Kommunalkredit
INFRA BANKING EXPERTS

ANNUAL REPORT 2016

OF KOMMUNALKREDIT AUSTRIA AG

INFRA BANKING EXPERTS
Austria's Bank for Infrastructure
www.kommunalkredit.at

KOMMUNAL
KREDIT

HIGHLIGHTS
OF THE BUSINESS YEAR 2016

Successful start after
privatisation

Capital position further strengthened
Total capital ratio 42.3%
CET 1 ratio 32.9%

High-quality credit portfolio
No loan default in 2016

Net profit for the year
according to Austrian GAAP
EUR 37.5 million

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BOARDS OF THE BANK

EXECUTIVE BOARD

Alois Steinbichler
Chairman of the Executive Board

Jörn Engelmann
Member of the Executive Board
since 1 February 2016

Karl-Bernd Fislage
Member of the Executive Board
since 1 February 2017

Wolfgang Meister
Member of the Executive Board

SUPERVISORY BOARD

Patrick Bettscheider
Chairman; delegated by Interritus Limited
since 7 April 2016

Ulrich Sieber
Chairman; delegated by Interritus Limited
until 7 April 2016

Christopher Guth
Deputy Chairman; delegated by Attestor Capital

Friedrich Andreae
Delegated by Attestor Capital; Managing Director of Gesona Beteiligungsverwaltung GmbH
and Satere Beteiligungsverwaltungs GmbH

Katharina Gehra
Delegated by Interritus Limited; Managing Director of Gesona Beteiligungsverwaltung GmbH
and Satere Beteiligungsverwaltungs GmbH

Jürgen Meisch
Managing Director of Achalm Capital GmbH

Werner Muhm
Former Director of the Vienna Chamber of Labour and the Federal Chamber of Labour

Franz Hofer
Nominated by the Staff Council

Patrick Höller
Nominated by the Staff Council

Brigitte Markl
Nominated by the Staff Council
until 1 December 2016

Renate Schneider
Nominated by the Staff Council
since 20 February 2017

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

Karin Fischer
Government Commissioner, Federal Ministry of Finance
since 1 June 2016

FOREWORD
BY THE CHAIRMAN OF THE EXECUTIVE BOARD

Ladies and Gentlemen:

I am pleased to present to you the Annual Report of Kommunalkredit Austria AG (Kommunalkredit) for the financial year 2016. The bank looks back on its first full business year after its privatisation in the autumn of 2015. To start with, let me underline that the relaunch after privatisation was successful. In 2016, Kommunalkredit generated an after-tax profit for the year according to IFRS of EUR 49.0 million. The bank holds a loan portfolio of high asset quality without a single default in the reporting year, and its capital base was further strengthened in 2016: the total capital ratio increased to 42.3% and the common equity tier 1 ratio rose to 32.9%.

Throughout 2016, we consistently pursued our clearly defined strategy: Kommunalkredit is excellently positioned as a specialist bank in the fast-growing market of infrastructure finance. We act as a bridge between infrastructure developers, such as municipalities, public-sector enterprises or private project operators, on the one hand, and institutional investors, such as insurance companies or pension funds, on the other hand. The interests of the two sides complement each other: While infrastructure developers require structuring and financing solutions, investors are looking for asset classes with stable cash flows in the long term.

We serve as the link between these stakeholders. Our highly specialised and internationally experienced team covers the entire value chain of infrastructure financing: We structure projects, draw up financing plans, provide finance for the construction phase and arrange long-term finance for the operational phase with institutional investors. Our focus is on projects in the areas of social infrastructure (care homes, health care and educational facilities, administrative buildings), transport (commuter transport, road and rail transport) and energy and the environment (especially sustainable sources of energy).

This business model enables us to use the opportunities offered by the market in the best possible way. The size of the market is huge: According to estimates by the European Commission, capital expenditure in a volume of EUR 150 billion to EUR 200 billion per year will be required to reach the targets of the Europe 2020 strategy. In Austria, too, major investments will have to be made in the coming years. Austria and the countries of core Europe are our main markets.

Such enormous amounts can no longer be raised through traditional forms of finance alone. The change of paradigm observed in infrastructure finance in recent years provides the basis for our strategy. We are witnessing a shift from classic budget finance to project finance. There are several reasons for this development: With governments approaching the debt ceiling, financing infrastructure investments is becoming increasingly difficult. Moreover, new regulatory provisions are making it more difficult for banks to hold long-term assets, and the costs of long-term lending have increased significantly. At the same time, the historically low level of capital market yields and new regulatory requirements (Solvency II) are compelling institutional investors to seek alternative investment opportunities. In this environment, infrastructure investments represent an attractive asset class.

Given this change of paradigm, market participants are interested in cooperating with highly specialised banks, such as Kommunalkredit. In 2016, Kommunalkredit played a leading role in the financing of numerous infrastructure projects in European core countries. These projects included wind power plants in France, the North Sea and Austria, a broadband network in Germany, a toll road in Spain and the administrative headquarters of a German government ministry. Overall, we generated new business in a volume of EUR 242.6 million in 2016; the prolongation of loans in our existing portfolio accounted for another EUR 64.5 million.

Our clear target for 2017 is to substantially increase the volume of new business; to this end, we will step up our sales activities. On 1 January 2017, we opened a branch office in Frankfurt in order to establish a local presence in Germany. We see attractive opportunities for growth in the German market, the second largest market for infrastructure project finance in Europe after Great Britain. Moreover, we are happy to welcome the renowned expert Karl-Bernd Fislage as a new member of our Executive Board. He assumed his position at Kommunalkredit on 1 February 2017.

On behalf of the Executive Board, I should like to thank our customers and business partners most cordially for their excellent cooperation and the trust placed in us. My thanks also go to our shareholders for their valuable support in the implementation of our strategy and to our staff for their outstanding commitment and dedication in the past year.

Yours sincerely,

Alois Steinbichler
Chairman of the Executive Board of Kommunalkredit Austria AG

MANAGEMENT REPORT
FOR THE BUSINESS YEAR 2016

ECONOMIC FRAMEWORK

In 2016, the world economy continued to develop at a similar pace as in the previous year, with 3.1%[1] of GDP (gross domestic product) growth projected for the full year. The European Commission expects a growth rate of 1.5% for Austria, as compared to 1.0% in 2015, and a slight slowdown of growth from 2.0% in 2015 to 1.7% in 2016 in the euro area[2]. While some indications of a cyclical upswing were seen in the euro area in the second half of 2016, the US economy was on a downward trend during the same period. For 2016 as a whole, GDP in the USA is expected to grow at a rate of 1.6%, as compared to 2.6% in 2015[3].

Economic developments in the second half of the year were affected by growing uncertainty in the political arena due to concern over the future policy of the US President, Great Britain's decision to leave the EU ("Brexit"), and the upcoming elections in the largest economies of the euro area, i.e. Germany and France. In 2016, the trends in the real economy continued to receive support from measures taken at central bank level, especially by the European Central Bank (ECB) and the US Federal Reserve System (Fed), but also by the central banks of China and Japan. In March 2016, the ECB decided to step up its Asset Purchase Programme (APP) launched in March 2015 from EUR 60 billion to EUR 80 billion per month. In December 2016, the Governing Council of the ECB prolonged the APP until the end of 2017, but with reduced monthly volumes of EUR 60 billion from April 2017 onwards.

In addition to securities, the central banks of the euro system have extended their purchase programmes to include corporate bonds (Corporate Sector Purchase Programme – CSPP) with adequate ratings (at least BBB-). Restrictions on the purchase of bonds issued by supranational institutions have been relaxed. Since March 2016, the ECB's key lending rate has been at a record low of 0%. At the same time, the ECB changed its negative deposit rate from -0.3% to -0.4%. Subsequently, between June 2016 and March 2017, banks were offered the possibility of borrowing money from the ECB at the current key lending rate within the framework of the new long-term tender programme (TLTRO II – Targeted Longer-Term Refinancing Operations II), i.e. at a rate of 0% for a term of four years.

[1] International Monetary Fund, World Economic Outlook; January 2017.
[2] European Commission, Winter Forecast; February 2017.
[3] European Commission, Winter Forecast; February 2017.

These expansionary monetary-policy measures led to further significant drops in interest rates on the money and capital markets and a noticeable reduction in credit spreads on euro area government bonds. Yields on government bonds of certain euro area countries were negative, as were the money-market rates for inter-bank loans. In September 2016, even large corporations succeeded for the first time in placing bonds with negative yields in the market.

Standing at 1.1% in 2016, the rate of inflation in the euro area exceeded the one-percent mark for the first time since 2013, mainly as a result of rising energy prices. With an inflation rate of 1.6%, Austria was again above the euro area average. Inflation in the USA reached 2.1%. The positive change of trend in unemployment first seen in 2015 continued: In the American labour market, the rate of unemployment dropped from 5.0% to 4.7%, the lowest level since November 2007. Unemployment in the euro area decreased from 10.5% to 9.6%, reaching the lowest level since May 2009. At the same time, unemployment in Austria remained almost unchanged from the previous year’s level at 5.7% (2015: 5.8%).

The expansionary money supply policy in Europe and Asia contrasted with a slight opposite trend in the USA. In December 2016, in response to positive employment and inflation data, the Fed increased its key lending rate for the second time after the worldwide financial crisis of 2008: Having raised the “federal funds rate” to between 0.25% and 0.5% in December 2015, the Fed decided on an increase by another quarter of a percentage point to between 0.5% and 0.75% in December 2016. Comments made by the Fed suggest that further interest rate hikes are likely to occur in 2017.

ECONOMIC FRAMEWORK FOR LOCAL AUTHORITIES

As shown by the 2016 Municipal Finance Report[4], a publication produced by Kommunalkredit Austria AG (Kommunalkredit) in cooperation with the Association of Austrian Municipalities and the Association of Austrian Cities and Towns and supported by Statistics Austria, the local authorities continued to observe the principles of budgetary discipline throughout 2015. For the fifth consecutive year, they generated a surplus according to the Maastricht criteria of EUR 176 million or 0.05% of the Austrian gross domestic product. In 2015, the balance of revenues and expenses was positive at EUR 1.73 billion, exceeding the previous year’s value of EUR 1.61 billion by 7.4%. The free funding portion, an indicator of the financial headroom of the local authorities, increased significantly by 16.3% to EUR 631.5 million. At the same time, the level of municipal debt declined by 3.7% to EUR 6.18 billion. Reserves increased by 3.5% to EUR 1.88 billion over the same period, reaching the highest level since 2000. Interest expenses declined by 12.3% to EUR 164.8 million. Municipal investments remained at the previous year’s high level of EUR 2.15 billion, which meant that the volume of potential investments allowed under the Maastricht criteria was almost fully utilised. The most important municipal indicators developed as follows:

Table: Municipal indicators

in EUR million or %	2014	2015	Change in EUR million	Change in %
Total revenues minus total expenses	1,609	1,728	118.7	7.4
Free funding portion	543	631	88.3	16.3
Result acc. to Maastricht criteria (ESA)*	30	176	146	486.7
Debt level	11,271	11,256	-15.3	-0.1
Reserves	1,816	1,879	62.8	3.5
Capital expenditure	2,149	2,152	2.6	0.1

* European System of Accounts

[4] Available online at http://www.kommunalkredit.at/gemeindefinanzbericht2016.

This positive budgetary situation resulted, on the one hand, from the development of revenues and, on the other hand, from lower interest payments. Driven by the record-low interest rates, interest expenses in 2015 amounted to EUR 165 million, which is EUR 287 million below the record high of 2008. At the same time, municipal revenues increased. The portion of federal tax revenues transferred to local authorities increased by +3.3% or EUR 193.3 million to EUR 6.14 billion in 2015. Revenues from local authorities' own sources also increased significantly: Income from services grew by +3.8% or EUR 58.7 million to EUR 1.61 billion, while revenues from local charges increased by +2.4% or EUR 77.5 million to EUR 3.29 billion. Another noteworthy development was the steep upward trend in expenses for social services, including minimum income support (+7.4%), which amounted to EUR 1.76 billion in 2015, a rise of almost EUR 1 billion compared to the year 2000. At the same time, interest expenses of local authorities declined by another -12.3% or EUR 23.2 million to EUR 164.8 million, the average rate of interest across all types of debt being at a record low of 1.46%. The new Act on the Redistribution of Revenues between the Federal State, the Provinces and the Local Authorities entered into force at the beginning of 2017. It provides the basis for financial planning by local authorities until 2021.

Besides the Municipal Finance Report, the municipal finance data are also published on the transparency platform *www.gemeindefinanzen.at* developed by Kommunalkredit in cooperation with the Association of Austrian Municipalities and the Austrian Press Agency (APA), which is based on data provided by Statistics Austria. The platform permits a comprehensive analysis of the financial data of every municipality on the basis of revenue and expenses, the origin and use of funds, and a breakdown of expenses by groups of budget items for the past five years. It is an important planning tool for municipalities and a detailed source of information for all those interested in municipal finance.

STRATEGIC ORIENTATION OF KOMMUNALKREDIT

Paradigm change in infrastructure financing

The environment for infrastructure financing in Europe has changed drastically in recent years. A paradigm change is taking place:

- As more and more governments have hit the debt ceiling – the national debt of 17 out of 28 EU Member States currently exceeds the Maastricht limit of 60%[5] – the financing of infrastructure investments has become increasingly difficult. This has led to a shift from budget financing to project financing.
- Moreover, new regulatory provisions for banks are making it more difficult for them to hold long-term assets, and the costs of long-term lending have increased significantly.
- At the same time, the historically low level of capital market yields and new regulatory requirements (Solvency II) are compelling institutional investors to seek alternative investment opportunities. In this environment, infrastructure investments represent an attractive asset class that is likely to generate stable cash flows in the long term; at the same time, institutional investors benefit from a more favourable regulatory treatment of equity than in the case of corporate investments.

[5] Public debt (government debt ratio), Federal Economic Chamber: European Commission, OECD; November 2016.

Demand for infrastructure investments is high, especially in the sectors of energy and transport, social infrastructure, and information and communication technology. According to estimates by the European Commission, capital expenditure in a volume of EUR 150 billion to EUR 200 billion per year[6] will be required to reach the targets of the Europe 2020 strategy. In Austria, too, major investments will have to be made in the coming years: for instance, an appropriate infrastructure for full-day school attendance at compulsory school level will have to be created all across Austria, which necessitates the construction of new school buildings as well as the extension and renovation of existing ones. Flood control is another area requiring investments.

Strategic orientation: The bridge function of Kommunalkredit

Kommunalkredit has a clear business model aimed at deriving a benefit from the paradigm change in infrastructure financing. In the rapidly growing market of infrastructure finance, Kommunalkredit is very well positioned as a specialist bank. Pursuing the "originate-to-distribute" approach, it places parts of the asset volume acquired with institutional investors. Thus, Kommunalkredit acts as a bridge between infrastructure developers, such as municipalities, public-sector enterprises or private project operators, on the one hand, and institutional investors, such as insurance companies or pension funds, on the other hand. The interests of the two sides complement each other: While infrastructure developers require structuring and financing solutions, investors are looking for asset classes with stable cash flows in the long term.

Kommunalkredit combines the strengths of a bank with the know-how of an infrastructure specialist:

- It is a strong, effective and highly flexible specialist bank with short decision-making routes.
- It focuses on high-quality infrastructure projects in the countries of core Europe.
- With its profound knowledge of the sector and its dense network of contacts, Kommunalkredit's main emphasis is on proprietary deal flow, which gives investors direct access to attractive projects.
- It has an efficient and effective risk management system.

With its highly specialised team, Kommunalkredit covers the entire value chain of infrastructure financing: The bank structures projects in close cooperation with public principals and private investors, draws up financing plans, provides finance for the construction phase and arranges long-term finance for the operational phase with institutional investors, such as pension funds or insurance companies, whose preference is shifting towards asset classes with stable cash flows. For them, public-sector-related infrastructure projects represent an attractive target segment. Kommunalkredit's main focus is on projects in the areas of social infrastructure (care homes, health care and educational facilities, administrative buildings), transport (commuter transport, road and rail transport) and energy and the environment (especially sustainable sources of energy).

[6] The Europe 2020 Project Bond Initiative – Innovative Infrastructure Financing, European Investment Bank, January 2017.

SIGNIFICANT EVENTS OF THE BUSINESS YEAR

New appointments to the Executive Board and the Supervisory Board

As of 1 February 2016, Jörn Engelmann was appointed, as planned, to the Executive Board of Kommunalkredit as Chief Risk Officer (CRO). Prior to his appointment, Jörn Engelmann held the position of Head of Credit Risk Management (back office) at Berenberg Bank. In December 2016, Karl-Bernd Fislage was appointed to the Executive Board as Chief Distribution Officer, effective 1 February 2017. In his most recent position, he was Head of Global Asset Finance at Deutsche Bank. Following these appointments, the Executive Board now consists of Alois Steinbichler, Chairman of the Executive Board, and Jörn Engelmann, Karl-Bernd Fislage and Wolfgang Meister as Members of the Executive Board.

At the Annual Shareholders' Meeting on 7 April 2016, Patrick Bettscheider, delegated by Interritus Limited, was appointed Chairman of the Supervisory Board. He succeeded Ulrich Sieber, who resigned from his Supervisory Board position as of the same date.

Business review

Successful relaunch after privatisation

In the first full business year after its privatisation in the autumn of 2015, Kommunalkredit recorded a sound development of business, generating a profit after tax according to the Austrian Company Code/Austrian Banking Act of EUR 37.5 million. The IFRS profit after tax of the Kommunalkredit Group amounted to EUR 49.0 million in 2016. The bank has a high-quality credit portfolio without a single loan default in 2016 and an excellent capital base that was further strengthened in 2016: The total capital ratio increased to 42.3% (31/12/2015: 34.1%) and the common equity tier 1 ratio rose to 32.9% (31/12/2015: 25.6%).

Origination

In the course of 2016, Kommunalkredit consistently strengthened its position as a specialist in infrastructure finance. New business was generated primarily through the intensification of existing customer relations and the implementation of measures intended to stimulate business in consulting, structuring and financing of public-sector-related infrastructure projects. The bank played a leading role in the financing of numerous infrastructure projects in the core countries of Europe. These included wind power plants in France, the North Sea and Austria, a broadband network in Germany, a toll road in Spain and the administrative headquarters of a German government ministry. Overall, Kommunalkredit generated new business in a volume of EUR 242.6 million in 2016, with contracts finalised for EUR 146.3 million in 2016 and EUR 96.3 million at the beginning of 2017. Moreover, prolongations of loans from the existing portfolio amounted to a total of EUR 64.5 million.

Distribution

The main target of the bank's distribution activities was to establish and intensify contacts with institutional investors in European core countries. Thanks to its profound knowledge and understanding of their requirements, Kommunalkredit is able to originate projects that can be successfully placed with investors. At the end of 2016, the bank submitted a binding offer for the sale of a package of loans from its existing portfolio in a total volume of EUR 179.0 million. The contract is expected to be finalised in the first quarter of 2017.

Kommunalkredit Public Consulting

Through Kommunalkredit Public Consulting (KPC), its 90% subsidiary, Kommunalkredit manages various support programmes, above all in the fields of environmental protection, water management and energy. In 2016, funds in the amount of EUR 407.5 million, made available by the federal government and by Austrian provinces, were disbursed. KPC evaluated over 71,000 projects in the fields of environmental protection and climate action as well as transactions eligible for the "crafts bonus" programme, which represented a total capital expenditure volume of EUR 2,165.6 million. These projects play an important role in stimulating economic activity at regional and local levels. KPC also performed well in its international consulting business, winning new mandates from international financial institutions, such as the EBRD, the OECD and the German Kreditanstalt für Wiederaufbau (KfW).

Kommunalnet

Kommunalnet E-Government Solutions GmbH (Kommunalnet), a 45% subsidiary of Kommunalkredit, is the electronic work and information portal and social network of Austrian local authorities. As at 31 December 2016, Kommunalnet had 13,733 registered users, mainly mayors, executive directors and finance directors from about 2,000 Austrian local authorities and associations of local authorities. Thus, Kommunalnet has reached the high market-penetration rate of 95.6% in the municipal sector and holds a unique position in the Austrian market.

The model of availability-based compensation

Against the background of the limited financial latitude allowed to public budgets, Kommunalkredit also supports alternative forms of procurement, such as the model of availability-based compensation. This model represents a highly efficient and transparent form of procurement for the public sector, which accelerates the implementation of infrastructure projects and has an immediate stimulating effect on the economy of the region concerned.

The model is premised on a long-term partnership between the public-sector principal (federal or provincial authority, local authority, association of local authorities, etc.) and a private partner (usually a special purpose company with significant private-investor participation) as the contractor. The special purpose company undertakes to carry out an infrastructure projects, for example to construct a school building, an administrative building or a road, and to make it available for an agreed period of time. The contractor receives availability-based compensation. Such compensation is dependent on the service provided and will only be paid if the infrastructure is actually available in conformity with the contract specifications. This is the essential advantage of the availability-based model: The public sector assumes neither the procurement risk nor the risk of the infrastructure not being available. These risks are borne by the special purpose company.

Unlike conventional procurement models, the availability-based model offers the additional advantage of covering all phases in the life cycle of an infrastructure project – design, planning, financing, construction, operation, use, maintenance and, if necessary, dismantling. The better the coordination between the individual phases, the higher the potential efficiency gains. Resource consumption and costs can be minimised on this basis.

Kommunalkredit has already implemented projects within the framework of availability-based models in several European countries, including the construction of a government ministry in Germany and a road and road lighting renewal project in Great Britain.

OTHER MATERIAL DISCLOSURES

Service Level Agreement / Service Agreement between Kommunalkredit und KA Finanz AG

Under the service agreement (SA) and the service level agreement (SLA), which have been in place since 2009, Kommunalkredit provides operational services for the banking operations of KA Finanz AG (KF). Kommunalkredit'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 2016, 18 staff members were working exclusively for KF on the basis of a staff leasing agreement.

Corporate Governance and Risk Management

Kommunalkredit has a clear corporate governance and risk management structure.

Supervisory Board

In 2016, the Supervisory Board performed its tasks, as defined in the Articles of Association and the rules of procedure, within the framework of its ordinary and extraordinary meetings. The statutory committees (nomination committee, audit committee, risk committee, remuneration committee) as well as the credit committee also held their meetings. At the Annual Shareholders' Meeting of 7 April 2016, Patrick Bettscheider was elected to serve as Chairman of the Supervisory Board, succeeding Ulrich Sieber, who resigned from his position as of the same date. The Supervisory Board rules of procedure regarding the powers of the Audit Committee were adjusted to comply with the provisions of the Audit Reform Act passed in 2016.

Executive Board

The Executive Board of Kommunalkredit, which had consisted of three members since 1 February 2016, was enlarged to four members through the appointment of Karl-Bernd Fislage effective as of 1 February 2017. The allocation 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 position 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 Chairman and the members of the Executive Board on all matters within the remit of the Supervisory Board. These include, in particular, discussions on the company's strategy and information on the bank's business development and its risk management. The latter issues are regularly 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)

In accordance with the agreed allocation of tasks, 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.

Kommunalkredit 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 control loop
- Economic control loop (liquidation perspective)
- Going-concern control loop

Moreover, regular stress tests are performed to test the robustness of the business model and to ensure the adequacy of the bank's capitalisation.

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.

ASSETS, FINANCIAL POSITION AND INCOME

Financial performance indicators of Kommunalkredit Austria AG according to the Austrian Company Code

Table: Selected key financials according to the Austrian Company Code

Selected Balance Sheet figures in EUR million	2016	2015
Total assets	3,268.8	3,540.0
Balances with central banks	310.5	79.7
Public-sector debt instruments and bonds	204.3	364.0
Loans and advances to banks	100.0	240.2
Loans and advances to customers	2,556.8	2,771.3
Amounts owed to banks	795.6	469.2
Amounts owed to customers	538.2	372.9
Securitised liabilities	1,535.5	2,310.8
Fund for general banking risks pursuant to § 57 (3) Austrian Banking Act	40.0	15.0

Selected Income Statement figures in EUR million	01/01-31/12/2016	01/01-31/12/2015
Net interest income	36.2	42.3
Net fee and commission income	0.6	-0.1
General administrative expenses after invoicing to other entities under the Service Level Agreement	-25.5	-18.5
Stability tax	-11.6	-1.0
Operating result	0.7	23.7
Net risk provisioning, valuation and disposal result	54.8	11.4
Profit on ordinary activities	55.5	35.1
Appropriation to fund for general banking risks pursuant to § 57 (3) Austrian Banking Act	-25.0	-15.0
Taxes on income	7.0	-1.8
Profit for the year after tax	37.5	18.3

Key indicators in EUR million or %	2016	2015
Total risk exposure amount pursuant to Art. 92 CRR (risk-weighted assets)	686.1	761.8
Own funds requirement (incl. capital conservation buffer of 0.625%)	59.2	60.9
Own funds [1)]	290.3	259.9
Total capital ratio	42.3%	34.1%
Common equity tier 1 after deductible items [1)]	225.5	194.9
Common equity tier 1 ratio	32.9%	25.6%
Number of shares	31,007,059	31,007,059

1) Own funds/common equity tier 1 based on a profit for the year of Kommunalkredit according to the Austrian Company Code/Austrian Banking Act of EUR 37.5 million, minus a proposed dividend of EUR 32.0 million.

Rating	31/12/2016	31/12/2015
Long-term DBRS	BBB (low)	BBB (low)
Short-term DBRS	R-2 (mid)	R-2 (mid)
Covered Bonds Moody's	Baa3	Baa2

Balance sheet structure

As at 31 December 2016, Kommunalkredit reported total assets according to the Austrian Company Code/Austrian Banking Act of EUR 3.3 billion, down by approx. EUR 0.3 billion from the value reported as at 31 December 2015. The reduction is primarily due to the scheduled runoff of asset positions. The most important balance sheet items are loans and advances to customer of EUR 2.6 billion (31/12/2015: EUR 2.8 billion), balances with central banks of EUR 0.3 billion (31/12/2015: EUR 0.1 billion) and debt instruments and bonds in the amount of EUR 0.2 billion (31/12/2015: EUR 0.4 billion).

Risk-weighted assets and equity

Kommunalkredit further strengthened its capital position in 2016, reporting eligible own funds as at 31 December 2016 in the total amount of EUR 290.3 million (31/12/2015: EUR 259.9 million) and common equity tier 1 of EUR 225.5 million (31/12/2015: EUR 194.9 million). Owing to the reduction of total assets, risk-weighted assets decreased by EUR 75.7 million to EUR 686.1 million in 2016 (31/12/2015: EUR 761.8 million). Kommunalkredit's own funds requirement, considering a capital conservation buffer of 0.625%, came to EUR 59.2 million (31/12/2015: EUR 60.9 million). Thus, as at 31 December 2016, Kommunalkredit reported a total capital ratio of 42.3% (31/12/2015: 34.1%) and a CET 1 ratio of 32.9% (31/12/2015: 25.6%); the leverage ratio as at 31 December 2016 was 7.2% (31/12/2015: 5.0%).

The figures shown reflect the equity indicators based on the 2016 profit for the year as reported in the audited separate financial statements of Kommunalkredit pursuant to the Austrian Company Code/Austrian Banking Act. Own funds have already been reduced by a dividend of EUR 32.0 million, which the Executive Board will propose for distribution for the business year 2016 at the forthcoming Shareholders' Meeting. Moreover, a proposal to grant authorised capital in the amount of EUR 79.7 million is also to be submitted at the Shareholders' Meeting on 10 March 2017.

Funding structure / Liquidity

As at 31 December 2016, Kommunalkredit had a sound funding structure. Amounts owed to customers increased to a total of EUR 538.2 million in 2016 (31/12/2015: EUR 372.9 million). This increase resulted from the steep rise in customer deposits by EUR 196.5 million to EUR 214.4 million (31/12/2015: EUR 17.9 million). The increase concerned deposits by corporate customers as well as deposits acquired via the KA Direct online platform. KA Direct is an efficient investment product for municipalities and quasi-municipal enterprises. Amounts owed to customers also include non-current liabilities to customers in the amount of EUR 323.7 million (31/12/2015: EUR 355.0 million).

Senior and covered bonds, outstanding in the amounts of EUR 474.8 million and EUR 1.34 million respectively as at 31 December 2016, are another material funding component for the bank. In the course of 2016, bonds in a volume of EUR 727.3 million were redeemed, including a volume of EUR 215.6 million that was redeemed early by the bank on the basis of investor requests. Together with the closure of related hedging transactions, this led to a positive result of EUR 51.1 million, which is recognised in the net trading and valuation result.

At its meeting on 10 March 2016, the European Central Bank (ECB) announced a long-term tender (TLTRO-II) at an attractive interest rate of 0% and a potential bonus of 0.40% upon achievement of the loan growth benchmark. By 31 December 2016, Kommunalkredit fully utilised the amount of EUR 314 million ("borrowing allowance") available under this attractive four-year funding regime.

Given its funding structure, there was no need for Kommunalkredit to raise additional funding in the capital market in 2016. The bank's liquidity reserve in the form of assets eligible as collateral for funding came to EUR 390 million as at 31 December 2016.

The structure of liabilities was as follows:

Table: Structure of liabilities 31/12/2015 and 31/12/2016

in EUR billion pursuant to the Austrian Company Code	31/12/2016	31/12/2015
Securitised liabilities	1.5	2.3
Amounts owed to customers	0.5	0.4
Amounts owed to banks, including ECB	0.8	0.5

Public-sector covered bonds / Cover pool

As at 31 December 2016, Kommunalkredit had a well-diversified cover pool with a nominal value of EUR 1.34 billion. At the same time, public-sector covered bonds in the nominal amount of EUR 1.14 billion were outstanding, comprising mainly publicly-placed, CHF-denominated covered bonds. As at 31 December 2016, the cover pool included assets from Austria (95.7%) and Germany (4.3%); 80.5% of the cover pool is rated AAA or AA[7]; 19.5% of the cover pool assets have an A rating.

Rating

Kommunalkredit's unsecured debt issues have a long-term rating of BBB (low) (negative trend) and a short-term rating of R-2 (mid) from the DBRS rating agency.

Covered bonds are rated Baa3 by Moody's rating agency. For covered bank bonds in circulation, Kommunalkredit maintains a voluntary nominal over-collateralisation of approximately 10% of the redemption amount. As at 31 December 2016, over-collateralisation was maintained at a level of 17.6%.

Income position

In its separate financial statements prepared in accordance with the Austrian Company Code/Austrian Banking Act, Kommunalkredit reports a profit on ordinary activities of EUR 55.5 million (2015: EUR 35.1 million). The 2016 profit for the year amounts to EUR 37.5 million (2015: EUR 18.3 million), after the appropriation of EUR 25.0 million (2015: EUR 15.0 million) to the fund for general banking risks pursuant to § 57 (3) of the Austrian Banking Act. Thus, a total of EUR 40.0 million was appropriated to the fund for general banking risks in the past two business years as a capital-building measure. The 2016 profit for the year was depressed by the non-recurring expense of the special stability tax payable by Austrian banks ("bank levy") in the amount of EUR 7.7 million. The total stability tax expense in 2016 amounted to EUR 11.6 million.

[7] This is an internal rating.

The material income and expense items are as follows:

- **Net interest income**
  Net interest income in 2016 amounted to EUR 36.2 million (2015: EUR 42.3 million), resulting primarily from stable earnings on the existing asset portfolio and debt instruments issued to raise funding, as well as net interest income generated through new business.

- **Net fee and commission income**
  Kommunalkredit's net fee and commission income came to EUR 0.6 million (2015: EUR -0.1 million), comprising fee and commission income from the lending and service business of EUR 1.1 million (2015: EUR 0.3 million) and fee and commission expenses of EUR 0.5 million (2015: EUR 0.4 million).

- **General administrative expenses / Other operating income**
  General administrative expenses, before services invoiced to KA Finanz AG (KF) and Kommunalkredit Public Consulting GmbH under the SLA, amounted to a gross total of EUR - 38.7 million (2015: EUR -30.6 million), of which an amount of EUR -23.2 million (2015: EUR -19.6 million) was accounted for by personnel expenses and EUR -15.5 million (2015: EUR -11.0 million) by other administrative expenses. Personnel and other administrative expenses invoiced to KF and KPC and reported under other operating income amounted to EUR 13.2 million (2015: EUR 12.0 million). Thus, the net amount of general administrative expenses, after amounts invoiced to other entities, came to EUR -25.5 million in 2016 (2015: EUR -18.5 million). Contributions to the European Bank Resolution Fund in the amount of EUR 2.5 million (2015: EUR 0.8 million) are also recognised in general administrative expenses.

- **Other operating expenses – Stability tax**
  Other operating expenses exclusively include the stability tax payable by Austrian banks ("bank levy") in the amount of EUR 11.6 million. In addition to the stability tax for 2016 of EUR3.9 million, this expense item also comprises the non-recurrent special payment of EUR 7.7 million pursuant to the 2016 Tax Amendment Act. In return for this non-recurrent special payment made in 2016, the financial burden resulting from the recurring stability tax payable for financial years from 2017 onwards will be significantly reduced (expected stability tax expense in 2017: EUR 0.7 million).

- **Net risk provisioning, valuation and disposal result**
  Kommunalkredit's non-performing-loan (NPL) ratio (definition of default according to Basel III) remained at 0.0%, with no loan defaults reported in 2016. The valuation and disposal result (excluding the change in provisions pursuant to § 57 (3)) amounted to EUR 54.8 million in 2016 (2015: EUR 11.4 million), primarily resulting from the early redemption of outstanding senior and covered bonds in the amount of EUR 215.8 million on account of investor requests. Together with the closure of the related swaps, this produced a positive result of EUR 51.8 million.

- **General risk provisions pursuant to § 57 (3) of the Austrian Banking Act –**
  Fund for general banking risks
  Owing to the positive development of business in 2016, EUR 25.0 million were appropriated to the risk provision pursuant to § 57 (3) of the Austrian Banking Act in 2016; this appropriation to provisions was booked as an extraordinary expense item. Thus, a total of EUR 40.0 million was appropriated to the fund for general banking risks in the past two business years as a capital-building measure.

- **Taxes on income**
  A positive amount of EUR 7.0 million was reported under taxes on income in 2016 (2015: EUR -1.8 million). The positive tax result is due to the capitalisation of temporary differences between income recognised in the financial statements and under tax law, made obligatory by the 2014 Accounting Reform Act (to be applied for the first time in the financial year 2016). For Kommunalkredit, temporary difference subject to obligatory capitalisation result, above all, from the fund for general banking risks pursuant to § 57 (3) of the Austrian Banking Act.

Capitalisation – Dividend policy

The stated objective of the shareholders is to take advantage of the growing volume of business to ensure a sound capitalisation of Kommunalkredit. A core capital ratio of 32.9% and a total capital ratio of 42.3% after distribution of the proposed dividend of EUR 32.0 million are fully in line with this objective. As at 31 December 2016, the bank reported own funds of EUR 290.3 million, up by EUR 30.4 million as compared with 31 December 2015 (EUR 259.9 million). Moreover, the Shareholders' Meeting on 10 March 2017 intends to grant authorised capital in the amount of EUR 79.7 million as a basis for future growth.

NON-FINANCIAL PERFORMANCE INDICATORS

Employees

The average headcount of Kommunalkredit Austria AG in 2016 was 178 FTEs (full-time equivalents; 2015: 163). On average, 14 of these employees worked exclusively for KA Finanz AG (KF) (2015: 13), while the other employees of Kommunalkredit also provided operational services for KF under a service agreement (SA) and a service level agreement (SLA). As of 31 December 2016 18 employees worked exclusively for KF (2015: 15).

The remuneration policy and practice of the Kommunalkredit 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

Active and transparent communication with its stakeholders – customers, business partners, investors and employees – is a matter of high priority for Kommunalkredit. During the first full business year after the privatisation of the bank in the autumn of 2015, communication measures were focused, above all, on positioning Kommunalkredit as a specialist bank for infrastructure finance, which acts as a bridge between infrastructure developers, such as municipalities, public-sector enterprises and private project operators, on the one hand, and institutional investors, such as insurance companies or pension funds, on the other hand.

To engage in dialogue with its stakeholders, Kommunalkredit employs a broad range of communication tools. These include various forms of personal communication as well as digital media, such as Kommunalnet and the company website, classic public relations work and direct marketing. Serving as a knowledge platform in the field of infrastructure, the bank has developed a whole set of communication formats to address its main target groups, i.e. municipalities, project developers and institutional investors.

- The *Municipal Summer Symposium*, a municipal-policy forum, was organised for the eleventh time in cooperation with the Association of Austrian Municipalities in 2016. The event brought 250 participants from the world of politics, the business community, academia and the media to Bad Aussee for an exchange on future-oriented issues.

- As a specialist in infrastructure financing, consulting and support, Kommunalkredit 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*.

- Within the framework of its own events, such as the *Municipal Dialogue*, Kommunalkredit was able to position itself as a link between project developers and institutional investors. Experts from Kommunalkredit and Kommunalkredit Public Consulting also participated in numerous *specialised events* in Austria and abroad.

- With the *Municipal Finance Report*, now in its twelfth year, Kommunalkredit offers a detailed overview of the income and expenditure situation of all Austrian municipalities and local authorities, as well as forecasts for the coming years. The report is published in cooperation with the Association of Austrian Municipalities and the Association of Austrian Cities and Towns, with support from Statistics Austria. As a supplement to this standard reference work, the Transparency Platform *www.gemeindefinanzen.at*, accessible to all citizens free of charge, provides insight into the financial situation of all Austrian local authorities. The Intranet platform *www.kommunalnet.at* (owned by the Association of Austrian Municipalities, its provincial units and Kommunalkredit) serves as a benchmarking tool for all local authorities in Austria.

- Studies on specific topics, such as *Investing in Renewable Energy*, published annually since 2011 in cooperation with SCWP Schindhelm and greenpilot gmbh, reflect Kommunalkredit's focus on energy and the environment, social infrastructure, and transport.

- The specialised quarterly journal "*RFG – Recht und Finanzen für Gemeinden*" published by Manz provides information on topics of municipal law, municipal tax law and municipal finance. Kommunalkredit is co-editor of the journal.

- Within the framework of its *investor relations activities*, Kommunalkredit further intensified its communications with investors, analysts and business partners in 2016, focusing primarily on presentations for investors and credit updates on the occasion of the publication of results.

- In its *internal communications*, Kommunalkredit is making every effort to ensure a transparent flow of information within the company. The bank uses a broad range of communication channels, from internal road shows to town hall meetings to the Intranet. The activities of the *Sustainability Team* and the *Staff Council* complement the active exchange of information.

BRANCH OFFICES

As at 31 December 2016, Kommunalkredit had no branch offices. On 1 January 2017, a branch office was opened in Germany.

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

In accordance with a resolution adopted by the Supervisory Board on 1 December 2016, Karl-Bernd Fislage was appointed to the Executive Board of Kommunalkredit as Chief Distribution Officer, effective as of 1 February 2017. Karl-Bernd Fislage has extensive international experience in infrastructure finance and looks back on more than 25 years in the banking business, 18 of them spent in leading management positions at Deutsche Bank, most recently as Head of Global Asset Finance.

Branch office in Germany

At the beginning of 2017, Kommunalkredit opened a branch office in Frankfurt am Main in order to develop an on-site presence in Germany. The bank expects to take advantage of attractive growth opportunities in the important German market, which is the biggest market for infrastructure project finance in Europe after Great Britain.

The German Federal Financial Supervisory Authority (BaFin) approved the establishment of the branch office on 21 December 2016. The branch office became operational on 1 January 2017 and was entered in the Companies' Register on 20 January 2017.

RISK MANAGEMENT

Risk management strategies and procedures

The instruments used by Kommunalkredit 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. Kommunalkredit's business operations do not include any trading activities.

Kommunalkredit has a trading book, but its use is strictly limited. The transactions exclusively are risk-free through-trading activities within the framework of the provision of customer services. Within the framework of this limited use, Kommunalkredit does not engage in any activities with the intention to trade or any other activities resulting in open positions in the trading book.

Organisational structure of risk management and risk monitoring

The overall responsibility for ICAAP lies with the Executive Board. The risk-policy principles and the risk strategy are derived from Kommunalkredit'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 Kommunalkredit'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.

Kommunalkredit 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, Risk Controlling 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 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, Credit Risk 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).

Risk Controlling is responsible for the quantification of risks and the risk-carrying capacity and for the performance of stress tests.

Risk Controlling and Credit Risk Management perform the tasks of a risk management department pursuant to § 39 (5) of the Austrian Banking Act; they are independent of Kommunalkredit's operational business and have direct access to the Executive Board of Kommunalkredit. Besides regular reports submitted by the Risk Committee, the Supervisory Board receives information on the risk position of the bank through comprehensive quarterly risk reports and a monthly key data sheet showing the development of the most important capital, earnings and risk indicators.

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 Kommunalkredit:

- **Credit risk**
  Default and counterparty risk
  Concentration risk
  Rating migration risk
  Country risk
  Residual risk from credit risk mitigation techniques
  Settlement risk
  Investment risk

- **Liquidity risk**
  Structural liquidity risk
  Funding risk
  Market liquidity risk

- **Market risk**
  Interest rate risk – banking book
  Basis spread risk
  FX risk
  Commodity risk
  Credit spread risk
  Equity risk
  Option price risk
  OIS risk

- **Operational risk**
  Operational risk
  Legal risk
  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 and is allocated in its entirety to the funding risk.*

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

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

Risk-policy guidelines for risk management

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

- The limitation of risks at Kommunalkredit is commensurate with the bank's earning strength and its equity base.
- The expertise of Kommunalkredit 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.
- Kommunalkredit's system of risk management provides for comprehensive, regular and standardised risk reporting, with reports on the risk position of Kommunalkredit 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, constitutes an essential organisational and risk-policy objective.

Securing minimum capital adequacy

ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) are core elements of Pillar 2 of the Basel Accord and comprise all procedures and measures applied by a bank to ensure 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.

Kommunalkredit 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: Ensuring 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 December 2016, the total capital ratio of Kommunalkredit, after profit and dividend, was 42.3%; the tier-1 ratio was 32.9%. As of 1 January 2016, the minimum requirements to be met by Kommunalkredit are a total capital ratio of 9.25% and a tier-1 ratio of 7.25%.

- **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 December 2016, the economic risks correspond to 19.9% of the risk-carrying capacity, the **risk buffer** being **80.1%**.

- **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 ensured 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 December 2016, the economic risks correspond to 32.2% of the risk-carrying capacity, the **risk buffer** being **67.8%**.

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 portfolio-specific stress) are defined and their impact on the bank's risk coverage capacity is quantified. In addition to the stressed risk coverage capacity, a stressed three-year budget is drawn up for each scenario in order to test the stability of the business model over time. In addition to the economic stress tests, reverse stress tests are performed. This is a regulatory requirement intended to show the extent to which parameters and risks can be stressed before regulatory or internal minimum requirements can no longer be met.

Credit risk management

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

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

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

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

Unexpected loss

Monthly credit VaR calculations are performed to quantify the unexpected loss and to determine the economic capital required within the framework of risk-carrying-capacity analyses. Kommunalkredit 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 December 2016 amounted to 4.3% (31/12/2015: 6.4%) relative to the economic risk coverage capacity.

From the **going-concern perspective**, the potential unexpected loss from credit defaults for a holding period of one year as at 31 December 2016 amounted to 4.2% (31/12/2015: 15.4%) relative to the economic risk coverage capacity.

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

Breakdown by rating

The breakdown of credit exposure by rating shows that the exposure is concentrated in the top rating categories: as at 31 December 2016, 60.8% of the exposure was rated AAA/AA, 98.6% was rated investment grade. Overall, the Kommunalkredit 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 31/12/2016*

31/12/2016 in EUR million	Exposure	Proportion	of which securities	of which guarantees	of which loans
AAA	48.2	1.7%	0.0	0.0	48.2
AA	1,694.6	59.1%	96.3	0.0	1,595.5
A	693.3	24.2%	108.1	0.0	513.2
BBB	392.0	13.7%	10.8	9.5	326.3
BB	24.9	0.9%	0.0	0.0	24.9
B	15.4	0.5%	0.0	0.0	15.4
CCC	0.0	0.0%	0.0	0.0	0.0
D	0.0	0.0%	0.0	0.0	0.0
not rated	0.0	0.0%	0.0	0.0	0.0
Total	**2,868.5**	**100.0%**	**215.1**	**9.5**	**2,523.5**

* Breakdown of exposure according to S&P rating scale

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

31/12/2015 in EUR million	Exposure	Proportion	of which securities	of which guarantees	of which loans
AAA	60.0	1.8%	0.0	0.0	60.0
AA	1,917.6	58.6%	97.4	1.5	1,808.1
A	694.0	21.2%	108.1	0.0	444.1
BBB	388.3	11.9%	61.5	1.4	255.6
BB	18.3	0.6%	0.0	0.0	17.9
B	191.4	5.9%	0.0	0.0	191.4
CCC	0.0	0.0%	0.0	0.0	0.0
D	0.0	0.0%	0.0	0.0	0.0
non-rated	0.0	0.0%	0.0	0.0	0.0
Total	**3,269.8**	**100.0%**	**267.0**	**3.3**	**2,777.1**

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

Concentration risk

Risk concentrations are monitored in the process of loan origination and in the course of the monthly credit risk reports submitted to the RMC and shown in reports to the Credit Committee and the Supervisory Board. The total portfolio is broken down according to different parameters (breakdown by country, region, top 20/100 groups of related customers, rating, sector); limits are set by top risk drivers, sectors and geographic regions. In addition, risk concentrations in individual sub-portfolios are identified by Credit Risk Management, 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 55.1% of the total exposure. It includes broadly diversified mortgage loans in a total amount of EUR 156 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 21.8% of the total exposure.

Country transfer risk

Kommunalkredit 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 Kommunalkredit 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, 99.6%). The exposure to non-EU Europe, i.e. 0.4% of the total exposure, is accounted for entirely by Switzerland. As at 31 December 2016, Kommunalkredit had no exposure to Russia and Ukraine.

Table: Breakdown of credit exposure by region as at 31/12/2016

31/12/2016 in EUR million	Exposure	Proportion	of which securities	of which guarantees	of which loans
Austria	2,256.6	79.0%	96.3	9.1	2,137.7
EU-28 (European Union excl. Austria)	589.7	20.6%	118.9	0.4	375.4
of which EU-18 (euro area excl. Austria)	*379.7*	*13.2%*	*10.8*	*0.4*	*297.8*
Non-EU Europe	11.5	0.4%	0.0	0.0	10.3
Other	1.7	0.1%	0.0	0.0	0.0
Total	**2,868.5**	**100.0%**	**215.1**	**9.5**	**2,523.5**

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	2,532.7	77.5%	97.4	2.9	2,369.9
EU-28 (European Union excl. Austria)	630.2	19.3%	169.6	0.4	309.0
of which EU-18 (euro area excl. Austria)	*323.6*	*9.9%*	*10.3*	*0.4*	*212.4*
Non-EU Europe	99.3	3.0%	0.0	0.0	98.2
Other	7.5	0.2%	0.0	0.0	0.0
Total	**3,269.8**	**100.0%**	**267.0**	**3.3**	**2,777.1**

Exposure to sovereigns and territorial authorities as at 31 December 2016

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:

31/12/2016 in EUR million	Exposure	of which sovereign	of which territorial authority	of which government-guaranteed
Austria	1,671.2	0.0	1,671.2	0.0
Germany	56.6	0.0	36.8	19.8
Spain	10.8	10.8	0.0	0.0

Exposure to Austrian provinces as at 31 December 2016

Of Kommunalkredit's total exposure to Austria in a volume of EUR 2,265.6 million, the following exposures are to Austrian provinces and/or provincial entities guaranteed by provincial governments:

31/12/2016 in EUR million	Direct exposure	Exposure guaranteed by provincial government	Total exposure
Province of Upper Austria	7.3	237.1	244.4
Province of Lower Austria	33.8	122.3	156.1
Province of Carinthia	0.0	147.7	147.7
Province of Styria	0.0	114.1	114.1
Province of Burgenland	0.0	101.9	101.9
City of Vienna	20.7	0.0	20.7
Total	**61.8**	**723.1**	**784.9**

In addition to the exposures listed in the above table, Kommunalkredit holds housing loans of Austrian provinces secured by mortgages in a total volume of EUR 155.6 million, which are guaranteed by the provinces concerned (Burgenland EUR 101.4 million; Upper Austria EUR 54.2 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 2016. Kommunalkredit had no financial assets (receivables) on its books that were more than 90 days past due, nor any substantial payment arrears of between 0 and 90 days.

Loan loss provisions

The portfolio is reviewed regularly for objective indications of impairments of customer exposures or exposures to groups of related customers. Assessments of impairment are performed in the course of the annual rating updates, the annual rating review or on an event-triggered basis. Impairments to be booked for defaulting loans are determined by Risk Management, 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 2016, the exposure (nominal value) in risk class 1 (intensive management/performing) amounted to EUR 24.1 million. None of Kommunalkredit's exposures were classified as risk classes 2 and 3.

Credit Risk Management 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.

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 2016, the book value of investments in associates (at equity) amounted to EUR 0.0 million (31/12/2015: EUR 2.3 million; for details see Note 18). The book value of investments in assets available for sale amounted to EUR 3.0 million (31/12/2015: EUR 3.0 million).

Counterparty default risk from derivatives, repo transactions and securities transactions

Legally binding netting arrangements for derivatives and repo transactions (close-out netting) have been concluded with all active counterparties of Kommunalkredit. For derivatives, credit support agreements and/or collateral annexes to framework contracts providing for daily collateral margining have been concluded with all active financial counterparties. There is no obligation to put up additional collateral in the event of a rating downgrade of Kommunalkredit. Moreover, derivative framework agreements are not contractually dependent on the rating of the bank or the counterparty concerned. The only exception are derivative agreements in the cover pool, for which framework agreements and netting arrangements have been made at market conditions (unilateral collateralisation by the counterparty, rating trigger).

The exposure to the counterparty default risk of derivatives, included in credit risk, is defined as the residual risk from the current replacement cost (positive market value) considering CSAs and netting arrangements, plus an "add-on" for potential market value changes during the so-called "residual period of risk" between the default of the counterparty and the closing out/replacement of the derivative transaction.

Repo transactions are cleared primarily in the form of genuine repos via platforms with daily margining.

If in repo or securities lending transactions, a counterparty default risk results for Kommunalkredit from the difference between the liability/receivable and the market value of the corresponding collateral put up/received, this risk counts as exposure to the counterparty and is taken into account in credit risk.

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

Counterparty default risk positions are limited through volume-based counterparty and concentration risks, on the one hand, and credit-VaR-based portfolio limits, on the other hand. Given the settlement and clearing principles described above, the counterparty default risk from derivatives, repo transactions and securities transactions is not material.

The counterparty default risk from derivatives is calculated as a credit valuation adjustment (CVA) according to IFRS 13. Kommunalkredit calculates CVA and DVA (debt valuation adjustment), aggregated 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.

Liquidity risk management

Based on the ILAAP (Internal Liquidity Adequacy Assessment Process) definition, Kommunalkredit 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), on the other hand.

Kommunalkredit 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:

31/12/2016 in EUR million	Expected liquidity gap	Available liquidity	Liquidity position
Up to one month	396.2	205.3	601.5
More than one month up to three months	-201.2	-67.3	-268.6
More than three months up to one year	237.6	-37.7	199.9
Total	**432.6**	**100.3**	**532.9**

The comparative figures for 2015 are as follows:

31/12/2015 in EUR million	Expected liquidity gap	Available liquidity	Liquidity position
Up to one month	26.7	948.0	974.7
More than one month up to three months	84.8	-16.4	68.4
More than three months up to one year	-275.2	-66.7	-342.0
Total	**-163.7**	**864.8**	**701.1**

The capital-weighted residual maturity of liabilities exceeds that of assets. Moreover, Kommunalkredit has a large portfolio of free assets eligible as collateral.

The daily management of cash collateral for derivative contracts practiced at Kommunalkredit greatly reduces the credit risk.

Structural liquidity risk (>= 1 year)

For the purposes of liquidity management and the structural analysis of its liquidity risk position, Kommunalkredit 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 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 December 2016 (net for derivatives, gross for cross-currency swaps, positive value for pay-out overhang):

Cash flows in EUR million as at 31/12/2016	Liability at amortised cost	Derivatives designated as hedging instrument	Trading*
Up to one month	185.5	2.0	3.3
More than one month up to three months	442.1	1.4	5.8
More than three months up to one year	228.1	14.5	15.8
More than one year up to five years	1,026.7	57.5	77.3
More than five years	1,591.5	21.3	49.3
Total	**3,473.8**	**96.7**	**151.5**

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

As at 31 December 2016, the nominal amount of interest-rate and currency swaps was EUR 3.3 billion.

The comparative figures for 2015 are as follows:

Cash flows in EUR million as at 31/12/2015	Liabilities at amortised cost	Derivatives designated as hedging instruments	Trading*)
Up to one month	68.0	38.8	5.6
More than one month up to three months	57.5	52.8	6.9
More than three months up to one year	465.4	15.3	22.6
More than one year up to five years	1,111.9	69.1	112.7
More than five years	1,944.9	29.5	87.9
Total	**3,647.7**	**205.4**	**235.7**

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

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

Market risk management

Interest rate risk

For the measurement, management and limitation of interest rate risks from positions not held in the trading book, Kommunalkredit 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, Kommunalkredit 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.

Kommunalkredit'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. Kommunalkredit 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 Kommunalkredit (EUR, USD, CHF, JPY) and communicated to Treasury as a basis for risk management.

For management purposes, Kommunalkredit 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 Kommunalkredit's repricing risk as at 31 December 2016 in EUR million in the event of a parallel rise of short-term interest by +100bp:

EUR	USD	CHF	JPY	Other	Total
-1.3	0.0	-0.6	+0.1	0.0	**-1.8**

- NPV risk of interest rate changes in Kommunalkredit's banking book as at 31 December 2016 in EUR million in the event of a +25bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total	VAR total
+1.4	-0.4	-0.3	+1.6	-0.4	**+1.9**	**-5.9**

- NPV risk of interest rate changes of the IFRS interest-rate risk position carrying through profit or loss in EUR million as at 31 December 2016 in the event of a +25bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total	VAR total
+4.5	0.0	-0.6	-0.1	0.0	**+3.8**	**-3.6**

The comparative figures for 2015 are as follows:

- Annual net interest income effect from Kommunalkredit's repricing risk as at 31 December 2015 in EUR million 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 Kommunalkredit's banking book as at 31 December 2015 in EUR million 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 EUR million as at 31 December 2015 in the event of a +25bp parallel shift in the yield curve:

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

Currency risk

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

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

Except for a small residual position, the open FX position is closed daily.

The FX VaR as at 31 December 2016 was EUR 0.011 million (as at 31/12/2015: EUR 0.007 million).

Spread widening risk

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

The credit spread risk on P&L according to IFRS in the event of spreads widening by one basis point (CS01) amounted to EUR -0.4 million as at 31 December 2016 (as at 31/12/2015: EUR -0.5 million), resulting from fair value portfolios against Austrian public borrowers.

Basis spread risk

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

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

As at 31 December 2016, the basis spread risk in the event of basis spreads widening by 1 basis point was EUR +0.2 million (as at 31/12/2015: EUR +0.2 million).

Option price risk

The option price risk for Kommunalkredit 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 -0.7 million as at 31 December 2016 (as at 31/12/2015: EUR -4.3 million). However, the open option price risk in the banking book results almost exclusively from unilateral call rights of Kommunalkredit for own issues (i.e. Kommunalkredit has the right to call). As at 31 December 2016, there were no P&L-relevant option price risks.

Operational risk

Kommunalkredit 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. At Kommunalkredit 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.

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

Business Continuity Management

Business continuity management (BCM) ensures the adequate, comprehensive and efficient management of business continuity. This includes the elaboration and management of continuity and re-start-up plans as well as the implementation of measures designed to minimise interruptions of critical business processes. This includes the provision of alternative workplaces in the event of Kommunalkredit'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 in October 2016.

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 Kommunalkredit 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. 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. Moreover, areas of responsibility and the scope of action at top management level are defined and/or limited by the Supervisory Board committees with different functions and the rules of procedure for the Executive Board.

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

Kommunalkredit’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

Kommunalkredit 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 Kommunalkredit 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 directly 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 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 statements to be published are subjected to a final review, to be coordinated with the external auditor, and explicitly released by senior accounting staff and the Executive Board prior to their submission to the Audit Committee of the Supervisory Board.

By monitoring compliance with all rules, Kommunalkredit 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

Sustainability as part of the business model

Sustainability is an essential factor in the business model of Kommunalkredit as a reliable partner for infrastructure-related measures. The bank acts as a bridge between infrastructure developers, such as municipalities, public-sector enterprises or private project operators, on the one hand, and institutional investors, such as insurance companies and pension funds, on the other hand. Its activities are concentrated in the core segments of social infrastructure (care homes, health care and educational facilities, administrative buildings), transport (commuter transport, road and rail transport) and energy and the environment (especially sustainable sources of energy).

An environmental management system according to the EMAS Regulation was institutionalised within Kommunalkredit in 1997. Over the years, it has been developed into an integrated sustainability management system. The principles of sustainability are firmly embedded in Kommunalkredit'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, e-bikes and the award of an internal sustainability prize.

Moreover, through Kommunalkredit Public Consulting (KPC), Kommunalkredit manages support programmes in the environment and energy sectors 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 its most recent audit[8], oekom research rated Kommunalkredit as a "PRIME company" and awarded it an overall rating of C+, the best rating in a universe of 53 companies of the Financials/Mortgage & Public Sector Finance sector. Sustainalytics ranked Kommunalkredit number 34 of 63 rated companies. The investment research unit of imug (Beratungsgesellschaft für sozial-ökologische Innovationen) recently confirmed its rating of "very positive" for Kommunalkredit's covered bank bonds, which puts the bank in the best of four possible rating classes.

Ecological and social issues

A mindful use of resources – ranging from waste sorting and waste avoidance to recto/verso printing to ecologically minded business travel planning – is everyday practice at Kommunalkredit. Energy efficiency and the use of renewable resources, e.g. through a pellet-fired heating system in Kommunalkredit's office building and the use of green electricity, is another priority. KPC offsets the CO_2 emissions caused by business travel via www.climataeaustria.at.

[8] The rating was awarded to Kommunalkredit prior to its privatisation in the autumn of 2015.

Within the framework of the ongoing stakeholder dialogue, Kommunalkredit carried on with a number of successful cooperation projects in 2016, e.g. a series of events on "The Courage to be Sustainable" of the Austrian Environment Agency; Kommunalkredit also cooperated with the Austrian Water and Waste Association and with IG Lebenszyklus Bau, 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, sustainability-related film viewings, and the sustainability award for private commitment. In cooperation with Caritas, an Austrian charity organization, employees of the Kommunalkredit Group voluntarily support young refugees from regions at war and in crisis by helping them once a week in their efforts to learn German. Within the framework of its Staff Day, KPC employees helped to turn a shelter for refugees run by Caritas into a comfortable place for unaccompanied minors.

Kommunalkredit's externally audited Sustainability Report for 2015 was the first one published by the bank in accordance with the new GRI G4 standard. The Sustainability Report qualifies as an EMAS environmental declaration and can be downloaded at www.kommunalkredit.at. The 2016 Sustainability Report will be available from June 2017.

COMPLIANCE AND MONEY LAUNDERING

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

Pursuant to the provisions of the law and the SCC, Kommunalkredit adopted an internal compliance code and introduced a compliance organisation headed by a compliance officer who reports to the Executive Board. In line with the SCC and the relevant legal provisions, the compliance code is primarily aimed at ensuring compliance with the relevant provisions of the Securities Supervision Act and the provisions on market abuse, especially through measures to prevent the abuse of inside information or market manipulation.

Moreover, the compliance organisation of Kommunalkredit 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 Kommunalkredit 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" and/or the provisions of the Financial Market Money Laundering Act replacing the aforementioned provisions as of 1 January 2017.

OUTLOOK

Kommunalkredit has started the business year 2017 from a solid position. The macro-economic fundamentals and the high demand for infrastructure investments in Europe create a favourable environment for the bank. Interest in using funds provided by institutional investors to carry out urgently needed public infrastructure projects is increasing continuously. As a strong and effective bank specialising in infrastructure finance, Kommunalkredit is strategically very well positioned in this environment. With its outstanding expertise, its acts as a bridge between project developers in need of funds, one the one hand, and institutional investors looking for investment opportunities, on the other hand. The dynamic development of demand is relatively independent of potentially negative effects of geostrategic developments, such as Brexit and the growing trend towards protectionism.

The steepening of the yield curve, which is to be expected in the medium term, will not yet have an impact on the economic environment for Kommunalkredit in 2017. Significant changes in the interest landscape are not to be expected for the current business year, even though the flood of liquidity in the market due to the extreme monetary policy of the ECB will gradually subside.

After the satisfactory performance in 2016, we expect that Kommunalkredit will again generate a sound result in 2017, although extraordinary income from the early redemption of own issues will not be as high as in 2016. Kommunalkredit will continue to consistently implement its strategy in 2017. The bank's objective is to increase the volume of its new business as well as the volume of issues to be placed in the market, especially with institutional investors. As regards loan impairment, we expect stable development in 2017. In terms of funding, we hope to further increase the volume of deposits in 2017 in line with the positive development seen in the reporting year.

Overall, we are confident of benefiting from the opportunities arising in 2017 and look forward to actively cooperating with our customers and market partners.

Vienna, 8 March 2017

The Executive Board of
Kommunalkredit Austria AG

Alois Steinbichler	**Jörn Engelmann**	**Karl-Bernd Fislage**	**Wolfgang Meister**
Chairman of the Executive Board	Member of the Executive Board	Member of the Executive Board	Member of the Executive Board

REPORT OF THE SUPERVISORY BOARD TO THE SHAREHOLDERS' MEETING

The Supervisory Board of Kommunalkredit Austria AG (Kommunalkredit) presents its report on the business year 2016, the first full business year since the privatisation of the bank in September 2015.

The Supervisory Board comprises six capital representatives and three employee representatives. On 7 April 2016, Gesona Beteiligungsverwaltung GmbH exercised its right of delegation and delegated Mr. Patrick Bettscheider to the Supervisory Board; subsequently, Patrick Bettscheider was elected Chairman of the Supervisory Board. He succeeded Ulrich Sieber, who resigned from his Supervisory Board mandate as of the same date. The other members of the Supervisory Board, namely Christopher Guth, Deputy Chairman of the Supervisory Board and delegated by Attestor Capital, Friedrich Andreae, Managing Director of Satere Beteiligungsverwaltungs GmbH and Gesona Beteiligungsverwaltung GmbH, Katharina Gehra, Managing Director of Satere Beteiligungsverwaltungs GmbH and Gesona Beteiligungsverwaltung GmbH, Jürgen Meisch, Managing Director of Achalm Capital GmbH and Werner Muhm, Director of the Vienna Chamber of Labour and the Federal Chamber of Labour until 30 June 2016, remained in office; Patrick Höller and Franz Hofer were delegated by the Staff Council; Brigitte Markl, also delegated by the Staff Council, resigned from her position as of 1 December 2016 and was succeeded by Renate Schneider as of 20 February 2017 as a member of the Supervisory Board delegated by the Staff Council. The Supervisory Board wishes to thank all former members who resigned in the course of 2016 for their trust and cooperation.

As of 1 February 2016, Jörn Engelmann was appointed to the Executive Board of Kommunalkredit as Chief Risk Officer. Moreover, on 1 December 2016 Karl-Bernd Fislage was appointed to the Executive Board as Chief Distribution Officer, effective as of 1 February 2017. Following these appointments, the Executive Board now consists of Alois Steinbichler (Chief Executive Officer), Wolfgang Meister (Chief Operating Officer), Jörn Engelmann (Chief Risk Officer) and Karl-Bernd Fislage (Chief Distribution Officer).

As planned, Kommunalkredit broadened the scope of its activities relating to the structuring, financing and syndication of infrastructure projects in the year under review. Its primary focus continues to be on the core segments of "**Social Infrastructure**", "**Energy and Environment**" and "**Transport**". On 30 November 2016, the German Federal Financial Supervisory Authority approved the establishment of a Kommunalkredit branch office in Germany, Frankfurt am Main; the branch office was opened on 1 January 2017. Kommunalkredit Public Consulting (KPC), a 90% subsidiary of Kommunalkredit, continues to operate in the field of support programme management.

The Supervisory Board performed its tasks, as defined in the Articles of Association and the rules of procedure, within the framework of four ordinary and two extraordinary meetings. Moreover, the statutory committees (Nomination Committee, Audit Committee, Risk Committee, Remuneration Committee and Credit Committee) were established, held their meetings and performed their tasks in accordance with the Articles of Association. The rules of procedure of the Supervisory Board were adapted to the new legal provisions regarding the powers of the Audit Committee. Following the enlargement of the Executive Board, the new division of tasks within the Executive Board was decided upon.

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 exercising its tasks as laid down in the law, the Articles of Association and the rules of procedure, the Supervisory Board advised and supervised the Executive Board in the management of the company. 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/or innovations in the regulatory sphere.

These Financial Statements and the Management Report were audited by PwC Wirtschaftsprüfung GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna. The audit did not result in any findings. Given that all legal requirements were complied with by the bank and the annual financial statements present a true and fair view of the assets and the financial position of the company as at 31 December 2016, the auditors issued an unqualified audit opinion. Having examined the financial statements, the Supervisory Board endorsed the result of the audit and approved the 2016 Financial Statements at its meeting on 9 March 2017, which were thus formally adopted. Moreover, the Supervisory Board examined and took note of the Consolidated Financial Statements as at 31 December 2016, including the Management Report.

The Supervisory Board

Patrick Bettscheider
Chairman

Vienna, 9 March 2017

SEPARATE FINANCIAL STATEMENTS OF KOMMUNALKREDIT AUSTRIA AG, VIENNA, FOR THE BUSINESS YEAR 2016

I. BALANCE SHEET (pursuant to the Austrian Banking Act)

Assets in EUR		Note	31/12/2016		31/12/2015
1.	**Cash and balances with central banks**			**310,456,734.99**	**79,692,968.69**
2.	**Public-sector debt instruments eligible**				
	as collateral for central bank funding	4.1.		**108,082,753.04**	**108,076,218.13**
	Public-sector debt instruments		108,082,753.04		108,076,218.13
3.	**Loans and advances to banks**	4.2.		**100,048,911.29**	**240,233,710.92**
	a) repayable on demand		100,048,911.29		240,233,710.92
4.	**Loans and advances to customers**	4.3.		**2,556,794,611.57**	**2,771,338,620.66**
5.	**Bonds and other fixed-income securities**			**96,257,372.41**	**255,891,419.52**
	a) of public issuers		80,752,135.67		81,914,401.66
	b) other issuers		15,505,236.74		173,977,017.86
	of which own bonds issued		*0.00*		*107,262,711.75*
6.	**Participations**	4.5.		**2,425,070.00**	**1,825,070.00**
	of which in banks		*0.00*		*0.00*
7.	**Investments in affiliated companies**	4.5.		**6,339,848.12**	**6,339,848.12**
	of which in banks		*0.00*		*0.00*
8.	**Intangible non-current assets**	4.6.		**288,747.33**	**383,589.87**
9.	**Property, plant and equipment**	4.6.		**1,904,193.39**	**1,904,193.39**
10.	**Other assets**	4.7.		**74,242,221.64**	**67,475,380.47**
11.	**Accruals/deferrals**	4.8.		**4,818,489.93**	**6,883,542.40**
12.	**Deferred tax assets**	4.9.		**7,141,210.75**	**0.00**
	Total assets			**3,268,800,164.46**	**3,540,044,562.17**

	Off-balance-sheet items			
1.	Foreign assets		653,645,232.98	836,412,586.09

Liabilities in EUR		Note		31/12/2016	31/12/2015
1.	**Amounts owed to banks**	4.10.		**795,561,529.21**	**469,214,282.74**
	a) repayable on demand		227,140,643.25		332,437,319.41
	b) with fixed maturity or period of call		568,420,885.96		136,776,963.33
2.	**Amounts owed to customers**	4.11.		**538,202,229.94**	**372,939,123.08**
	Other liabilities				
	a) of which repayable on demand		*6,855.252.88*		*7,549,254.32*
	b) of which with fixed maturity or period of call		*531,346,977.06*		*365,389,868.76*
3.	**Securitised liabilities**	4.12.		**1,535,524.848.46**	**2,310,774,507.34**
	a) bonds issued		1,052,395,150.03		1,703,423,870.08
	b) other securitised liabilities		483,129,698.43		607,350,637.27
4.	**Other liabilities**	4.13.		**42,489,869.38**	**92,350,432.06**
5.	**Accruals/deferrals**	4.14.		**4,897,579.25**	**8,050,028.83**
6.	**Provisions**	4.15.		**26,807,079.93**	**15,909,740.15**
	a) Provisions for severance pay		4,482,116.51		3,938,439.48
	b) Provisions for pensions		1,198,761.00		1,322,234.27
	c) Tax provisions		0.00		2,066,398.04
	d) Other		21,126,202.42		8,582,668.36
6A.	**Fund for general banking risks (§ 57 (3) BWG)**	4.16		**40,000,000.00**	**15,000,000.00**
7.	**Supplementary capital**	4.17.		**67,527,648.04**	**67,525,194.00**
8.	**Subscribed capital**	4.18.		**159,491,290.16**	**159,491,290.16**
9.	**Revenues reserves**	4.19.		**3,298,178.85**	**1,422,772.49**
	a) statutory reserves		3,298,178.85		1,422,772.49
	b) other reserves		0.00		0.00
10.	**Statutory reserve pursuant to § 57 (5)5 BWG**	4.20.		**10,000,000.00**	**10,000,000.00**
11.	**Net profit**	4.21.		**44,999,911.24**	**17,367,190.42**
	Total liabilities			**3,268,800,164.46**	**3,540,044,562.17**

	Off-balance-sheet items				
1.	Contingent liabilities	5.1.		9,530,864.95	3,260,440.00
	of which liabilities from sureties and guarantees and liabilities from the assignment of collateral		*9,530,864.95*		*3,260,440.00*
2.	Credit risk	5.2.		40,364,091.28	36,598,854.87
	of which liabilities from repo transactions		*0.00*		*0.00*
3.	Liabilities from trust transactions	5.3.		214,824,538.81	231,581,841.42
4.	Eligible own funds pursuant to Part 2 of Regulation (EU) No 575/2013	6.1.		259,825,382.29	234,616,409.97
	of which tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013		*64,832,876.71*		*65,000,000.00*
5.	Own funds requirements pursuant to Art. 92 of Regulation (EU) No 575/2013	6.1.		686,130,553.43	761,841,375.48
	of which own funds requirements pursuant to Art. 92.1.a of Regulation (EU) No. 575/2013 CET 1 capital ratio		*28.42%*		*22.26%*
	of which own funds requirements pursuant to Art. 92.1.b of Regulation (EU) No 575/2013 Tier 1 capital ratio		*28.42%*		*22.26%*
	of which own funds requirements pursuant to Art. 92.1.c of Regulation (EU) No 575/2013 total capital ratio		*37.87%*		*30.80%*
6.	Foreign liabilities			2,158,251,671.74	2,988,895,615.13

II. INCOME STATEMENT (pursuant to the Austrian Banking Act)

in EUR		Note	01/01-31/12/2016			01/01-31/12/2015
1.	Interest and similar income				171,923,809.45	298,101,089.89
	of which fixed-income securities			*11,236,227.83*		*12,649,692.22*
2.	Interest and similar expenses				-135,712,952.69	-255,760,052.49
I.	**Net interest income**	7.1.1.			**36,210,856.76**	**42,341,037.40**
3.	Income from securities and investments	7.1.2.			487,350.00	520,700.00
	a) income from investments in affiliated companies			487,350.00		520,700.00
4.	Fee and commission income	7.1.3.			1,078,236.70	273,234.67
5.	Fee and commission expenses	7.1.3.			-522,572.86	-403,621.96
6.	Income/expenses from financial transactions				-5,470.57	50,104.27
7.	Other operating income	7.1.5.			14,020,769.37	12,817,992.90
II.	**Operating income**				**51,269,169.40**	**55,599,447.28**
8.	General administrative expenses	7.1.4.			-38,703,805.75	-30,568,026.16
	a) Personnel expenses	7.1.4.1.		-23,243,073.28		-19,609,456.15
	aa) of which salaries		*-17,520,581.93*			*-15,313,992.52*
	bb) of which expenses for statutory social charges, salary-dependent charges and compulsory contributions		*-3,838,382.45*			*-3,476,037.51*
	cc) of which other social expenses		*-562,306.55*			*-558,842.75*
	dd) of which expenses for pension cost		*-709,820.61*			*-422,384.65*
	ee) of which appropriation to/release of pension provision		*123,473.27*			*253,149.78*
	ff) of which expenses for severance pay and contributions to company pension plans		*-735,455.01*			*-91,348.50*
	b) Other administrative expenses (non-personnel)	7.1.4.2.		-15,460,732.47		-10,958,570.01
9.	Impairment charges to assets reported under asset items 8 and 9				-273,184.13	-277,698.89
10.	Other operating expenses	7.1.6.			-11,578,631.68	-1,048,645.44
III.	**Operating expenses**				**-50,555,621.56**	**-31,894,370.49**
IV.	**Operating result**				**713,547.84**	**23,705,076.79**
11.	Impairments of receivables and appropriations to provisions for contingent liabilities and credit risks	7.1.7.			0.00	-134,609.45
12.	Balance of income/expenses from the impairment of receivables and contingent liabilities and the disposal and valuation of securities held as current assets				2,011,154.19	0.00
13.	Income from valuation adjustments of investment securities and from participations and investments in affiliated companies	7.1.7.			52,781,780.19	11,540,497.97
V.	**Profit on ordinary activities**				**55,506,482.22**	**35,110,965.31**
14.	Extraordinary expenses				-25,000,000.00	-15,000,000.00
	of which appropriations to the fund for general banking risks	*7.1.8.*			*-25,000,000.00*	*-15,000.000.00*
15.	**Extraordinary result**				**-25,000,000.00**	**-15,000,000.00**
16.	Taxes on income	7.1.9.			7,045,540.16	-1,796,314.19
17.	Other taxes not reported under item 16	7.1.9.			-43,895.20	-33,398.05
VI.	**Profit for the year**				**37,508,127.18**	**18,281,253.07**
18.	Appropriations to/release from reserves					
	a) Statutory revenue reserve				-1,875,406.36	-914,062.65
19.	Profit carried forward				9,367,190.42	0.00
VIII.	**Net profit**				**44,999,911.24**	**17,367,190.42**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF KOMMUNALKREDIT AUSTRIA AG, VIENNA, FOR THE BUSINESS YEAR 2016

1. GENERAL INFORMATION

Kommunalkredit Austria AG (Kommunalkredit), with its registered office in Vienna, Türkenstrasse 9, is positioned as a specialist bank in the fast-growing market of infrastructure finance. It acts as a link between infrastructure developers, such as municipalities, public-sector enterprises or private project sponsors, on the one hand, and institutional investors, such as insurance companies and pension funds, on the other hand. It is registered with the Commercial Court of Vienna under Companies Register number 439528s.

Kommunalkredit was established on 26 September 2015 through the demerger for new incorporation of the former Kommunalkredit. The entire business operation of the former Kommunalkredit (including all its subsidiaries) was transferred to a newly established company (Kommunalkredit) by way of a proportionate demerger for new incorporation. The part of the former Kommunalkredit remaining after the demerger was merged into KA Finanz AG (KF). The portfolio transferred to KF comprised high-quality assets as well as positive equity and debt instruments issued for funding.

Gesona Beteiligungsverwaltung GmbH (Gesona) owns 99.78% of Kommunalkredit. The remaining 0.22% is held by the Association of Austrian Municipalities. Gesona is a holding company through which Interritus Limited (Interritus) and Trinity Investments Designated Activity Company (Trinity) – via Satere Beteiligungsverwaltungs GmbH (Satere) – hold their participations in Kommunalkredit; Interritus and Trinity respectively hold 55% and 45% of Satere, which in turn holds 100% of Gesona.

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

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

2. ACCOUNTING RULES APPLIED

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

The 2014 Accounting Reform Act (*Rechnungslegungs-Änderungsgesetz 2014 – RÄG 2014*) introduced fundamental changes applicable to financial years beginning after 31 December 2015. The relevant changes to be applied in the 2016 reporting period were fully taken into account by Kommunalkredit. These concern, in particular:

- the obligation to capitalise deferred tax assets, and
- the discounting of non-current provisions.

3. ACCOUNTING AND MEASUREMENT RULES

3.1. General remarks

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

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

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

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

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

3.2. Currency translation

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

3.3. Receivables

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

Specific loan loss provisions are set up for identifiable risks.

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

3.4. Securities

Securities to be held for the company's business operations on a permanent basis are classified as non-current assets. Securities acquired with the intention to trade are assigned to the trading book. Securities that are neither classified as non-current assets nor assigned to the trading portfolio are classified as current assets. As at 31 December 2016, all securities were classified as non-current assets. Securities are recognised at cost, based on the mitigated lower-of-cost-or-market principle for non-current assets and the strict lower-of-cost-or-market principle for current assets. Securities of the trading portfolio are recognised at their market value on the balance sheet date.

For securities classified as non-current assets, the company has elected to write off pro-rata temporis the acquisition cost exceeding the amount repayable. The possibility of writing up the amount exceeding the amount repayable on a pro-rata temporis basis is used as well.

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

in EUR	31/12/2016	31/12/2015
Difference pursuant to § 56 (2) BWG (Difference between the higher acquisition cost and the amount repayable for the securities)	1,857,477.04	1,773,560.05
Difference pursuant to § 56 (3) BWG (Difference between the lower acquisition cost and the amount repayable for the securities)	140,700.00	296,300.00

Moreover, securities classified as non-current assets include the following hidden reserves and/or hidden burdens (not considering the related interest rate swaps):

Calculation of hidden reserves in EUR	31/12/2016	31/12/2015
Book value	487,354,790.91	568,997,894.61
Fair value	564,901,675.38	645,894,432.27
Hidden reserves	**77,546,884.47**	**76,896,537.66**

Calculation of hidden burdens in EUR	31/12/2016	31/12/2015
Book value	0.00	10,225,858.25
Fair value	0.00	9,199,759.89
Hidden burdens	**0.00**	**-1,026,098.36**

Hidden reserves mainly result from fixed-income securities, the high fair value being due to the low level of interest. Hidden reserves and hidden burdens are booked against the fair values of interest rate derivatives concluded for hedging purposes.

Fair value measurement

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

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

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

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

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

31/12/2016 in EUR	Level 1	Level 2	Level 3
Fair value	139,499,322.52	425,402,352.86	0.00
Book value	130,574,861.01	356,779,930.11	0.00
Difference	**8,924,461.51**	**68,622,422.75**	**0.00**

31/12/2015 in EUR	Level 1	Level 2	Level 3
Fair value	196,058,240.68	290,099,967.68	168,935,983.80
Book value	180,051,461.62	243,687,517.55	155,484,773.69
Difference	**16,006,779.06**	**46,412,450.13**	**13,451,210.11**

In the current reporting period, all level 3 securities were reclassified to level 2. There were no migrations from level 2 to level 3 in 2016, nor were there any migrations from level 2 to level 1 or vice versa.

3.5. Participations and investments in affiliated companies

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

3.6. Intangible assets

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

3.7. Property, plant and equipment

All office furniture and equipment, except works of art, are accounted for at Kommunalkredit Beteiligungs- und Immobilien GmbH (KBI) in the interest of Group-wide accounting uniformity. Works of art are not subject to straight-line depreciation.

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

3.8. Deferred tax assets

The 2014 Accounting Reform Act abolished the right to elect for capitalisation of deferred tax assets from temporary differences between their carrying amount and their tax base and introduced obligatory capitalisation. The difference resulting from this new rule amounted to EUR 4,429,968.01 as at 1 January 2016 and will be distributed over five years.

At Kommunalkredit, temporary differences between the tax base and the carrying amount primarily result from the fund for general banking risks pursuant to § 57 (3) of the Austrian Banking Act. Pursuant to § 235 (2) of the Austrian Company Code, the capitalised amount is subject to a dividend payout block. Kommunalkredit did not elect to use the option of capitalising tax loss carryforwards.

3.9. Liabilities

Liabilities are recognised at the amount repayable.

3.10. Securitised liabilities

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

Zero bonds are recognised according to the equity method.

Own bonds which were not placed externally but issued as collateral for the liability arising from the demerger, as outlined in Note 6.5, are recognised on a net basis for the first time in the 2016 financial statements (§ 51 (5) Austrian Banking Act).

3.11. Provisions

Provisions for pensions, severance pay and jubilee bonus obligations are calculated annually by an independent actuary according to the projected-unit-credit method pursuant to § 211 (1) of the Austrian Company Code in accordance with IAS 19 and recognised in personnel expenses. 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 2.00% (2015: 2.25%) for pension obligations, 1.5% (2015: 1.75%) for obligations from severance pay, and 0.50% (2015: 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 employees 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 of eight employees resulting from direct commitments made 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 employees reaching retirement age are already fixed and therefore only subject to adjustment in line with the annual increase agreed upon through collective bargaining. As the defined-benefit components are fully funded, supplementary allocations will only be required in the event of underperformance or "premature" payment of benefits. The full actuarial obligation for pensions amounts to EUR 1,620.290.46 (31/12/2015: EUR 1,731,848.11), of which entitlements in the amount of EUR 421,529.46 (31/12/2015: EUR 409,613.84) have been transferred to the pension fund. The resulting provisioning requirement amounts to EUR 1,198,761.00 (31/12/2015: EUR 1,322,234.27). Provisions for entitlements to severance pay amount to EUR 4,482,116.51 (31/12/2015: EUR 3,938,439.48); provisions for jubilee bonuses amount to EUR 233,275.72 (31/12/2015: EUR 274,385.38).

All actuarial gains and losses immediately carry through profit or loss. The appropriation to provisions for severance pay includes actuarial losses of EUR 205,545.54 (2015: gains of EUR 121,611.68). The change in pension provisions includes actuarial gains of EUR 2,695.33 (2015: EUR 210,096.07) and gains on plan assets of EUR 2,699.31 (2015: EUR 6,976.18).

Other provisions were set up in the amount of their expected use in accordance with the principle of prudence, based on all identifiable risks and on liabilities not yet quantifiable. Non-current provisions set up for periods of more than one year are discounted in accordance with the provisions of the 2014 Accounting Reform Act.

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

As at 31 December 2016, an amount of EUR 25,000,000.00 was appropriated to the fund for general banking risks pursuant to § 57 (3) of the Austrian Banking Act (31/12/2015: EUR 15,000,000.00). Thus, as at 31 December 2016, the fund for general banking risks amounted to EUR 40,000,000.00 (31/12/2015: EUR 15,000,000.00). Provisions set up pursuant to § 57 (3) of the Austrian Banking Act are recognised in the extraordinary result, as required under the Austrian Banking Act.

3.13. Derivatives

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

- Units of account

  For hedge accounting (units of account), the AFRAC (Austrian Financial Reporting and Auditing Committee) Opinion on "Derivatives and Hedging Instruments (Austrian Company Code) (version of December 2015)" contains provisions aimed at avoiding economically unjustified effects on the Income Statement due to the different measurement of hedged underlying transactions and hedging instruments. Underlying transactions are individually recognised assets and liabilities at fixed interest rates as well as pending transactions already concluded at the time of classification. The rules on units of account permit the changes in the value of hedging instruments and the hedged transactions to be recognised mostly as mutually offsetting. Proof of an effective hedging relationship between the underlying transaction and the hedging transaction is required as a prerequisite for the application of these rules. A hedging relationship is considered effective if the results from the hedging instrument and the compensatory results from the hedged underlying transaction – relative to the hedged risk – offset each other within a range of 80% to 125%. Kommunalkredit verifies compliance with these requirements through prospective (matching of the components determining the market value) and retrospective effectiveness tests. In a prospective effectiveness test, all parameters of the underlying transaction and the hedging transaction that determine the extent of the hedged value change are compared in order to verify whether the hedged fair value of the structure (underlying and hedging transactions) is within a range of 80% to 125% maximum. A retrospective effectiveness test verifies whether the hedged fair value of the structure (underlying and hedging transactions) fluctuates within a range of 80% to 125% maximum between two specified dates. Hedging transactions at Kommunalkredit are concluded until maturity of the underlying transaction.

- Macro-hedge

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

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

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

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

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

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

The above prerequisites are met and documented by Kommunalkredit.

If fixed-interest gaps are closed through derivatives at macro-level, prospective scenario analyses (net-present-value changes in the event of changes in interest level) are performed to determine the hedging effect and the effectiveness of the derivative and, thus, its suitability for allocation to the macro-position. On account of the net-present-value approach, the hedging period extends over the entire terms of the underlying transaction.

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

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

Swap transactions of the trading book, if any, are measured at their fair values, determined according to the principles outlined above, and recognised under other receivables and other liabilities. At present, Kommunalkredit has no swap transactions in the trading book.

4. NOTES TO THE BALANCE SHEET

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

Securities of public bodies eligible as collateral for funding from the ECB (European Central Bank) are shown under this item. None of the public-sector debt instruments will fall due in 2017 (2016: 0.00).

On the balance sheet date, the book value of EUR 108,082,753.04 (31/12/2015: EUR 108,076,218.13) was classified in its entirety as non-current assets.

4.2. Loans and advances to banks

in EUR	31/12/2016	31/12/2015
Collateral for negative market values from derivative transactions	91,081,642.54	216,980,590.21
Cash balances with banks	8,967,268.75	23,253,120.71
Total	**100,048,911.29**	**240,233,710.92**

As in the previous year, loans and advances to banks do not include any bills receivable. As at 31 December 2016, no subordinated claims were held against banks. As in the previous year, all loans and advances to banks are repayable on demand.

4.3. Loans and advances to customers

Loans and advances to customers comprise the following:

in EUR	31/12/2016	31/12/2015
Loans	2,222,851,356.27	2,424,084,905.34
Non-listed securities	291,041,235.30	331,816,102.11
Collateral for negative market values from derivative transactions	43,050,000.00	15,650,162.21
Portfolio loan loss provisions	-147,980,00	-212,549.00
Total	**2,556,794,611.57**	**2,771,338,620.66**
of which loans and advances to affiliated companies	*20,075,388.89*	*20,577,483.17*
of which loans and advances to companies in which an equity investment is held	*42,191,367.50*	*45,739.163.33*

The non-listed securities included in this item in the amount of EUR 291,041,235.30 (31/12/2015: EUR 331,816,102.11) are classified in their entirety as non-current assets.

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

in EUR	31/12/2016	31/12/2015
Loans and advances repayable on demand	42,182,541.02	15,299,840.88
Other loans and advances		
a) up to 3 months	56.316.710.60	142,827,082.24
b) more than 3 months up to 1 year	255,336,037.33	223,027,834.37
c) more than 1 year up to 5 years	871,012,780.28	901,433,563.15
d) more than 5 years	1,332,094,522.34	1,488,962,849.02
	2,514,760,050.55	2,756,251,328.78
Portfolio loan loss provision	-147,980.00	-212,549.00
Total	**2,556,794,611.57**	**2,771,338,620.66**

4.4. Bonds and other fixed-income securities

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

in EUR	31/12/2016	31/12/2015
Securities of public issuers	80,752,135.67	81,914,401.66
Securities of other issuers	15,505,236.74	173,977,017.86
of which own issues	*0.00*	*107,262,711.75*
Total	**96,257,372.41**	**255,891,419.52**

Bonds and other fixed-income securities in the amount of EUR 15,505.236.74 (2016: EUR 51,229,255.41) will fall due in 2017.

Own bonds which were not placed externally but issued as collateral for the liability arising from the demerger, as outlined in Note 6.5, are recognised on a net basis for the first time in the 2016 financial statements (§ 51 (5) BWG).

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

4.5. Participations and investments in affiliated companies

The composition of participations and investments in affiliated companies (all of them non-listed), including the presentation of their financial position, is shown in Annex 1. Participations and investments in affiliated companies are subjected to annual impairment tests on the basis of financial forecasts.

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

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

4.7. Other assets

in EUR	31/12/2016	31/12/2015
Interest accruals from derivatives in the banking book	38,729,777.42	57,778,431.10
Accruals/deferrals between spot rate and forward rate in FX swaps	17,925,824.40	3,499,918.01
Receivables from services invoiced to KA Finanz AG	10,504,074.48	0.00
Claims against the tax authorities	3,187,579.03	0.00
Receivables from deferred interest	2,516,440.91	2,774,979.97
Foreign currency valuation of derivatives in the banking book	0.00	362,182.14
Other	1,378,525.40	2,697,687.11
Total	**74,242,221.64**	**67,475,380.47**
of which recognised as cash items after the closing date	*56,316,397.24*	*63,613,280.32*

4.8. Accrued income and prepaid expenses

Accrued income and prepaid expenses comprise the following items:

in EUR	31/12/2016	31/12/2015
Accrued fees from derivative transactions	2,251,942.61	3,679,047.47
Capitalised offering discounts of bond issues	1,126,822.16	2,296,499.02
Other	1,439,725.16	907,995.90
Total	**4,818,489.93**	**6,883,542.40**

4.9. Deferred tax assets

The 2014 Accounting Reform Act introduced the obligation to capitalise deferred tax assets resulting from temporary differences between the carrying value of an asset and its tax base. As at 31 December 2016, the asset item amounted to EUR 7,141,210.75 (31/12/2015: EUR 0.00), resulting primarily from temporary differences in connection with the fund for general banking risks pursuant to § 57 (3) of the Austrian Banking Act. Kommunalkredit elected to distribute the difference of EUR 4,429,968.01 as at 1 January 2016 over a period of five years.

Kommunalkredit did not elect to capitalise tax loss carryforwards. As at 31 December 2016, Kommunalkredit's tax loss carryforward amounted to EUR 145,577,388.94 (31/12/2015: EUR 201,579,012.06).

4.10. Amounts owed to banks

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

in EUR	31/12/2016	31/12/2015
Repayable on demand	227,140,643.25	332,437,319.41
Other liabilities		
a) up to 3 months	160,995,709.67	30,983,776.43
b) more than 3 months up to 1 year	375,816,620.61	2,833,206.61
c(more than 1 year up to 5 years	21,068,048.43	33,591,896.43
d(more than 5 years	10,540,507.25	69,368,083.86
	568,420,885.96	136,776,963.33
Total	**795,561,529.21**	**469,214,282.74**

Amounts owed to banks repayable on demand include cash and cash equivalents received as collateral for positive market values of derivatives in accordance with ISDA/CSA arrangements in the amount of EUR 216,491,644.72 (31/12/2015: EUR 327,174,378.93). Other liabilities to banks include EUR 528,568,903.73 (31/12/2015: EUR 97,048,178.77) in funding obtained from the ECB tender and the European Investment Bank (EIB).

Other liabilities to banks include EUR 313,930,000.00 (31/12/2015: EUR 0.00) in medium-term funds from the TLTRO II Programme (Targeted Longer-Term Refinancing Operation) of the European Central Bank (ECB), EUR 150,000,000.00 (31/12/2015: EUR 30,000,000.00) in funding from the ECB tender, and EUR 64,638,903.73 (31/12/2015: EUR 67,048,137.10) in collateralised loans from the European Investment Bank.

4.11. Amounts owed to customers

Amounts owed to customers totalling EUR 538,202,229.94 (31/12/2015: EUR 372,939,123.08) mainly comprise deposits by corporate customers, municipalities and quasi-municipal enterprises of EUR 214,440,399.98 (31/12/2015: EUR 17,892,336.82) and other amounts owed to customers of EUR 323,748,770.04 (31/12/2015: EUR 355,046,786.26).

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

in EUR	31/12/2016	31/12/2015
Repayable on demand	6,855,252.88	7,549,254.32
Other liabilities		
a) up to 3 months	93,602,768.40	12,430,631.98
b) more than 3 months up to 1 year	94,490,392.12	6,968,761.21
c) more than 1 year up to 5 years	41,152,739.77	12,999,876.83
d) more than 5 years	302,101,076.77	332,990,598.74
	531,346,977.06	365,389,868.76
Total	**538,202,229.94**	**372,939,123.08**

4.12. Securitised liabilities

Securitised liabilities are broken down as follows:

in EUR	31/12/2016	31/12/2015
Bonds issued	1,052,395,150.03	1,703,423,870.08
Other securitised liabilities	483,129,698.43	607,350,637.27
Securitised liabilities	**1,535,524,848.46**	**2,310,774,507.35**

The bonds issued are exchange-listed; the securities reported under other securitised liabilities are non-listed.

Bonds issued with book values of EUR 301,261,546.70 (2016: EUR 377,100,599.78) and other securitised liabilities in the amount of EUR 16,910,160.33 (2016: EUR 6,429,686.78) will fall due in 2017. As in the previous year, securitised liabilities do not include any subordinated liabilities.

4.13. Other liabilities

in EUR	31/12/2016	31/12/2015
Interest accruals from derivatives	20,282.125.91	33,551,393.48
Foreign currency valuation of derivatives in the banking book	4,358,833.31	29,985,506.24
Accruals/deferrals between spot rate and forward rate of FX swaps	13,499,215.48	26,426,081.13
Other	4,349,694.68	2,387,451.21
Total	**42,489,869.38**	**92,350,432.06**
of which recognised as cash items after the closing date	*24,631,820.59*	*35,938,844.69*

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

4.14. Deferred income and accrued expenses

in EUR	31/12/2016	31/12/2015
Issuing premiums of bonds issued	1,985,125.96	2,373,773.22
Loan fees deferred over the term	1,541,774.29	1,737,316.10
Deferred fees from derivative transactions	1,370,679.00	3,938,839.50
Total	**4,897,579.25**	**8,050,028.83**

4.15. Provisions

For details on personnel provisions, see Note 3.11 Provisions.

Other provisions mainly include provisions for the one-off special payment of the stability tax pursuant to the 2016 Tax Amendment Act in the amount of EUR 7,718,418.12 (31/12/2015: EUR 0.00), provisions for personnel-related expenses in the amount of EUR 5,624,049.43 (31/12/2015: EUR 5,076,883.96), provisions for the Bank Resolution Fund in the amount of EUR 750,000.00 (31/12/2015: EUR 750,000.00), as well as provisions for auditing, legal and consulting expenses in the amount of EUR 642,289.38 (31/12/2015: EUR 327,778.88). Moreover, in 2016 Kommunalkredit submitted a binding offer for the sale of a loan package from its portfolio and provisioned the expected expense of EUR 3,000,858.00 (31/12/2015: EUR 0.00). In connection with derivatives, provisions in the amount of EUR 1,946,484.31 (31/12/2015: EUR 1,524,008.78) were set up.

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

For prudential reasons and in order to cover special banking risks, Kommunalkredit appropriated an amount of EUR 25,000,000.00 (2015: EUR 15,000,000.00) to the fund for general banking risks in 2016. Thus, as at 31 December 2016, the fund for general banking risks amounted to EUR 40,000,000.00 (31/12/2015: EUR 15,000,000.00).

4.17. Tier 2 capital pursuant to Part 2, Title 1, Chapter 4 of Regulation (EU) No 575/2013

As at 31 December 2016, tier 2 capital items comprised eight (31/12/2015: eight) EUR-denominated issues in a total nominal amount of EUR 65,000,000.00 (31/12/2015: EUR 65,000,000.00) with residual maturities of up to 30 years. None of these issues will fall due in 2017.

The tier 2 capital items meet the conditions of Part 2, Title I, Chapter 4 of the Regulation (EU) No 575/2013:

ISIN	Interest rate as at 31/12/2016 in %	Maturity	Currency	Nominal in EUR	Right to call	Conversion to capital
Subordinated liabilities pursuant to § 23 (8) BWG old version						
Subordinated bond 2006-2021	5.4	30/10/2021	EUR	5,000,000.00	Issuer in case of tax event	no
Subordinated bonded loan 2007-2022	4.67	23/02/2022	EUR	10,000,000.00	no	no
Subordinated bonded loan 2007-2022	4.67	23/02/2022	EUR	10,000,000.00	no	no
Subordinated bonded loan 2007-2037	5.08	09/02/2037	EUR	10,000,000.00	Issuer	no
Subordinated bonded loan 2007-2037	5.08	09/02/2037	EUR	800,000.00	Issuer	no
Subordinated bonded loan 2007-2037	5.08	09/02/2037	EUR	10,200,000.00	Issuer	no
Subordinated bonded loan 2007-2047	5.0175	07/03/2047	EUR	10,000,000.00	Issuer	no
Subordinated bonded loan 2007-2047	5.0175	07/03/2047	EUR	9,000,000.00	Issuer	n

Expenses for all subordinated liabilities in 2016 amounted to EUR 3,226,578.14 (2015: EUR 3,221,991.28).

4.18. Subscribed capital

The share capital as at 31 December 2016, unchanged from the previous year, amounted to EUR 159,491,290.16. 30,938,843 no-par-value shares, i.e. 99.78% of the share capital, are held by Gesona Beteiligungsverwaltung GmbH; 68,216 no-par-value shares, i.e. 0.22% of the share capital, are held by the Association of Austrian Municipalities. Each no-par-value share represents an equal part of the share capital. There are no shares that have been issued but not fully paid in. Each no-par-value share represents a share of EUR 5.14 in the share capital. There are no authorised shares.

4.19. Revenue reserve

As at 31 December 2016, the statutory revenue reserve amounted to EUR 3,298,178.85 (31/12/2015: EUR 1,422,772.49).

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

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

4.21. Net profit / Profit distribution

The Executive Board will propose to the Shareholders‘ Meeting on 10 March 2017 that from the 2016 net profit of EUR 44,999,911.24 an amount of EUR 32,000,000.00 be distributed and the balance of EUR 12,999,911.24 be carried forward to new account.

5. OFF-BALANCE-SHEET ITEMS

5.1. Contingent liabilities

The off-balance-sheet item of contingent liabilities in the amount of EUR 9,530,864.95 (31/12/2015: EUR 3,260,440.00) exclusively concerns guarantee lines granted, including a guarantee in the amount of EUR 1,350,000.00 (31/12/2015: EUR 1,350,000.00) for companies in which an equity investment is held.

5.2. Credit risks

Credit risks in the amount of EUR 40,364,091.28 (31/12/2015: EUR 36,598,854.87) relate to loan commitments and unused lines from the current lending business in the amount of EUR 37,789,091.28 (31/12/2015: EUR 33,423,854.87) and a payout obligation for an investment in equity instruments in the amount of EUR 2,575,000.00 (31/12/2015: EUR 3,175,000.00). Unused credit lines granted to affiliated companies amount to EUR 1,000,000.00 (31/12/2015: EUR 0.00). For companies in which an equity investment is held, unused credit lines granted amount to EUR 1,580,992.48 (31/12/2015: EUR 1,582,212.01).

5.3. Trust transactions

Kommunalkredit holds financial instruments in a nominal amount of EUR 214,824,538.81 (31/12/2015: EUR 231,581,841.42) in trust in its own name but at third parties' cost and risk.

6. SUPPLEMENTARY DISCLOSURES

6.1. Own funds and own funds requirements

Kommunalkredit is subject to the own funds requirements pursuant to Article 92 CRR. On the basis of these provisions, and considering a capital conservation buffer of 0.625% for 2016, a common equity tier 1 ratio of at least 5.125%, a core capital ratio of at least 6.625%, and a total capital ratio of at least 8.625% are required as of 31 December 2016.

The eligible own funds reported include the 2016 net profit of EUR 37,508,127.18 (2015: EUR 18,281,253.07), less the proposed dividend of EUR 32,000,000.00 (2015: EUR 8,000,000.00).

Own funds and own funds requirements calculated in accordance with CRR rules, as reported in the separate financial statements of Kommunalkredit pursuant to the Austrian Company Code/Austrian Banking Act, show the following composition and development:

Assessment base in EUR	31/12/2016	31/12/2015
Total risk exposure amount pursuant to Art. 92 CRRII	686,130,553.43	761,841,375.48
Own funds requirements		
of which credit risk	*42,066,203.67*	*43,573,869.13*
of which operational risk	*8.715.795.41*	*7,755,605.99*
of which CVA charge	*4.099.825.20*	*9,611,731.17*
of which default fund of a qualifying counterparty	*8,619.99*	*6,103.75*
Total (own funds target) before capital conservation buffer	**54,890,444.27**	**60,947,310.04**
Capital conservation buffer	4,288,315.96	0.00
Own funds target	**59,178,760.23**	**60,947,310.04**

Own funds in EUR	31/12/2016	31/12/2015
Common equity tier 1 after deductible items	225,500,632.76	194,897,663.04
Additional own funds after deductible items	64,832,876.71	65,000,000.00
Eligible own funds (tier 1 and tier 2)	**290,333,509.47**	**259,897,663.04**
Free equity	231,154,749.24	198,950,353.00
Own funds ratio	42.3%	34.1%
CET 1 ratio	32.9%	25.6%

6.2. Total of assets and liabilities denominated in foreign currencies

As at 31 December 2016, assets denominated in foreign currencies in the amount of EUR 160,939,182.25 (31/12/2015: EUR 262,242,530.58) were shown on the balance sheet. Liabilities in foreign currencies amounted to EUR 1,110,043,793.84 (31/12/2015: EUR 1,692,034,802.25). Open currency positions are closed through corresponding swap contracts. Kommunalkredit's open foreign currency position is continuously monitored and strictly limited; therefore, there are no material currency risks.

6.3. Derivative transactions not yet settled at the balance sheet date

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

31/12/2016 in EUR	Nominal	Positive fair value	Negative fair value
Interest-rate swaps	3,300,748,938	318,641,774	-248,296,529
of which in macro-hedge	*916,768,838*	*8,833,778*	*-156,512,596*
of which in unit of account	*2,383,980,100*	*309,807,996*	*-91,783,934*
Currency swaps	25,598,826	855,582	-1,453,082
of which in unit of account	*25,598,826*	*855,582*	*-1,453,082*
FX forward transactions	1,067,469,633	17,659,018	-13,597,887
Total	**4,393,817,398**	**337,156,374**	**-263,347,499**

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

As compared with 31 December 2015, the nominal amount of open derivative transactions declined by EUR 3,361,444,196.00 to EUR 4,393,817,398.00. The reduction is primarily due to the elimination of temporary positions with KA Finanz AG (“mirror swaps”), which had been necessary within the framework of the 2015 demerger.

Interest accruals, foreign currency valuations and accrued fees from derivative transactions in the amount of EUR 58,907,544.43 (31/12/2015: EUR 65,319,578.72) are reported under other assets and accrued income and prepaid expenses on the assets side, and EUR 39,510,853.70 (31/12/2015: EUR 93,901,920.36) under other liabilities and deferred income and accrued expenses on the liabilities side of the balance sheet. Moreover, provisions in the amount of EUR 1,946,484.31 (31/12/2015: EUR 1,524,008.78) relating to derivatives are recognised under other provisions. As in the previous year, no provision for impending losses from macro-swaps was required as at 31 December 2016.

6.4. Trading book

In line with its business strategy, Kommunalkredit does not engage in any relevant trading activities. As in the previous year, Kommunalkredit therefore had no trading portfolio as at 31 December 2016.

6.5. Other obligations

a. Liability arising from the demerger

Pursuant to § 15 (1) of the Demerger Act, Kommunalkredit is liable jointly and severally with KA Finanz AG (KF) for obligations having arisen prior to the entry of the demerger in the Companies Register on 26 September 2015 and transferred from the former Kommunalkredit to KF. Equally, KF is liable jointly and severally with Kommunalkredit for the liabilities transferred to Kommunalkredit. This does not concern liabilities 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 as at the effective date of the demerger. According to the purchase contract of 13 March 2015, Kommunalkredit holds an own covered bond with a nominal value of EUR 107,000,000.00, which has been pledged to KF as collateral for Kommunalkredit's liability arising from the demerger.

b. Other obligations

Obligations in the amount of EUR 2,095,800.00 arise from rental contracts (with affiliated companies) in 2017. The corresponding obligations for the years 2017 to 2021 are expected to total EUR 10,977,900.00.

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

6.6. Asset items pledged as collateral

Based on ISDA/CSA arrangements, credit balances with banks in a nominal value of EUR 90,990,000.00 (31/12/2015: EUR 216,900,000.00) and credit balances with customers (non-bank financial institutions) in a nominal value of EUR 43,050,000.00 (31/12/2015: EUR 15,650,000.00) were pledged as collateral for negative market values from derivative transactions. Amounts owed to banks include collateral received in a nominal value of EUR 216,480,772.00 (31/12/2015: EUR 327,170,772.00); amounts owed to customers do not include any collateral received (31/12/2015: EUR 4,100,000.00).

For funding raised through participation in the ECB tender, Kommunalkredit pledged securities and loans in a volume of EUR 540,248,636.60 (31/12/2015: EUR 30,000,000.00) as collateral as at 31 December 2016. The collateral taker has the right to realise the collateral only in the event of the debtor's default.

Kommunalkredit has assigned assets in the form of securities in a nominal amount of EUR 65,600,000.00 (31/12/2015: EUR 65,600,000.00) as collateral for global loans and other funding from the European Investment Bank in Luxembourg. The collateral taker has the right to realise the collateral only in the event of the debtor's default.

For covered bonds issued by Kommunalkredit as at 31 December 2016 in a nominal value of EUR 1,140,772,232.05 (31/12/2195: EUR 1,225,061,836.67), loans in a nominal amount of EUR 1,111,510,008.06 (31/12/2015: EUR 1,301,969,818.53) and securities in a nominal amount of EUR 230,362,736.02 (31/12/2015: EUR 317,830,971.95) have been allocated to a cover pool, which can only be drawn on with the approval of a government commissioner.

Moreover, as at 31 December 2016, an amount of EUR 21,759,037.73 (31/12/2015: EUR 23,783,441.36) was put up as collateral for other funding.

According to the purchase contract of 13 March 2015, Kommunalkredit holds an own covered bond with a nominal value of EUR 107,000,000.00, which has been pledged as collateral for Kommunalkredit's liability arising from the demerger. Pursuant to § 51 (5) of the Austrian Banking Act, this financial instrument is netted and recognised on the liabilities side.

7. NOTES TO THE INCOME STATEMENT

7.1. Presentation of material Income Statement items

7.1.1. Net interest income

Interest and similar income in EUR	2016	2015
Lending business	78,505,495.13	92,727,612.80
Investments in banks	-239,852.84	15,786.43
Fixed-income securities	11,236,227.83	12,649,692.22
Swap income	82,421,939.33	192,707,998.44
Total interest income	**171,923,809.45**	**298,101,089.89**

Interest and similar expenses in EUR	2016	2015
Deposit business	-24,977,609.71	-26,496,718.02
Own issues	-57,781,057.43	-100,560,594.11
Swap expenses	-52,954,285.55	-128,702,740.36
Total interest expenses	**-135,712,952.69**	**-255,760,052.49**

Total net interest income	**36,210,856.76**	**42,341,037.40**

Net interest income in the amount of EUR 36,210,856.76 resulted primarily from the existing portfolio, including debt instruments issued for funding and taken over upon the demerger. In addition, net interest income includes positive contributions to earnings from new business generated since the demerger.

In 2016, negative interest in the amount of EUR 371,766.96 (2015: EUR 368,570.56) was paid for credit balances with the Austrian National Bank, which is recognised in interest income under investments in banks.

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

7.1.2. Income from investments in affiliated companies

Income from investments in affiliated companies in the amount of EUR 487,350.00 (2015: EUR 520,700.00) included the dividend of EUR 487,350.00 paid out by Kommunalkredit Public Consulting (KPC) (2015: EUR 290,700.00; Kommunalkredit Beteiligungs- und Immobilien GmbH (KBI) EUR 230,000.00).

7.1.3. Net fee and commission income

Fee and commission income in EUR	2016	2015
Lending business	889,456.62	173,539.67
Other service business	188,780.08	99,695.00
Total fee and commission income	**1,078,236.70**	**273,234.67**

Fee and commission expenses in EUR	2016	2015
Lending business	-33,054.08	-77,069.54
Securities business	-357,488.34	-230,726.73
Money and FX trading	-132,030.44	-95,825.69
Total fee and commission expenses	**-522,572.86**	**-403,621.96**

Total net fee and commission income	**555,663.84**	**-130,387.29**

7.1.4. General administrative expenses

in EUR	2016	2015
Personnel expenses before invoicing to other entities	-23,243,073.28	-19,609,456.15
Non-personnel expenses before invoicing to other entities	-15,460,732.47	-10,958,570.01
General administrative expenses before invoicing to other entities	**-38,703,805.75**	**-30,568,026.16**
Amounts invoiced to other entities	13,217,784.25	12,029,841.56
General administrative expenses after invoicing to other entities	**-25,486,021.50**	**-18,538,184.60**

7.1.4.1. Personnel expenses

in EUR	2016	2015
Salaries	-17,520,581.93	-15,313,992.52
Expenses for statutory social charges, salary-dependent charges and compulsory contributions	-3,838,382.45	-3,476,037.51
Other social expenses	-562,306.55	-558,842.75
Expenses for pension costs	-709,820.61	-422,384.65
Appropriation to/release of pension provision	123,473.27	253,149.78
Expenses for severance pay and contributions to company pension funds	-735,455.01	-91,348.50
Total personnel expenses	**-23,243,073.28**	**-19,609,456.15**

Personnel expenses include expenses of EUR 734,644.86 (2015: income of EUR 1,095,605.97) relating to provisioned personnel obligations and EUR 191,777.98 (2015: EUR 160,776.23) for contributions to company pension plans.

7.1.4.2. Other administrative expenses

Other administrative expenses were as follows:

in EUR	2016	2015
Third-party services	-3,182,027.40	-1,404,965.56
Occupancy costs	-2,206,789.54	-2,252,824.42
Bank Resolution Fund	-2,508,504.00	-750,000.00
Consultancy and audit services	-2,068,739.71	-1,097,395.37
Data processing	-1,856,073.91	-1,700,906.95
Communication	-1,547,386.59	-1,539,507.21
Advertising and entertainment	-848,176.92	-1,185,826.01
Other non-personnel expenses	-1,243,034.40	-1,027,144.49
Total before expenses charged to other entities	**-15,460,732.47**	**-10,958,570.01**

Pursuant to § 238 (1.18) of the Austrian Company Code, audit expenses for the business year under review are not reported here, as Kommunalkredit is covered in the consolidated financial statements and that information is included therein.

7.1.4.3. General administrative expenses invoiced to other entities

Kommunalkredit acts as a service provider for other entities, including KF (for the management of banking operations) and KPC. The services to be provided are defined in service level agreements. Based on detailed working time records kept by the employees, pro-rata personnel expenses and other administrative expenses in the amount of EUR 13,217,784.25 (2015: EUR 12,029,841.56) were charged to the aforementioned entities in 2016, the gross amounts being recognised in other operating income.

In the business year 2016, general administrative expenses after expenses invoiced to other entities (net general administrative expenses) amounted to EUR -25,486,021.50 (2015: EUR -18,538,184.60).

7.1.5. Other operating income

in EUR	2016	2015
Income from services charged to KF and KPC	13,217,784.25	12,029,841.56
Other	802,985.12	788,151.34
Total of other operating income	**14,020,769.37**	**12,817,992.90**

7.1.6. Other operating expenses

Other operating expenses of in the amount of EUR 11,578,631.68 (2015: EUR 1,048,645.44) exclusively comprise the stability tax payable by Austrian banks („bank levy“). Besides the recurrent stability tax for 2016 of EUR 3,860,213.56, the total also includes the special one-off payment of EUR 7,718,418.12 payable under the 2016 Tax Amendment Act. In return for this non-recurrent special payment made in 2016, the financial burden resulting from the recurrent stability tax will be significantly reduced from 2017 onwards.

7.1.7. Net risk provisioning, valuation and disposal result

The net risk provisioning, valuation and disposal result (items 11 to 13 of the Income Statement) comprises the following items:

in EUR	2016	2015
Proceeds from the early redemption of own issues	51,787,325.23	2,873,768.67
Closure of strategic swaps	4,421,436.20	0.00
Gains realised through the sale of derivatives in connection with the exercise of the right to call own issues	2,473,230.73	8,670,488.28
Change in portfolio loan loss provisions	64,569.00	-74,087.00
Provision for the sale of assets	-3,000,858.00	0.00
Provision the closure of derivatives	-1,475,000.00	0.00
Other	522,231.22	-64,281.43
Total	**54,792,934.38**	**11,405,888.52**

7.1.8. Extraordinary expenses

Extraordinary expenses in the amount of EUR 25,000,000.00 (2015: EUR 15,000,000.00) exclusively comprise the appropriation to the fund for general banking risks pursuant to § 57 (3) of the Austrian Banking Act.

7.1.9. Taxes on income

Effective as of 2016, a tax group pursuant to § 9 of the Corporate Income Tax Act was formed, with Satere as the group parent and Gesona, Kommunalkredit, 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. Tax loss carryforwards of a group member from periods prior to the formation of the group (pre-group losses) are credited up to the amount of the profit of the group member and diminish the tax contribution of the group member. If a group member's negative income is counted toward the group parent, this tax loss is kept on record for the group member (internal loss carryforward) and offset against the positive income of the group member in subsequent years up to 100%. Upon termination of the tax group or elimination of a group member, a final compensation has to be paid for tax losses not yet offset, multiplied by the corporate tax rate applicable at the time of termination of the agreement.

The tax group formed in 2015, with Kommunalkredit Austria AG as the group parent, was dissolved and declared null and void in 2016 on account of the formation of the aforementioned new tax group and non-fulfilment of the requirement of minimum existence for three years pursuant to § 9 (10) of the Corporate Income Tax Act.

Owing to the formation of the tax group with Satere as the group parent, Kommunalkredit's tax loss carryforwards from periods before the establishment of the tax group (pre-group losses) are credited up to the amount of Kommunalkredit's own profit. Thus, the current corporate tax expense in 2016 is EUR 0.00 (2015: EUR -2,066,398.04).

The income tax expense, which exclusively concerns the company's ordinary business operations, comprises the following items:

Corporate income tax	31/12/2016	31/12/2015
Corporate income tax expense Kommunalkredit	0.00	-2,066,398.04
Tax contributions by		
KPC	0.00	154,960.00
KBI	0.00	128,251.00
TrendMind	0.00	25,945.41
Corporate income tax from previous years	-95,670.59	-39,072.56
Deferred tax assets	7,141,210.75	0.00
	7,045,540.16	**-1,796,314.19**

Deferred tax assets result from the obligatory capitalisation of temporary differences between the carrying amounts of assets and their tax base, introduced through the 2014 Accounting Reform Act, which at Kommunalkredit arise primarily in connection with the fund for general banking risks pursuant to § 57 (3) of the Austrian Banking Act.

7.1.10. Result for the year and return on assets

Kommunalkredit closed the year under review with a net profit of EUR 37,508,127.18 (31/12/2015: EUR 18,281,253.07). The return on assets, calculated as the after-tax profit for the year divided by total assets as at balance-sheet date, stood at 1.15% (31/12/2015: 0.52%). The return on equity, calculated as the after-tax profit for the year divided by the average equity of the reporting year, stood at 18.5% as at 31 December 2016 (31/12/2015: 10.2%).

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

Interest and similar income in EUR	2016	2015
Austria	136,708,552.61	215,152,858.51
Western Europe	21,463,611.02	54,541.953.52
Central and Eastern Europe	13,751,645.83	28,406,260.12
Rest of the world	0.00	17.73
	171,923,809.45	**298,101,089.89**

Fee and commission income in EUR	2016	2015
Austria	252,846.79	30,232.62
Western Europe	825,389.91	243,002.05
Central and Eastern Europe	0.00	0.00
Rest of the world	0.00	0.00
	1,078,236.70	**273,234.67**

Other operating income in EUR	2016	2015
Austria	14,020,625.71	12,817,992.90
Western Europe	143.66	0.00
Central and Eastern Europe	0.00	0.00
Rest of the world	0.00	0.00
	14,020,769.37	**12,817,992.90**

8. DISCLOSURE PURSUANT TO PART 8 CRR

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

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

9.1. Average number of employees during the business year

As at 31 December 2016, Kommunalkredit had 195 employees (31/12/2015: 165 employees).

The average number of employees during the year under review was 178 (2015: 166), including three (2015: two) Executive Board members and excluding employees on leave; part-time employees are weighted according to the extent of employment.

9.2. Remuneration, advances and loans to Executive Board and Supervisory Board members, guarantees provided for Board members

Total Executive Board and Supervisory Board remuneration in EUR	2016	2015
Active Executive Board members	1,299,222.97	1,034,365.01
Active Supervisory Board members	140.128.00	65,178.00
	1.439.350.97	**1,099,543.01**

As at 31 December 2016, no loans to members of the Executive Board or members of the Supervisory Board were outstanding. No guarantees were provided by Kommunalkredit for Board members.

As at 31 December 2016, the outstanding volume of loans to employees of the company amounted to EUR 372,053.52 (31/12/2015: EUR 405,613.71).

9.3. Expenses for severance pay and pensions

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

Expenses for severance pay and pensions in EUR	2016	2015
Executive Board, senior employees	680,565.82	-119,667.19
Other employees	641,236.52	380,250.56
	1,321,802.34	**260,583.37**

The increase in expenses for severance pay and pensions, as compared with the previous year, primarily results from changes in the provision for severance pay. The provision for severance pay was increased by EUR 543,677.03 due to the lower market interest rates in 2016, whereas income in the amount of EUR 507,469.93 from the release of provisions for severance pay had been recognised in 2015.

9.4. Related parties

Tax group

Effective as of 2016, a tax group pursuant to § 9 of the Corporate Income Tax Act was formed with Satere as the group parent and Gesona, Kommunalkredit, KBI, KPC and TrendMind as group members (for details see Note 7.1.9.).

Related parties

Related-party transactions are recognised under the balance-sheet items concerned. All related-party transactions are made in accordance with the arm's length principle. For current transactions, see Note 6.5.b.

9.5. Significant events after the balance sheet date

Effective as of 1 February 2017, Karl-Bernd Fislage was appointed to the Executive Board of Kommunalkredit as Chief Distribution Officer. Karl-Bernd Fislage has extensive international experience in infrastructure finance and looks back on more than 25 years in the banking business, 18 of them spent in leading management positions at Deutsche Bank, most recently as Head of Global Asset Finance.

Since the beginning of 2017, Kommunalkredit has had a branch office in Germany. Operating from its location in Frankfurt am Main, Kommunalkredit increasingly serves the German market, which is the biggest market for infrastructure project finance in Europe after Great Britain.

9.6. Disclosures relating to the Boards of the bank

Members of the Executive Board

Alois Steinbichler
Chairman of the Executive Board

Jörn Engelmann
Member of the Executive Board
since 1 February 2016

Karl-Bernd Fislage
Member of the Executive Board
since 1 February 2017

Wolfgang Meister
Member of the Executive Board

Members of the Supervisory Board

Patrick Bettscheider
Chairman; delegated by Interritus Limited
since 7 April 2016

Ulrich Sieber
Chairman; delegated by Interritus Limited
until 7 April 2016

Christopher Guth
Deputy Chairman; delegated by Attestor Capital

Friedrich Andreae
Delegated by Attestor Capital; Managing Director of Gesona Beteiligungsverwaltung GmbH and Satere Beteiligungsverwaltungs GmbH

Katharina Gehra
Delegated by Interritus Limited; Managing Director of Gesona Beteiligungsverwaltung GmbH and Satere Beteiligungsverwaltungs GmbH

Jürgen Meisch
Managing Director of Achalm Capital GmbH

Werner Muhm
Former Director of the Vienna Chamber of Labour and the Federal Chamber of Labour

Franz Hofer
nominated by the Staff Council

Patrick Höller
nominated by the Staff Council

Brigitte Markl
nominated by the Staff Council
until 1 December 2016

Renate Schneider
nominated by the Staff Council
since 20 February 2017

9.7. State Commissioner

Edeltraud Lachmayer
State Commissioner, Federal Ministry of Finance

Bettina Horvath
Deputy State Commissioner, Federal Ministry of Finance

9.8. Government Commissioner

Appointed to serve as Government Commissioner of the cover pool for covered bank bonds in 2016:

Karin Fischer
Government Commissioner, Federal Ministry of Finance
since 1 June 2016

Vienna, 8 March 2017

The Executive Board of
Kommunalkredit Austria AG

Alois Steinbichler	**Jörn Engelmann**	**Karl-Bernd Fislage**	**Wolfgang Meister**
Chairman of the Executive Board	Member of the Executive Board	Member of the Executive Board	Member of the Executive Board

Schedule of Participations and Investments in Affiliated Companies as at 31 December 2016 (Annex 1)

Name and registered office in EUR 1,000	Investment in %	Equity	Acquisition cost	Book value	Profit for the period after tax	Last audited financial statements
Investments in affiliated companies						
Kommunalkredit Beteiligungs- und Immobilien GmbH, Wien	100.00%	6,558.8	5,943.3	5,943.3	-81.1	31/12/2016
Kommunalkredit Public Consulting GmbH, Wien	90.00%	1,415.9	346.5	346.5	607.5	31/12/2016
Kommunalkredit Vermögensverwaltungs GmbH in Liqu., Wien	100.00%	47.6	50.0	50.0	-2.4	-

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

Schedule of Non-current Asset Transactions pursuant to § 226 (1) of the Austrian Company Code as at 31 December 2016 (Annex 2)

Non-current assets in EUR	as at 01/01/2016	Currency translation	as at 01/01/2016	Additions	Disposals	as at 31/12/2016	Cumulative depreciation and amortisation/ Additions as at 01/01/2016	Additions	Disposals	Cumulative depreciation and amortisation/ Additions 2016	Book value 31/12/2016	Book value 31/12/2015	Write-down 2016	Write-up 2016
1. Public-sector debt instruments	105,000,000.00	0.00	105,000,000.00	0.00	0.00	105,000,000.00	0.00	0.00	0.00	0.00	105,000,000.00	105,000,000.00	0.00	0.00
2. Loans and advances to customers	329,183,700.85	705,255.17	329,888,956.03	0.00	41,237,020.95	288,651,935.08	1,261,758.25	211,955.20	0.00	1,473,713.45	287,178,221.63	327,921,942.60	211,955.20	0.00
3. Bonds and other fixed-income securities	253,109,016.79	0.00	253,109,016.79	0.00	157,989,256.40	95,119,760.39	-192,793.44	-6,696.35	-142,680.85	-56,808.94	95,176,569.33	253,301,810.23	13,387.40	20,084.25
4. Participations	1,825,070.00	0,00	1,825,070.00	600,000.00	0.00	2,425,070.00	0,00	0.00	0.00	0.00	2,425,070.00	1,825,070.00	0.00	0.00
5. Investments in affiliated companies	6,339,848.12	0.00	6,339,848.12	0.00	0.00	6,339,848.12	0.00	0.00	0.00	0.00	6,339,848.12	6,339,848.12	0.00	0.00
6. Intangible non-current assets	4,071,646.26	0.00	4,071,646.26	174,802.21	0.00	4,246,448.47	3,688,056.39	269,644.75	0.00	3,957,701.14	288,747.33	383,589.87	269,644.75	0.00
7. Property, plant and equipment Office furniture and equipment *)	2,033,343.57	0.00	2,033,343.57	3,539.38	93,215.18	1,943,667.77	129,150.18	3,539.38	93,215.18	39,474.38	1,904,193.39	1,904,193.39	3,539.38	0.00
	701,562,625.59	**705,255.17**	**702,267,880.76**	**778,341.59**	**199,319,492.53**	**503,726,729.82**	**4,886,171.38**	**478,442.97**	**-49,465.67**	**5,414,080.02**	**498,312,649.80**	**696,676,454.21**	**498,526.73**	**20,084.25**
*) of which Minor-value Assets acc. § 241 (1a) Austrian Company Code				3,539.38	35,439.47			3,539.38	35,439.47					

AUDITOR'S REPORT

Report on the Financial Statements

Audit Opinion

We have audited the financial statements of Kommunalkredit Austria AG, Vienna, which comprise the balance sheet as at December 31, 2016, the income statement for the fiscal year then ended and the notes.

In our opinion, the accompanying financial statements comply with legal requirements and give a true and fair view of the financial position of the Company as at December 31, 2016, and of its financial performance for the fiscal year then ended in accordance with the Austrian Commercial Code and the Austrian banking regulations.

Basis for Opinion

We conducted our audit in accordance with Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with Austrian Generally Accepted Accounting Principles and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the fiscal year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

We have structured key audit matters as follows:

- Descriptions of individual key audit matters
- Audit approach and findings
- Reference to related disclosures

Hedge accounting for derivatives

- Description of the individual key audit matter

Kommunalkredit Austria AG uses a large number of interest and currency swaps to hedge its interest rate and currency risks. Hedging is made either at single entity level or by using macro hedges for each currency.

The audit of the high volume of interest and currency swaps represents a key audit matter with respect to the question of whether or not the hedging arrangements meet the requirements of the AFRAC expert opinion 15 on accounting for derivatives and hedging instruments under Austrian commercial law (available in German only), the Circular Letter of the Austria Financial Market Authority (FMA) on accounting questions with regard to derivatives used for interest management purposes and on valuation adjustments of derivatives pursuant to Section 57 Austrian Banking Act (BWG) and whether or not the hedging arrangements have been presented in the financial statements in accordance with these requirements.

- Audit approach and findings

We performed the following procedures:

– Evaluated the requirements defined by risk management, on the completion of hedging transactions,
– Examined the business process in place for entering into new hedging arrangements,
– Tested key controls in place with regard to hedge relationships,
– Determined how the measurement of prospective effectiveness was performed by reperformance, on a sample basis,
– Determined how the measurement of retrospective effectiveness was performed, by reperformance, on a sample basis,
– Evaluated, for dissolved hedges, the reasons stated for their dissolution and if the purposes of the remaining hedges,
– Evaluated the presentation of hedging arrangements in the financial statements in accordance with the AFRAC expert opinion 15 and the FMA Circular Letter,
– Considered whether or not appropriate measurement models have been chosen and consistently applied, and
– Assessed the measurement of individual transactions by taking into account the hedging arrangements in place for a sample of such arrangements.

- Reference to related disclosures

Please refer to the notes, items 3.13. and 6.3.

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Austrian Commercial Code and the banking regulations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian generally accepted auditing standards, which require the application of ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Austrian Generally Accepted Auditing Standards, which require the application of ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with all relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

- Comments on the Management Report for the Company

Pursuant to the Austrian Commercial Code, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the management report was prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the management report in accordance with the Austrian Commercial Code and the Austrian banking regulations.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report.

Opinion

In our opinion, the management report for the Company was prepared in accordance with the applicable legal requirements and is consistent with the financial statements.

Statement

Based on the findings during the audit of the financial statements and due to the obtained understanding concerning the Company and its circumstances no material misstatements in the management report came to our attention.

- Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements, the management report and the auditor’s report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

- Responsible Engagement Partner

Mr. Günter Wiltschek, Austrian Certified Public Accountant*,* is responsible for the proper performance of the engagement.

Vienna, March 8, 2017

PwC Wirtschaftsprüfung GmbH

signed:

Günter Wiltschek
Austrian Certified Public Accountant

We draw attention to the fact that the English translation of this auditor’s report according to Section 274 of the Austrian Commercial Code (UGB) is presented for the convenience of the reader only and that the German wording is the only legally binding version.

STATEMENT
BY THE LEGAL REPRESENTATIVES

Kommunalkredit Austria AG

Annual Financial Statements 2016

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

Vienna, 8 March 2017

The Executive Board of
Kommunalkredit Austria AG

Alois Steinbichler	**Jörn Engelmann**	**Karl-Bernd Fislage**	**Wolfgang Meister**
Chairman of the Executive Board	Member of the Executive Board	Member of the Executive Board	Member of the Executive Board

IMPRINT

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

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

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

www.kommunalkredit.at

Kommunalkredit
INFRA BANKING EXPERTS

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

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