to the collateral currency is aligned to the collateral currency through cross currency basis spreads. In trades with a more complex structure, the cross currency basis is also considered in the calculation of cash flows.

According to IFRS 13, counterparty default risk and own credit risk (credit value adjustment and debt value adjustment) are to be considered in measuring the fair value of derivatives. Both components are shown as BCVA (bilateral CVA = CVA-DVA). KA determines BCVA for all derivatives without bilateral daily cash collateral margin calls. For collateralised derivatives with bilateral daily cash collateral margin calls BCVA is considered to be immaterial. BCVA is calculated by the potential exposure method (based on Monte Carlo simulations) at counterparty level according to IFRS 13.48.

16. Hedge accounting

IAS 39 contains special provisions on hedge accounting, which are intended to prevent economically unjustified effects of measurement differences in hedged underlying transactions and hedging instruments on the Income Statement. The purpose of the hedge accounting rules is to recognise value changes of hedging instruments and the transactions hedged as mutually offsetting. In order to apply the hedge accounting rules, it is necessary to provide evidence of an effective hedging relationship between the underlying transaction and the hedging transaction. A hedging relationship is considered effective if the results of the hedging instrument and the results of the hedged underlying transaction – relative to the risk hedged – offset each other within a range of 80% to 125%. At KA, compliance with these conditions is verified through prospective (cross-checking of the components determining the market value) and retrospective effectiveness tests.

The prospective effectiveness test compares all parameters of the underlying transaction and the hedging transaction that determine the extent of the hedged change in value and verifies whether the hedged fair value of the structure (underlying and hedging transactions) fluctuates within a range of 80% to 125% maximum.

The retrospective effectiveness test checks if the hedged fair value of the structure (underlying and hedging transactions) between two specified dates fluctuated within a range of not more than 80% and 125%.

The fair value hedge applied by KA serves to hedge the fair value of assets or liabilities. This type of hedge is used to hedge interest and/or currency risks. The hedging instruments used are interest-rate swaps and interest-rate cross-currency swaps. The derivative used as a hedging instrument is reported at its fair value, with measurement changes recognised in the Income Statement in the net trading and valuation result. For the hedged asset or liability, the changes in fair value resulting from the hedged risk are recognised in the same Income Statement item. On the Balance Sheet, the valuation result corresponding to the hedged risk is recognised in the same item as the underlying transaction.

The cash flow hedge serves to hedge the underlying assets against the risk of fluctuating cash flows. This type of hedge accounting is used to hedge cash flow changes resulting from interest-rate and currency risks. The hedging instrument used is the interest-rate cross-currency swap. The effective part of the derivative used as a hedging instrument is measured at fair value in comprehensive income (CFH reserve) and reported separately in the Statement of Comprehensive Income. The gains/losses recognised in equity are reported in the Income Statement of the period in which the hedged transaction is realised. The hedged asset is recognised at amortised cost (loans-and-receivables category). Currently, KA does not use cash flow hedges to hedge the risk of fluctuating cash flows.

Hedge ineffectiveness is recognised in profit and loss. The option of hedging the fair value against the interest rate exposure of a portion of the portfolio (according to IAS 39.89A) was not used.

17. Classes of financial instruments

In accordance with the requirement to group financial instruments into classes of similar instruments in the Notes to the Financial Statements (IFRS 7.6), KA distinguishes the following classes of financial instruments:

Classes of financial instruments	Accounting treatment
Cash and balances with central banks	Amortised cost
Financial assets	
At fair value through profit or loss: held for trading	Fair value
At fair value through profit or loss: fair value option	Fair value
Held to maturity	Amortised cost
Loans and receivables: loans and advances to banks	Amortised cost
Loans and receivables: loans and advances to customers	Amortised cost
Available for sale	Fair value
Financial liabilities	
At amortised cost	Amortised cost
At fair value through profit or loss: fair value option	Fair value
At fair value through profit or loss: held for trading	Fair value
Derivatives designated as hedging instruments	Fair value
Contingent liabilities	Off-balance-sheet
Other off-balance-sheet liabilities	Off-balance-sheet

As at the balance sheet date, the following classes of financial instruments were not used in KA:

- Financial assets: held to maturity
- Financial liabilities: at fair value through profit or loss: fair value option

18. Investments in associates

Associates are accounted for under the equity method. The value of these investments is reviewed at every balance-sheet date on the basis of target calculations.

19. Property, plant and equipment

Property, plant and equipment comprise land and buildings primarily for the company's own use as well as office furniture and equipment.

Land is recognised at acquisition cost. Buildings as well as office furniture and equipment are measured at acquisition cost less straight-line depreciation. The assumed projected periods of use are:

- Buildings: 30 to 45 years
- Office furniture and equipment: 4 to 10 years
- IT investment: 3 to 4 years
- Works of art are not subject to straight-line depreciation.

In the event of indications of impairment, special write-offs are made if the book value is above the higher of net sales price or value in use. If the grounds for impairment no longer apply, additions are made up to the level of amortised cost.

20. Intangible assets

Intangible assets exclusively comprise purchased software. Software is written off by the straight-line method over 3 or 4 years and recognised under general administrative expenses.

In the event of indications of impairment, special write-offs are made if the book value is above the higher of net sales price or value in use. If the grounds for impairment no longer apply, additions are made up to the level of amortised cost.

21. Financial liabilities

Financial liabilities are initially recognised at fair value. Subsequent valuation is at amortised cost, using the effective interest method. Long-term bonds issued discounted (e.g. zero bonds) and similar liabilities are recognised marked up for interest accruing by means of the effective interest method. Currently, there are no liabilities in the fair value portfolio. For details on the accounting of liabilities representing underlying transactions in hedge accounting, see Note 16.

22. Provisions

Provisions for pensions, severance pay and jubilee bonuses are calculated annually by an independent actuary according to the projected unit credit method in accordance with IAS 19. The "AVÖ 2008-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 provision for pensions corresponds to the net present value of the defined-benefit obligation minus the fair value of the plan assets. Actuarial gains and losses based on empirical adjustments and changes of actuarial assumptions are immediately recognised in equity in comprehensive income. Other expenses are recognised in the Income Statement under personnel expenses as part of general administrative expenses.

Provisions for severance pay are calculated by an independent actuary and set up according to the same actuarial principles to cover statutory and contractual entitlements. Actuarial gains and losses are subject to the same accounting treatment as pension obligations.

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.

23. Current and deferred tax assets

Taxes on income are recognised and calculated in accordance with IAS 12. Current income-tax assets and liabilities are measured at current tax rates. Tax claims are shown under current tax assets, and tax payable under current tax liabilities. For the calculation of deferred taxes, all temporary differences are taken into account. Under this concept, the assets and liabilities recognised on the balance sheet are compared with the taxable amounts of the consolidated company in question.

Temporary differences between the amounts recognised lead to differences in value, for which deferred tax assets or liabilities must be reported – irrespective of the time of their release. Deferred tax assets and deferred tax liabilities for the same term are offset if they exist against the same tax creditor.

Tax loss carryforwards are recognised as tax assets if they can be reasonably expected to be used up in the near future within a period of four years. The potential for utilisation of tax loss carryforwards is reviewed annually on the basis of the Group’s tax budgeting process.

Effective as of 2015, a tax group pursuant to § 9 of the Corporate Income Tax Act (*Körperschaftssteuergesetz – KStG*) 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.

24. Derecognition of financial assets and liabilities

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset have expired or when the Group has transferred such rights, including all material risks and rewards of ownership. If all risks and rewards are neither transferred nor retained, derecognition of the asset depends on whether or not the power of disposal is transferred.

If the Group retains all substantial risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset, as well as a collateralised financial instrument, for the consideration received.

A financial liability is derecognised upon redemption, i.e. when its contractual obligations have been discharged or are cancelled or expire, or when a financial liability is replaced by a liability against the same lender under significantly different contractual terms.

Upon complete derecognition of a financial instrument, the difference between the book value and the sum total of the consideration received or to be received and all accumulated gains or losses, which have been recognised in comprehensive income and accumulated in equity, are recognised in the Income Statement.

25. Significant estimates and judgements

The preparation of financial statements according to IFRS requires management to make judgements, estimates and assumptions regarding certain categories of assets and liabilities. Areas in which such estimates and judgements are required include, in particular, the determination of the fair value of financial assets and liabilities (see Note 15), impairment charges for loan losses, the impairment of assets (see Note 9), the recognition and measurement of deferred tax assets (see Note 23), the valuation of provisions (see Note 22) and the assessment of legal risks (see Note 71).

These judgements and assumptions influence the recognition of assets and liabilities, contingent claims and contingent liabilities on the balance sheet date, and of income and expenses of the reporting period. Management holds regular meetings to review its judgements and estimates. Decisions are taken by the competent bodies of the bank and documented accordingly. The underlying assumptions are continuously reviewed. Actual results may differ from management estimates.

BALANCE SHEET DISCLOSURES OF THE KOMMUNALKREDIT GROUP

26. Cash and balances with central banks

in EUR 1,000	31-12-2015
Cash in hand	6.0
Balances with central banks	79,687.2
Total	**79,693.3**

27. Loans and advances to banks (Loans and receivables)

in EUR 1,000	31-12-2015
Repayable on demand	240,994.6
Other receivables	0.0
Total	**240,994.6**

All loans and advances to banks are repayable on demand; included in this item are cash and cash equivalents provided as collateral (cash collateral) for negative market values of derivatives according to ISDA/CSA arrangements in the amount of TEUR 216,927.6.

28. Loans and advances to customers (Loans and receivables)

in EUR 1,000	31-12-2015
Repayable on demand	15,657.2
Other receivables	2,337,573.3
Portfolio allowance pursuant to IAS 39.64	-212.5
Total	**2,353,017.9**

Loans and advances to customers repayable on demand include cash and cash equivalents provided as collateral for negative market values of derivatives (transactions with non-bank financial institutions) according to ISDA/CSA arrangements in the amount of TEUR 15,650.0.

Other receivables include loans to customers in a book value of TEUR 1,858,533.3 and securities of the loans-and-receivables category in a book value of TEUR 479,047.2.

28.1 Loan loss provisions

Loan loss provisions recognised in loans and advances to customers are booked on a separate allowance account and developed as follows:

in EUR 1,000		2015
as at 26-09		**204.7**
Additions		
	Additions to loan loss provisions	7.8
	of which specific allowances according to IAS 39.63	*0.0*
	of which portfolio allowances according to IAS 39.64	*7.8*
Reversals		
	Reversal of risk provisions	0.0
	Earmarked use	0.0
as at 31-12		**212.5**

No specific loan loss provisions had to be set up as at 31 December 2015. The portfolio allowance according to IAS 39.64, considering the parameters “loss identification period (LIP)”, “probability of default” and loss given default”, amounted to TEUR 212.5 as at 31 December 2015, up by TEUR 7.8 compared with the opening balance sheet of 26 September 2015. For details, see Note 9 “Risk Provisions”.

28.2 Forbearance

Forbearance exposures or forborne exposures (deferred risk positions) are exposures and/or counterparties to which forbearance measures have been applied. Forbearance measures consist of concessions towards a debtor that is experiencing or about to experience difficulties in meeting its financial commitments (“financial difficulties”) – see also Implementing Regulation (EU) 2015/227 of the European Commission of 9 January 2015.

On account of the quality of its portfolio and/or its credit risk profile, forbearance practices are of minor importance at KA. In KA’s entire portfolio, a single counterparty of risk class 1, rated BBB+, with a book value of TEUR 8,192.4 is to be qualified as a deferred risk position (“forbearance performing”) as at 31 December 2015.

29. Assets at fair value

in EUR 1,000	31-12-2015
Loans to customers	722,379.8
Other bonds (non-listed)	30,312.1
Total	**752,691.9**

For details on fair value measurement, see Note 15. For a classification based on the categories of the fair value hierarchy according to IFRS 13.72 and a detailed description, see Note 69.

30. Assets available for sale

in EUR 1,000	31-12-2015
Public bonds	132,515.7
of which exchange-listed	*122,132.7*
of which non-listed	*10,383.0*
Other bonds	16,084.6
of which exchange-listed	*16,084.6*
Variable-income securities and interests	3,015.1
of which non-listed	*3,015.1*
Total	**151,615.3**

For details on fair value measurement, see Note 15. For a classification based on the categories of the fair value hierarchy according to IFRS 13.72 and a detailed description, see Note 69.

31. Derivatives

Derivatives in KA primarily serve to hedge interest rate and/or currency risks. The positive fair values (for details on fair value measurement, see Note 15) of derivative financial instruments, shown on the asset side, are as follows (interest deferrals included):

in EUR 1,000	31-12-2015
Interest-related transactions	539,757.9
of which in fair value hedges	*406,512.9*
Currency-related transactions	4,298.0
of which in fair value hedges	*796.5*
Total	**544,055.9**

The structure of the derivative financial instruments, including their market values, is shown in Note 66.

32. Investment in associates

Investments in associates exclusively include the 50% participation in Kommunalleasing GmbH, consolidated at equity, with a book value of TEUR 2,322.4. As at 31 December 2015, the assets and liabilities of this company amounted to TEUR 97,354.9 and TEUR 92,710.1, respectively; revenues for the period from 26 September to 31 December 2015 amounted to TEUR 196.7, and the profit for the period from 26 September to 31 December 2015 amounted to TEUR 94.8.

33. Property, plant and equipment

The development and composition of property, plant and equipment is shown in Note 35 (Schedule of Non-current Asset Movements). The value of land and buildings used by the Group, as shown on the Balance Sheet, includes a land value of TEUR 3,961.1

in EUR 1,000	31-12-2015
Land and buildings	24,671.4
Office furniture and equipment	2,724.7
Facilities under construction	261.4
Total	**27,657.5**

34. Intangible assets

This balance sheet item exclusively comprises purchased software. For its development and composition, see Note 35 (Schedule of Non-current Asset Transactions).

35. Schedule of Non-current Asset Transactions

The Schedule of Non-current Asset Transactions shows the development and composition of property, plant and equipment and non-current intangible assets.

As at 31 December 2015, the Schedule of Non-current Asset Transactions is as follows:

in EUR 1,000	Acquisition cost as at 26-09-2015	Additions	Disposals	as at 31-12-2015	Cumulative depreciation and amortisation	Book value 31-12-2015	Depreciation and amortisation 2015	Book value 26-09-2015
Property, plant and equipment	**44,467.4**	**770.8**	**-939.9**	**44,298.3**	**-16,640.8**	**27,657.5**	**-441.2**	**27,327.9**
Land and buildings	37,168.4	0.0	0.0	37,168.4	-12,497.0	24,671.4	-393.8	24,898.2
Office furniture and equipment	7,299.0	509.4	-939.9	6,868.5	-4,143.8	2,724.7	-47.4	2,429.7
Facilities under construction	0.0	261.4	0.0	261.4	0.0	261.4	0.0	0.0
Intangible assets	**4,225.0**	**129.9**	**-114.6**	**4,240.3**	**-3,856.7**	**383.6**	**-78.8**	**332.5**
Total of property, plant and equipment and intangible assets	**48,692.4**	**900.7**	**-1,054.5**	**48,538.6**	**-20,497.5**	**28,041.1**	**-520.0**	**27,660.4**

36. Tax assets

in EUR 1,000	31-12-2015
Current tax assets	3.5
Deferred tax assets	1,775.8
Total	**1,779.3**

Deferred tax assets and liabilities include taxes arising from temporary differences between valuations according to IFRS and the calculation of the Group's taxable profit. The origin and development of deferred taxes is shown in the following table:

in EUR 1,000	as at 26-09-2015	Recognised in profit or loss	Recognised in equity	as at 31-12-2015
Deferred taxes from temporary differences in asset items				
Tax loss carryforwards	11,235.6	1,565.4	0.0	12,801.0
Loans and advances to banks	0.0	0.0	0.0	0.0
Loans and advances to customers	-18,208.0	1,025.3	0.0	-17,182.8
Assets at fair value	-42,333.4	1,490.5	0.0	-40,842.9
Assets available for sale	-4,188.2	278.7	67.8	-3,841.7
Assets held to maturity	0.0	0,0	0.0	0.0
Derivatives	-229,692.7	109,357.8	0.0	-120,334.9
Deferred taxes from temporary differences in liability items				
Amounts owed to banks	0.0	0.0	0.0	0.0
Amounts owed to customers	4,723.2	-1,019.2	0.0	3,704.0
Derivatives	190,620.2	-106,762.6	0.0	83,857.6
Securitised liabilities	84,936.3	-3,860.1	0.0	81,076.2
Subordinated liabilities	1,791.3	-210.6	0.0	1,580.7
Provisions	1,237.1	-179.8	-98.8	958.5
Total	**121.4**	**1,685.3**	**-31.0**	**1,775.8**

The asset item booked for deferred tax assets in the amount of TEUR 1,775.8 comprises TEUR 12,801.0 in capitalised tax loss carryforwards and TEUR -11,025.2 in temporary differences, as shown in the above table.

Of the tax loss carryforwards as at 31 December 2015 in the amount of TEUR 200,651.5, an amount of TEUR 51,203.9 was recognised on account of its expected utilisation in the near future (time horizon of four years) based on tax budgeting. Given a tax rate of 25%, this resulted in an asset item of TEUR 12,801.0. Moreover, capitalised tax loss carryforwards of TEUR 1,003.7 were utilised in the reporting period from 26 September 2015 to 31 December 2015. The capitalised tax loss carryforward (TEUR 12,801.0) is to be utilised within the coming twelve months in an amount of TEUR 4,334.4; the balance of TEUR 8,466.6 will presumably be utilised in the following three years.

There are no plans to realise deferred tax assets resulting from financial instruments and provisions (apart from maturities). Receivables arising from current tax accounting are of a short-term nature.

37. Other assets

in EUR 1,000	31-12-2015
Other assets	6,905.2
Accruals	897.0
Total	**7,802.2**

Other assets comprise the following material items: receivables for services charged to KF in the amount of TEUR 1,735.5, interest receivable in the amount of TEUR 1,699.2, receivables from the settlement of payments under support programmes in the amount of TEUR 708.2.

Accruals mainly comprise fees and other expenses recognised according to the accruals concept.

38. Amounts owed to banks

in EUR 1,000	31-12-2015
Repayable on demand	327,198.7
Other liabilities	136,777.0
Total	**463,975.7**

Amounts owed to banks repayable on demand include cash and cash equivalents received as collateral for positive market values of derivatives according to ISDA/CSA arrangements in the amount of TEUR 327,174.4.

39. Amounts owed to customers

in EUR 1,000	31-12-2015
Repayable on demand	4,2,9.1
Customer deposits	378.703.2
Total	**383,002.3**

Amounts owed to customers repayable on demand include cash and cash equivalents received as collateral for positive market values of derivatives (transactions with non-bank financial institutions) according to ISDA/CSA arrangements in the amount of TEUR 4,100.0.

Customer deposits in the amount of TEUR 378,703.2 are mainly deposits by institutional customers. The bank has no retail business.

40. Derivatives

Derivative transactions are made in KA mainly for the purpose of hedging interest rate and/or currency risks. The negative fair values of derivative financial instruments are reported on the liabilities side (for details on fair value measurement, see Note 15) and shown in the following table (including interest deferrals):

in EUR 1,000	31-12-2015
Interest-related transactions	371,172.1
of which in fair value hedges	*104,218.9*
Currency-related transactions	56,005.3
of which in fair value hedges	*28,626.2*
Total	**427,177.4**

The structure of the derivative financial instruments, including their market values, is shown in Note 66.

41. Securitised liabilities

in EUR 1,000	31-12-2015
Bonds issued	1,794,324.0
Other securitised liabilities	733,570.0
Total	**2,527,894.0**

Bonds issues comprise covered bonds issued by KA in a book value of TEUR 1,489,490.8. Besides covered bond issues, this balance sheet item mainly includes long-term senior unsecured bonds.

Securitised liabilities in a nominal value of TEUR 383,530.3 will fall due in 2016.

42. Subordinated liabilities

As at 31 December 2015, subordinated liabilities were broken down as follows:

Type of liability	Interest rate	Currency	Nominal in EUR 1,000	Book value in EUR 1,000
Subordinated bonded loan 2007-2022	4.670%	EUR	10,000.0	12,088.2
Subordinated bonded loan 2007-2022	4.670%	EUR	10,000.0	12,088.2
Subordinated bonded loan 2007-2047	5.018%	EUR	10,000.0	10,844.2
Subordinated bonded loan 2007-2047	5.018%	EUR	9,000.0	9,759.8
Subordinated bonded loan 2007-2037	5.080%	EUR	10,000.0	10,871.8
Subordinated bonded loan 2007-2037	5.080%	EUR	800.0	869.7
Subordinated bonded loan 2007-2037	5.080%	EUR	10,200.0	11,089.2
Subordinated bond 2006-2021	5.400%	EUR	5,000.0	6,236.9
Total			**65,000.0**	**73,848.2**

The above table shows subordinated liabilities in a nominal amount of TEUR 65.000,0 and with book values in a total amount of TEUR 73,848.2; the difference between the book value and the nominal value is due to hedge accounting according to IAS 39.

Interest expenses for all subordinated liabilities in the reporting period amounted to TEUR 873.6. Creditor claims for repayment of these liabilities are subordinate in relation to other creditors and, in the event of bankruptcy or liquidation, will be fulfilled only after all non-subordinated creditors have been satisfied.

The subordinated liabilities meet the conditions of Part 2 Title I Chapter 4 of EU Regulation 575/2013 (CRR) and are fully eligible as supplementary capital for regulatory purposes.

43. Provisions

As at 31 December 2015, provisions exclusively included long-term provisions for personnel expenses (for details on provisions, see also Note 22).

in EUR 1,000	Opening balance 26-09-2015	Changes Recognised in personnel expenses	Changes Recognised in comprehensive income and/or equity	Closing balance 31-12-2015
Provisions for pensions	1,737.1	74.6	-260.3	1,551.4
Provisions for severance pay	5,724.4	-146.7	-134.9	5,442.8
Provisions for jubilee bonuses	332.7	49.9	0.0	382.6
Total	**7,794.2**	**-22.2**	**-395.1**	**7,376.9**

The actuarial provisioning requirement developed as follows in 2015:

in EUR 1,000		Pensions	Provision for Severance pay	Jubilee bonuses	Total
as at 26-09-2015					
Present value of defined benefit obligation (DBO) as at 26-09-2015		2,184.3	5.724.4	332.7	8,241.4
- plan assets		-447.2	0.0	0.0	-447.2
Actuarial provisioning requirement as at 26-09-2015		**1,737.1**	**5,724.4**	**332.7**	**7,794.2**
Current service cost		23.2	105.9	3.5	
Interest costs		8.7	22.2	1.3	
Actuarial gains (-) / and losses (+) from DBO		-252.4	-134.9	45.1	
of which due to changes in demographic assumptions		0.0	0.0	0.0	
of which due to empirical changes		-23.5	-134.9	24.5	
of which due to changes in financial assumptions		-228.9	0.0	20.6	
Payments		0.0	-274.8	0.0	
Other changes		44.9	0.0	0.0	
Change in DBO 26-09-2015 - 31-12-2015		**-175.6**	**-281.6**	**49.9**	
Change in plan assets 26-09-2015 - 31-12-2015		**-10.0**	**0.0**	**0.0**	
DBO as at 31-12-2015		2,008.7	5,442.8	382.6	7,834.1
- plan assets		-457.3	0.0	0.0	-457.3
Actuarial provisioning requirement as at 31-12-2015		**1,551.4**	**5,442.8**	**382.6**	**7,376.9**
Duration of DBO in years		23.3	14.4		
Sensitivity of DBO to change in actuarial interest rate by	plus 0.5%	-10.4%	-6.8%		
	minus 0.5%	12.1%	7.5%		
Sensitivity of DBO to deviation of salary development by	plus 0.5%		7.3%		
	minus 0.5%		-6.7%		
Sensitivity of DBO to deviation of pension increase by	plus 0.5%	8.2%			
	minus 0.5%	-7.4%			

The following table shows the development of the fair value of plan assets:

in EUR 1.000	2015
as at 26-09-2015	**447.2**
Interest income	2.2
Actuarial result due to empirical changes	7.8
Changes in financial year	**10.0**
as at 31-12-2015	**457.3**

The breakdown of plan assets by asset class is shown in the following table:

	31-12-2015
Securities - euro	21.6%
Securities - euro high yield	9.7%
Securities - euro money market	0.0%
Securities - euro corporate	18.2%
Equity instruments - euro	15.1%
Equity instruments - non-euro	10.8%
Equity instruments - emerging markets	0.7%
Alternative investments	1.8%
Real estate	4.4%
Cash and cash equivalents	17.7%
Total	**100.0%**

As at 31 December 2015, there were no market prices quoted in an active market for 19.2% of the plan assets.

For 2016, the following developments are expected for the defined-benefit pension plans, assuming there is no change in the calculation parameters:

in EUR 1,000	
Defined benefit obligation as at 01-01-2016	**2,008.7**
Expected current service cost	67.0
Expected interest cost	40.7
Expected payments	-200.0
Expected actuarial result	-11.7
DBO as at 31-12-2016	**1,904.7**

in EUR 1,000	
Plan assets as at 01-01-2016	**457.3**
Expected interest income	10.3
Expected payments by pensions fund	0.0
Expected contribution by employer	0.0
Expected actuarial result	-1.8
Expected plan assets as at 31-12-2016	**465.8**

44. Current tax liabilities

Tax liabilities as at 31 December 2015 amounted to TEUR 3,969.9, of which TEUR 3,597.2 resulted from corporate income tax and TEUR 372.7 from turnover tax accounting, thus being of a short-term nature.

45. Other liabilities

in EUR 1,000	31-12-2015
Accruals	1,738.8
Other liabilities	16,766.9
Total	**18,505.7**

Accruals mainly include income from guarantee fees and other fees accounted for under the accruals concept.

Other liabilities mainly include accruals for personnel-related expenses and accruals for audit, legal and consultancy expenses. Accruals for holidays not consumed account for TEUR 2,197.8 thereof.

46. Equity

A. Development and composition

The share capital of Kommunalkredit Austria AG as at 31 December 2015 amounted to EUR 159,491,290.16 and is divided into 31,007,059 no par value shares, of which 99.78% (corresponding to 30,938,843 shares) is held by Gesona Beteiligungsverwaltung GmbH, Vienna, and 0.22% (corresponding to 68,216 shares) by the Association of Austrian Municipalities. Each no par value share represents an equal participation in the share capital. There are no shares that have been issued but not fully paid in. The nominal value of one share amounts to EUR 5.14. There are no authorised shares.

The development and composition of equity according to IFRS is shown under Section IV (Statement of Changes in Equity).

B. Dividend payment on equity / Profit distribution proposal

The Executive Board will propose to the Shareholders' Meeting that from the net profit reported in the separate financial statements of KA prepared pursuant to UGB/BWG in the amount of TEUR 18,281.3 an amount of TEUR 8,000.0 be distributed and the balance of TEUR 10,281.3 be carried forward to new account. This corresponds to a dividend of EUR 0.26 per no par value share (5.1% of the share capital based on a nominal value of EUR 5.14 per no par value share).

C. Capital adequacy management

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.

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 TEUR 18,281.3 minus the proposed dividend of TEUR 8,000.0.

As at 31 December 2015, eligible own funds as the sum total of the items pursuant to Article 25 CRR and Article 71 CRR amounted to TEUR 259,897.7; common equity tier 1 amounted to TEUR 194,897.7. With own funds requirements of TEUR 60,947.3, the total capital ratio comes to 34.1% and the common equity tier 1 capital ratio to 25.6%.

Own funds and own funds requirements calculated in accordance with CRR, as reported in the separate financial statements of KA pursuant to UGB/BWG, show the following composition and development:

Basis for calculation in EUR 1,000	pursuant to Art. 92 CRR 31-12-2015
Risk-weighted assets relative to credit risk pursuant to CRR	544,673.4
Own funds requirements	
of which credit risk	*43,573.9*
of which operational risk	*7,755.6*
of which CVA charge	*9,611.7*
of which default fund of a qualified counterparty	*6.1*
Total (own funds target)	**60,947.3**

Own funds	31-12-2015
Common equity tier 1	194,897.7
Additional own funds after deductible items	65,000.0
Eligible own funds (tier 1 and tier 2)	**259,897.7**
Free equity	198,950.4
Total capital ratio	34.1%
Common equity tier 1 capital ratio	25.6%

KA's equity management aims at maintaining a level of own funds that is above the statutory minimum requirements. The statutory requirements have been complied with at all times during the reporting period. For operational supervision and control, a system of continuous monitoring has been set up and monthly reports are being submitted to the Executive Board. KA's equity management is described in the paragraph on "Securing Minimum Capital Adequacy" (ICAAP) in Note 70 (Risk management).

INCOME STATEMENT DISCLOSURES OF THE KOMMUNALKREDIT GROUP

47. Net interest income

in EUR 1,000	26-09 to 31-12-2015
Interest income	**57,573.5**
Interest income from loans and advances to banks	104.9
Interest income from loans and advances to customers	23,191.0
Interest income from derivatives	32,619.0
Interest income from assets available for sale	1,634.5
Rental income	24.1
Interest expenses	**-48,237.8**
Interest expenses for amounts owed to banks	-298.4
Interest expenses for amounts owed to customers	-3,643.3
Interest expenses for derivatives	-24,133.1
Interest expenses for securitised liabilities	-19,289.4
Interest expenses for subordinated capital	-873.6
Net interest income	**9,335.7**

Net interest income in the amount of TEUR 9,335.7 results primarily from the existing portfolio, including funding, taken over upon the demerger. Interest income and interest expenses are recognised according to the accruals concept.

Financial instruments not measured at fair value through profit or loss resulted in interest income in the amount of TEUR 23,356.3 and interest expenses in the amount of TEUR 24.165,1. KA uses derivatives mainly to hedge the risk of interest rate changes and/or currency risks. Interest income and expenses are shown as gross amounts, broken down by incoming and outgoing payments.

In the reporting period from 26 September 2015 to 31 December 2015, negative interest in the amount of TEUR 87.8 was paid for balances with the Austrian National Bank (OeNB) and for other borrowed funds.

48. Loan impairment

Loan impairment charges in the reporting period from 26 September to 31 December 2015 amounted to TEUR -7.8 and exclusively contain additions to the portfolio allowance account according to IAS 39.64. There were no defaulting loans in the 2015 reporting period.

Changes in loan loss provisions for loans not measured at fair value are reported under Loan impairment (see Note 9).

49. Net fee and commission income

in EUR 1,000	26-09 to 31-12- 2015
Fee and commission income	**4,745.9**
Management of support programmes and consultancy business	4,730.1
Lending business	15.7
Fee and commission expenses	**-112.6**
Lending business	-15.3
Securities business	-78.2
Money and FX trading	-19.0
Net fee and commission income	**4,633.3**

Net fee and commission income in the amount of TEUR 4,633.3 primarily includes revenues of TEUR 4,730.1 generated by Kommunalkredit Public Consulting GmbH (KPC) through its management of support programmes and its consultancy business. Income from the lending business in the amount of TEUR 15.7 primarily includes management fees and guarantee fees. These amounts are booked against fee and commission expenses from the lending business of TEUR -15.3, from the securities business of TEUR -78.2 and from money and FX trading of TEUR -19.0. Fee and commission income and expenses are recognised according to the accruals concept.

50. Income from investments in associates

Income from investments in associates in the amount of TEUR 47.4 results exclusively from Kommunalleasing GmbH, Vienna. For detail regarding investments in associates, see Note 32.

51. Net trading and valuation result

The net trading and valuation result of the financial year 2015 was positive at TEUR 1,659.5, mainly comprising:

- TEUR 2,811.4 from the early redemption of own issues
- TEUR -1,204.9 from changes in the valuation of the fair value portfolio

The net trading and valuation result is as follows:

in EUR 1,000	26-09 to 31-12-2015
Result from financial instruments measured at fair value	**-1204.9**
of which fair value option	
of which loans	*-5,962.0*
of which related interest rate derivatives	*4,757.1*
Result from the redemption/buy-back of own issues	**2,811.4**
Valuation result from fair value hedge	**54.8**
of which interest rate derivative	*-13,193.1*
of which underlying instrument	*13,247.9*
Foreign currency valuation	**-1.8**
Total	**1,659.5**

51.1 Result from financial instruments measured at fair value

The result from financial instruments measured at fair value for the period from 25 September 2015 to 31 December 2015 amounted to TEUR -1,204.9 and included the following components:

The result from loans designated as at fair value amounted to TEUR -5,962.0, including an effect of credit spread changes in the amount of TEUR 110.0, which is equal to the cumulative effect.

The negative valuation result from loans in the amount of TEUR -5,962.0 is booked against positive valuations from the related interest rate derivatives in the amount of TEUR 4,757.1.

The fair value option on the liabilities side was not used.

51.2 Realised results from redemptions/buy-back of own issues

Realised gains from the early redemption and/or early buy-back of own issues (securitised liabilities) amounted to TEUR 2,811.4.

51.3 Result of the held-for-trading portfolio according to IFRS (interest rate derivatives: foreign currency valuation)

It is KA's business strategy not to engage in any substantial trading activities. The result of the held-for-trading portfolio according to IFRS amounted to TEUR 4,755.3, including the following components, as shown in the table above:

- Interest rate derivatives (trading) in the amount of TEUR 4,757.1
- Foreign currency valuation in the amount of TEUR -1.8

According to IFRS, the result from the valuation of derivatives is to be recognised in the held-for-trading portfolio. However, in KA these are not trading positions, but economic hedges, which are booked against valuations from loans in the amount of TEUR -5,962.0.

52. General administrative expenses

in EUR 1,000	26-09 to 31-12-2015
Personnel expenses	**-7,904.5**
Salaries	-6,269.7
Social security contributions	-1,359.3
Expenses for pensions and employee benefits	-275.5
Other administrative expenses	**-4,244.0**
Depreciation, amortisation and impairment of	**-520.0**
intangible assets	*-78.8*
property, plant and equipment	*-441.2*
Total *)	**-12,668.5**

*) The net amount after expenses charged to KA Finanz AG is TEUR 10,200.4

In the reporting period, the gross amount of general administrative expenses, before expenses charged to KF, was TEUR 12,668.5. KA acts as a service provider for the operational banking business of KF. The services to be provided are defined in a service agreement and a service level agreement. Based on detailed time records kept by the employees, pro-rata personnel and other administrative expenses are charged to KF. From 26 September 2015 and 31 December 2015, personnel and other administrative expenses in the amount of TEUR 2,468.1 were charged by KA to KF and recognised in the other operating result. The net amount of general administrative expenses, after expenses charged to KF, amounted to TEUR 10,200.4.

Expenses for defined-contribution pension plans (contributions to the pension fund based on collective bargaining agreements) in 2015 amounted to TEUR 162.6.

Other administrative expenses, before expenses charged to other entities, include the following items:

in EUR 1,000	26-09 to 31-12-2015
Third-party services	-1,699.8
Data processing	-709.3
Public relations and advertising	-691.6
Consultancy and audit fees	-442.2
Other administrative expenses	-701.2
Total	**-4,244.0**

Auditing fees counting towards the reporting period amounted to a total of TEUR 118.5, TEUR 101.7 thereof for the audit of the separate financial statements and TEUR 16.8 for the audit of the consolidated financial statements. No other certification services were provided. The total also includes fees for other consulting services provided by the auditor in the amount of TEUR 19.3.

53. Bank resolution fund

The expected contributions to the national bank resolution fund, which pursuant to the Bank Recovery and Resolution Act are to be paid from 1 January 2015, were taken into account in these financial statements. According to a communication from the resolution authority of the FMA, newly licensed enterprises are obliged to contribute to the bank resolution fund from the effective date of the license, i.e. from the demerger (26 September 2015) in the case of KA. An expense of TEUR 750.0 is to be expected under this heading for 2015.

54. Other operating result

in EUR 1,000	26-09 to 31-12-2015
Other operating income	**2,775.3**
Income from personnel expenses and other administrative expenses charged to KF	*2,468.1*
Other operating income	*307.2*
Other operating expenses	**-1,055.1**
Bank stability tax	*-1,048.6*
Other	*-6.5*
Total	**1,720.2**

Income from personnel expenses and other operating expenses charged to KF result from services provided for KF's banking operations in accordance with the service level agreement. Other operating expenses mainly include the bank stability tax (bank levy) in the amount of TEUR 1,048.6 payable by KA since the transfer of ownership on 28 September 2015.

55. Taxes on income

in EUR 1,000	26-09 to 31-12-2015
Current tax income/expenses	-104.6
Deferred tax income/expenses	1,685.3
Total	**1,580.7**

Current taxes (current tax expenses/income) are calculated on the basis of the tax result for the financial year at the local tax rate applicable to the Group company concerned (as in the previous year, all Group companies were subject to the Austrian corporate income tax rate of 25%).

Deferred tax income in the amount of TEUR 1,685.3 results from temporary differences and from the capitalisation of tax loss carryforwards in the amount of TEUR 2,569.0, as well as the utilisation of tax loss carryforwards in the amount of TEUR -1,003.7.

The deferred tax income does not contain any amounts based on changes in tax rates or new taxes. The following reconciliation table shows the relation between expected and reported taxes on income:

in EUR 1,000	26-09 to 31-12-2015.
Profit for the year before tax	**3,969.7**
Expected tax expense/tax income in the financial year at the Austrian income tax rate (25%)	-992.4
Increase of tax expense due to non-deductible items	-7.6
Loss carryforward	2,569.0
Other	11.8
Taxes on income	**1,580.7**

OTHER DISCLOSURES

56. Significant events after the balance-sheet date

As planned, Jörn Engelmann was appointed to the Executive Board of Kommunalkredit Austria AG (KA) as Chief Risk Officer (CRO) on 1 February 2016. Mr. Engelmann looks back on many years of experience in risk management; prior to his appointment, Jörn Engelmann held the position of Head of Credit Risk Management (back office) at Berenberg Bank.

57. Breakdown of revenues by region

KA operates primarily in the field of municipal and infrastructure-related project business. Thus, the bank’s activities are concentrated in a single business segment, the results of which are reported regularly to the Executive Board and the Supervisory Board through the consolidated financial statements prepared according to IFRS. The disclosures relating to the business segment are presented in the Balance Sheet and the Income Statement of the Group. Reconciliation is therefore not required.

Information on geographic regions for the year under review, broken down into net interest income and net fee and commission income, is shown in the table below.

Presentation of revenues by region (registered office of counterparty) from 26 September 2015 to 31 December 2015 (see also table on credit exposure by geographic region in Note 70):

in EUR 1,000	Austria	Europe	Total
Interest and similar income	*41,965.7*	*15,607.8*	*57,573.5*
Interest and similar expenses	*-34,195.6*	*-14,042.2*	*-48,237.8*
Net interest income	**7,770.0**	**1,565.6**	**9,335.7**
Net fee and commission income	**3,129.6**	**1,503.7**	**4,633.3**

58. Breakdown by residual maturity

Residual maturity is defined as the period between the balance-sheet date and the contractual due date of the claim or liability; for partial amounts, residual maturity is shown separately for each part. Interest accruals are recognised under “up to 3 months”.

Cash collateral is shown under “repayable on demand” (daily payment terms).

For details on liquidity risk management, see Note 70 (Risk management).

The breakdown of material asset and liability items by residual maturity as at 31 December 2015 is as follows:

Assets in EUR 1,000	Repayable on demand	up to 3 months	3 months to 1 year	1 to 5 years	more than 5 years	Total
Cash and balances with central banks	79,693.3	0.0	0.0	0.0	0.0	**79,693.3**
Loans and advances to banks	240,994.6	0.0	0.0	0.0	0.0	**240,994.6**
Loans and advances to customers	15,657.2	135,372.0	220,170.0	722,184.2	1,259,634.4	**2,353,017.9**
Assets at fair value	0.0	23,662.7	37,034.9	241,730.9	450,263.4	**752,691.9**
Assets available for sale	0.0	3,795.4	0.0	144,804.9	3,015.1	**151,615.3**
Investments in associates	0.0	0.0	0.0	0.0	2,322.4	**2,322.4**
Other assets	5,375.5	109.8	178.0	697.8	1,441.1	**7,802.2**
Liabilities in EUR 1,000	**Repayable on demand**	**up to 3 months**	**3 months to 1 year**	**1tos 5 years**	**more than 5 years**	**Total**
Amounts owed to banks	327,198.7	30,983.8	2,833.2	33,591.9	69,368.1	**463,975.7**
Amounts owed to customers	4,299.1	13,266.1	6,961.2	14,146.7	344,329.3	**383,002.3**
Securitised liabilities	0.0	67,508.7	367,638.6	768,347.1	1,324,399.6	**2,527,894.0**
Subordinated liabilities	0.0	3,431.7	0.0	0.0	70,416.5	**73,848.2**
Other liabilities	13,889.8	97.2	157.6	568.4	3,792.7	**18,505.7**

59. Classes of financial instruments

For a definition of the classes of financial instruments, see Note 17.

The following table shows the book values and the fair values of the classes of financial instruments and financial liabilities, as defined by KA, and their reconciliation to the individual balance-sheet items:

31-12-2015 Classes in EUR million	Cash and balances with central banks	At fair value through profit or loss: held for trading	At fair value through profit or loss: fair value option	Loans and receivables: Loans and advances to banks	Loans and receivables: Loans and advances to customers	Available for sale	Liabilities at amortised cost	Derivatives designated as hedging instruments	Book value	Fair value
Cash and balances with central banks	79.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	79.7	79.7
Loans and advances to banks	0.0	0.0	0.0	241.0	0.0	0.0	0.0	0.0	241.0	241.0
Loans and advances to customers	0.0	0.0	0.0	0.0	2,353.0	0.0	0.0	0.0	2,353.0	2,475.7
Assets at fair value	0.0	0.0	752.7	0.0	0.0	0.0	0.0	0.0	752.7	752.7
Assets available for sale	0.0	0.0	0.0	0.0	0.0	151.6	0.0	0.0	151.6	151.6
Derivatives	0.0	136.7	0.0	0.0	0.0	0.0	0.0	407.3	544.1	544.1
Other assets	0.0	0.0	0.0	1.7	6.1	0.0	0.0	0.0	7.8	7.8
Amounts owed to banks	0.0	0.0	0.0	0.0	0.0	0.0	464.0	0.0	464.0	456.5
Amounts owed to customers	0.0	0.0	0.0	0.0	0.0	0.0	383.0	0.0	383.0	308.8
Derivatives	0.0	294.3	0.0	0.0	0.0	0.0	0.0	132.8	427.2	427.2
Securitised liabilities	0.0	0.0	0.0	0.0	0.0	0.0	2,527.9	0.0	2,527.9	2,264.7
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	73.8	0.0	73.8	53.6
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	18.5	0.0	18.5	18.5

The fair values of securities and loans are determined according to the hierarchy described in Note 15 in conjunction with Note 69. To determine the fair values of other financial instruments not measured at fair value, maturity-, rating- and instrument-specific measurement parameters, in combination with prevailing measurement methods, are used.

The maximum risk of default by class of financial instruments corresponds to the book values shown in the table. The maximum risk of default of financial guarantees and irrevocable credit commitments corresponds to a nominal value of TEUR 3,260.4 and TEUR 36,598.9, respectively.

60. Asset quality by class of financial instruments

The asset quality of financial assets, broken down by class of financial instruments, that are neither past due nor impaired, can be classified according to the risk structure explained in Note 9. Exposures in risk class 1 are serviced on schedule and are therefore not considered to be at risk of default.

31-12-2015 Book values in EUR 1,000	Risk status	
	Risk class 0	Risk class 1
Cash and balances with central banks	79,693.3	0.0
Interest rate derivatives (trading)	136,746.5	0.0
Fair value option	743,604.1	9,087.8
Loans and advances to banks	240,994.6	0.0
Loans and advances to customers	2,147,258.0	205,759.9
Available for sale	151,615.3	0.0
Derivatives designated as hedging instruments	407,309.4	0.0

Other off-balance-sheet obligations in a nominal amount of TEUR 36,598.9 include credit commitments in an amount of TEUR 2,468.7 of risk class 1. Contingent liabilities (sureties and guarantees from the lending business) in the amount of TEUR 3,260.4 are all in risk class 0.

For further details on the credit risk structure, see Note 70 (Risk management).

61. Book value according to IAS 39 measurement categories

According to IAS 39 measurement categories, the book values of the financial assets and liabilities held by KA are as follows:

in EUR 1,000	31-12-2015
Assets	
Loans and receivables	2,673,705.8
Fair value option	752,691.9
Interest rate derivatives (trading)	544,055.9
Available for sale	151,615.3
Liabilities	
Amortised cost	3,448,720.2
Interest rate derivatives (trading)	427,177.4

62. Subordinated assets

There are no subordinated assets.

63. Assets assigned as collateral

63.1 Derivatives according to ISDA/CSA arrangements

Based on ISDA/CSA arrangements, cash and cash equivalents (cash collateral) were provided by KA and/or received by KA as collateral for the market values of derivatives as at 31 December 2015. The positive and negative net present values, calculated by counterparty, are offset against one another and the resulting aggregate net present value, calculated by counterparty – taking collateral parameters into account (threshold, minimum transfer amount) – is put up or called.

Offsetting of all payment claims from the market values of derivatives and the repayment of collateral is not possible, except in the event of counterparty default. There is no unconditional right of offset.

63.2 Collateralised funding

- KA has assigned securities as well as cash and cash equivalents as collateral for global loans and other funding received 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, loans and securities were assigned to a cover pool which can only be drawn on with the approval of a government commissioner.

- For funding obtained through participation in the ECB tender, assets were provided 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.

The following table shows the book values of derivatives and funding received and the corresponding collateral, broken down by balance sheet item according to IFRS 7.13A-F. As none of the transactions meet the prerequisites for offsetting according to IAS 32.42, they are shown on the balance sheet in gross amounts.

Book values 31-12-2015 in EUR 1,000	Fair value of collateralised derivative	Funding received (-)	Collateral received (-) and provided (+) in the form of financial instruments	Total
Market values of derivatives according to ISDA/CSA arrangements	**99,701.9**	**0.0**	**-98,696.8**	**1,005.1**
Derivative (positive market value)	494,006.1			
Derivative (negative market value)	-394,304.2			
Loans and advances to banks			216,927.6	
Loans and advances to customers			15,650.0	
Amounts owed to banks			-327,174.4	
Amounts owed to customers			-4,100.0	
European Investment Bank	**0.0**	**-67,048.1**	**74,651.0**	**7,602.9**
Amounts owed to banks		-67,048.1		
Assets available for sale			74,651.0	
Covered bond issues	**0.0**	**-1,489,490.8**	**1,784,163.7**	**294,672.9**
Securitised liabilities		-1,489,490.8		
Loans and advances to customers			1,063,498.7	
Loans and advances at fair value			623,662.4	
Derivatives (positive market value)			111,722.9	
Derivatives (negative market value)			-14,720.3	
ECB tender	**0.0**	**-30,000.0**	**36,674.0**	**6,674.0**
Amounts owed to banks		-30,000.0		
Loans and advances to customers			36,674.0	
Other	**0.0**	**-37,361.7**	**44,169.0**	**6,807.3**
Amounts owed to banks		-30,683.8		
Securitised liabilities		-6,677.9		
Loans and advances to customers			43,957.0	
Loans and advances at fair value			212.0	
Total	**99,701.9**	**-1,623,900.6**	**1,840,960.8**	**316,762.0**

64. Contingent liabilities

Contingent liabilities comprise sureties and guarantees from the lending business in a nominal amount of TEUR 3,260.4. The residual maturities are as follows:

Residual maturity in EUR 1,000	31-12-2015
Up to 1 year	1,500.0
1 to 5 years	0.0
More than 5 years	1,760.4
Total	**3,260.4**

A future outflow of funds from contingent liabilities is considered unlikely.

65. Other off-balance-sheet liabilities

As at 31 December 2015, the nominal value of loan commitments and unused lines was TEUR 33,423.9; moreover, a payment obligation for an investment in equity instruments amounted to TEUR 3,175.0. The residual maturities are as follows:

Residual maturity in EUR 1,000	31-12-2015
Up to 1 year	15,445.9
1 to 5 years	14,422.4
More than 5 years	6,730.6
Total	**36,598.9**

66. Derivative financial instruments

The structure of open derivative financial transactions is as follows:

in EUR 1,000	Nominal as at 31-12-2015 Residual maturity up to 1 year	1-5 years	more than 5 years	Nominal Total 2015	Positive fair value	Negative fair value
Interest-related transactions	**522,827.9**	**1,219,361.4**	**4,311,167.3**	**6,053,356.6**	**539,757.9**	**-371,172.1**
OTC products						
Interest rate swaps - Trading*)	65,537.6	369,738.7	2,459,260.2	2.894.536.5	133,245.0	-266,953.2
Interest rate swaps - Fair value hedge	457,290.3	849,622.7	1,851,907.1	3.158.820.1	406,512.9	-104,218.9
Currency-related transactions	**1,678,009.9**	**23,895.1**	**0.0**	**1,701,905.0**	**4,298.0**	**-56,005.3**
OTC products						
FX forwards	1,594,484.3	0.0	0.0	1,594,484.3	3,501.5	-27,379.1
Interest rate and currency swaps - Fair value hedge	83,525.6	23,895.1	0.0	107,420.7	796.5	-28,626.2
Total	**2,200,837.8**	**1,243,256.5**	**4,311,167.3**	**7,755,261.6**	**544,055.9**	**-427,177.4**

*) Interest rate swaps - Trading are in economic hedges outside the scope of hedge accounting according to IAS 39. The valuation effects from changes in the fair value of these derivatives are booked against the valuation results of financial instruments measured at fair value (see Note 51 Net trading and valuation result.

Including all positions, the positive fair value amounts to TEUR 116,878.5, mostly collateralised through cash and cash equivalents according to ISDA-/CSA arrangements. Moreover, there are options embedded in loans and/or own issues, which are fully hedged through options embedded in derivatives. Given the fact that the options are closely associated with their host contracts, they are recognised and measured together with the underlying transactions and not shown in the above table. The negative fair values of these options embedded in loans and own issues amount to TEUR 21,199.3.

Derivatives with positive fair values in the amount of TEUR 77,126.5 will fall due within one year, TEUR 64,335.5 in one to five years, and TEUR 402,593.9 in more than five years. Derivatives with negative fair values in the amount of TEUR 88,990.2 will fall due within one year, TEUR 48,570.5 in one to five years, and TEUR 289,616.7 in more than five years.

67. Book values of financial instruments in hedge accounting

Financial instruments for which the interest-rate risk is hedged through derivative financial instruments are recognised as fair value hedges. The book values of these underlying transactions are as follows:

in EUR 1,000	31-12-2015
Assets	
Loans and advances to customers - Fair value hedges	668,096.8
Assets available for sale - Fair value hedges	138,196.5
Liabilities	
Amounts owed to customers - Fair value hedges	361,706.3
Securitised liabilities - Fair value hedges	2,427,442.2
Subordinated liabilities - Fair value hedges	49,671.7

68. Supplementary disclosures pursuant to § 59a and § 64 of the Austrian Banking Act

As at 31 December 2015, neither derivatives nor securities were allocated to the trading book.

Assets denominated in foreign currencies in the amount of TEUR 262,242.5 were shown on the balance sheet. Liabilities denominated in foreign currencies as at 31 December 2015 amounted to TEUR 1,692,034.8. Open currency positions are closed through corresponding swap contracts. As KA's open foreign currency position is continuously monitored and strictly limited, there are no material currency risks.

The return on assets (calculation: profit for the year after tax divided by total assets as at balance sheet date) stands at 0.53%.

69. Disclosures relating to fair value measurement (fair value hierarchy)

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

Level 1: Quoted prices are available in an active market for identical financial instruments. For this level of the hierarchy, KA refers to bid quotes for assets 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 comparable securities
- 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.

Level 3 financial instruments are measured by means of an internal model based on the net-present-value method. The cash flows are discounted on the basis of current yield curves with due consideration given to credit spreads. At the balance sheet date, two financial instruments with a nominal value of EUR 8.1 million, recognised at fair value, were assigned to level 3. Classification in level 3 is based on the non-observability of credit spreads. To measure such instruments, KA uses expert estimates which, in particular, consider the market spreads of comparable bonds and the probability of occurrence of pre-defined scenarios. An absolute change in the valuation spreads of level 3 financial instruments by +1 bps results in a market value effect of TEUR -4 for these two financial instruments; a change in the valuation spreads by -1 bps results in a market value effect of TEUR +4.

The following table shows the breakdown of financial instruments recognised at fair value according to the fair value hierarchy:

in EUR 1,000	Level 1	31-12-2015 Level 2	Level 3
Available for sale	148,600.3	0.0	0.0
At fair value through profit or loss: fair value option	0.0	743,604.1	9,087.8
At fair value through profit or loss: held for trading (from asset-side items)	0.0	136,746.5	0.0
At fair value through profit or loss: held for trading (from liability-side items)	0.0	-294,332.3	0.0
Derivatives designated as hedging instruments (from asset-side items)	0.0	407,309.4	0.0
Derivatives designated as hedging instruments (from liability-side items)	0.0	-132,845.1	0.0

The following table shows the breakdown of financial instruments not recognised at fair value:

in EUR 1,000	Level 1	31-12-2015 Level 2	Level 3
Loans and receivables: Loans and advances to banks	0.0	240,994.6	0.0
Loans and receivables: Loans and advances to customers	52,515.4	2,245.448.6	177,742.4
Liabilities at amortised cost	0.0	-3,083,658.2	0.0

In the period under review, no financial instruments recognised at fair value were reclassified from level 2 to level 3, nor was there any migration from level 2 to level 1 or vice versa.

The following table shows the reconciliation of level 3 financial instruments measured at fair value:

in EUR 1,000	At fair value through profit or loss: Fair value option
as at 26-09-2015	**9,572.3**
Disposals / redemptions	-465.1
carrying through profit or loss	-19.4
of which realised (interest result)	*61.3*
of which unrealised (net trading and valuation result)	*-80.7*
as at 31-12-2015	**9,087.8**

70. Risk Management

70.1 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.

70.2 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

- Market risk
  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

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

- Funding risk
  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.

70.3 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.

70.4 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 regularly 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.

70.5 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.

70.5.1 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.

70.5.2 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 31-12-2015*

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

70.5.3 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.

70.5.4 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.

70.5.5 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.

70.5.6 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.

70.5.7 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.

70.6 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.

Analysis of financial liabilities

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.

70.7 Market risk management

70.7.1 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**

70.7.2 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.

70.7.3 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.

70.7.4 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.

70.7.5 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.

70.8 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.

70.9 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.

71. Legal risks

No material legal risks were identified as of the end of the reporting period.

72. Other obligations

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 million, which was pledged to KF as collateral for liability arising from the demerger.

Other obligation
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.

73. Date of release for publication

These Consolidated Financial Statements as well as the Separate Financial Statements of KA were signed by the Executive Board on 9 March 2016. Both the Supervisory Board (17 March 2016) and the Shareholders’ Meeting may make amendments to the Separate Financial Statements, which in turn may have an impact on these Consolidated Financial Statements.

74. Employee disclosures

From 26 September to 31 December 2015, the KA Group had, on average, 262 employees, including the Executive Board, 163 of them were engaged in banking operations and 99 were working for KPC. Part-time employees are weighted according to the extent of employment. As at 31 December 2015, the KA Group hat 263 employees, including the Executive Board, 165 of them engaged in banking operations and 98 working for KPC.

75. Related party disclosures

Ownership structure

Name of the company	Relationship with KA	Registered office	Shares held
Gesona Beteiligungsverwaltung GmbH	Direct parent	Vienna, Austria Comp.Reg.no 428969 m	99.78% in KA
Satere Beteiligungsverwaltungs GmbH	Controlling parent	Vienna, Austria Comp.Reg.no 428981 f	100% in Gesona

Satere Beteiligungsverwaltungs GmbH (Satere) is held by Interritus Limited (holding 55%) and Trinity Investments Limited (holding 45%); the two shareholders exercise joint control over Satere via contractual arrangements. Thus, Satere qualifies as a joint arrangement according to IFRS 11 and therefore is to be classified as the controlling parent of KA. As at the balance sheet date, there were no other business relations between KA and the aforementioned companies.

Relations with associates
The following relations exist with Kommunalleasing, an associate included at equity:

- Loans receivable in the amount of TEUR 45,739.2
- Contingent liabilities in the form of guarantees in the amount of TEUR 1,350.0
- Other off-balance-sheet obligations in the form of committed but unused lines in the amount of TEUR 1,582.2

All transactions were made on arm's length terms and conditions.

Remuneration of Executive Board and Supervisory Board members
The following table shows the total remuneration received by members of the Executive Board and the Supervisory Board:

Total remuneration in EUR 1,000	26-09 to 31-12-2015
Active Executive Board members	249.0
Active Supervisory Board members	65.2
Total	**314.2**

The amounts reported under total remuneration payable to active Executive Board members are amounts falling due on a short-term basis, except for TEUR 64.0 of other long-term benefits as specified in the remuneration manual (deferrals of variable remuneration) pursuant to § 39b of the Austrian Banking Act. Moreover, contributions to a pension fund were made for active Executive Board members in the amount of TEUR 21.8.

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

Expenses for severance pay and pension payments mainly include 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 1,000	26-09 to 31-12-2015
Executive Board members and employees in executive positions	-42.2
Other employees	75.0
Total	**32.8**

of which:	
recognised in equity	-395.1
recognised in general administrative expenses	428.0

76. Relations with KA Finanz AG

As stated in Note 1, the part of the former Kommunalkredit (KA Old) remaining after the demerger was merged into KA Finanz AG (KF) on 26 September 2015; KF is wholly owned by the Republic of Austria.

After its privatisation, Kommunalkredit Austria AG (KA) continues to provide operational services for KF'S banking operations under a service agreement (SA) and a service level agreement (SLA). As at 31 December 2015, 15 employees of KA were working exclusively for KF on the basis of a staff leasing agreement. They are responsible for portfolio management, risk management and the conduct of the company's operational business under the leadership of the Executive Board of KF. To avoid conflicts of interest, the function of a relationship manager has been installed in both KA and KF.

In order to ensure the separation of assets and liabilities, as defined within the framework of the demerger, and the related division of derivative transactions, temporary derivative transactions (mirror swaps) had to be concluded between KA and KF. Since the framework agreements for derivatives concluded with the counterparties (ISDA – framework agreements based on ISDA standard, DRV – German framework agreements, ÖRV – Austrian framework agreements) could be transferred in their entirety to only one bank (either KA or KF), derivative transactions with a market value of TEUR 560,834.1 were temporarily concluded between KA and KF, of which transactions with a market value of TEUR 330,730.2 were closed by 31 December 2015. The remaining transactions with a market value of TEUR 230,103.9 are to be run off in the course of 2016.

Moreover, KA holds in trust and manages in its own name financial instruments with a nominal value of TEUR 231,581.8 at KF's cost and risk.

The business relations between KA and KF exclusively comprise banking transactions at arm's length terms and conditions.

77. Disclosure pursuant to Part 8 of 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".

78. Disclosures relating to the Boards of the bank (effective as of the date of the demerger)

Executive Board[1)]

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

1) From 26 to 28 September 2015: Alois Steinbichler (Chairman of the Executive Board), Helmut Urban

Supervisory Board[2)]

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

Ulrich Sieber
Chairman
Delegated by Interritus Limited
since 28 September 2015

2) From 26 to 28 September 2015: Klaus Liebscher (Chairman of the Supervisory Board), Adolf Wala (Deputy Chairman), Werner Muhm, Stefan Pichler

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

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

The Executive Board of the
Kommunalkredit Group

Alois Steinbichler, MSc
Chairman of the Executive Board

Jörn Engelmann
Member of the Executive Board

Wolfgang Meister
Member of the Executive Board

Vienna, 9 March 2016

AUDIT OPINION

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Kommunalkredit Austria AG, Vienna, comprising the consolidated balance sheet as at 31 December 2015, the separate consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year ended 31 December 2015, and the notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

The Management of the company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of § 245a of the Austrian Commercial Code, and for the internal control system required in Management's opinion for the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with the laws and regulations applicable in Austria and the Austrian Standards on Auditing and in compliance with the International Standards of Auditing (ISA). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system, relevant to the Group's preparation and fair presentation of the consolidated 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 Group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2015 and of its financial performance and its cash flows for the financial year ended on 31 December 2015 in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of § 245a of the Austrian Commercial Code.

Comments on the Group Management Report

Pursuant to statutory provisions, the Group Management Report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures 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 for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to § 243a (2) of the Austrian Commercial Code are appropriate.

In our opinion, the Group Management Report is consistent with the consolidated financial statements.

Vienna, 9 March 2016

PwC Wirtschaftsprüfung GmbH

signed:

Günter Wiltschek
Certified Public Accountant

STATEMENT BY THE LEGAL REPRESENTATIVES

Kommunalkredit Austria AG
Consolidated Financial Statements 2015

We herewith confirm to the best of our knowledge that the **Consolidated Financial Statements** 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 Group, that the Group Management Report presents the development of business, the results and the position of the Group in such a way that it conveys a true and fair view of the assets, the financial position and the income of the Group, and that the Group Management Report describes the essential risks and uncertainties to which the Group is exposed.

The Executive Board of the
Kommunalkredit Group

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

Vienna, March 2016

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