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KOMMUNAL
KREDIT

HALF YEAR FINANCIAL REPORT OF KOMMUNALKREDIT GROUP

2017

WE ACT AS A BRIDGE BETWEEN INFRASTRUCTURE DEVELOPERS AND INSTITUTIONAL INVESTORS

HIGHLIGHTS OF THE FIRST HALF OF 2017:

BUSINESS MODEL CONSISTENTLY IMPLEMENTED

- **Sound result**
  After-tax result for the period of EUR 13.9 million
- **Expansion of new business**
  14 projects, volume of over EUR 300 million
- **Customer deposits nearly doubled**
  Increase to over EUR 400 million
- **Improvement of covered bond rating**
  Standard & Poor's A, Moody's Baa1
- **Excellent capitalisation**
  Total capital ratio of 34.4%, common equity tier 1 ratio of 26.9%
- **High asset quality**
  No defaulting loans, NPL ratio of 0.0%

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ECONOMIC ENVIRONMENT

The muted recovery of the economy in the second half of 2016 continued in 2017. In the second quarter of 2017, the real gross domestic product (GDP) of the euro area increased by 2.1% over the comparable quarter of the previous year[1]. GDP in the USA increased by 2.6% over the same period[2]. For 2017, the European Commission expects a slight slowdown of the growth rate to 1.7% from 1.8% in the previous year (forecast for Austria: 1.7%). For 2017 as a whole, GDP in the USA is expected to grow at a rate of 2.2%, as compared to 1.6% in 2016[3].

The rate of inflation in the euro area has been constantly above the one-percent limit since December 2016. In June 2017, inflation reached 1.3% in the euro area and 2% in Austria[4]. For 2017 as a whole, the European Commission predicts a rate of inflation of 1.6% for the euro area, as compared to 0.2% in 2016. Thus, inflation is coming closer to the 2% target of the European Central Bank (ECB). In the USA, an inflation rate of 1.6% was reported for June 2017[5].

The positive trend in unemployment seen in 2016 continued: In the US labour market, the rate of unemployment dropped from 4.7% at the end of 2016 to 4.4% in June 2017, the lowest level since May 2007[6]. Unemployment in the euro area decreased from 9.6% at the end of 2016 to 9.3% in May 2017, reaching the lowest level since March 2009[7]. Unemployment in Austria dropped from 5.7% in December 2016 to 5.4% in May 2017.

In response to the positive employment and inflation data, The Federal Reserve System (Fed) and the European Central Bank (ECB) sent out cautious signals of a step-by-step normalization of their money supply policies.

The Fed increased its key lending rate four times in a period of 18 months – most recently in June 2017 to a range of 1% to 1.25%. Additionally, the Fed indicated its intention to gradually reduce its asset purchasing activities[8], which would result in a reduction of its total assets. Within the framework of its Quantitative Easing Program (QE), the Fed purchased government bonds and mortgage loans in a total amount of USD 4.5 trillion to date. Since the end of 2014, the Fed has no longer topped up its bond portfolio, but has been replacing maturing instruments by new bonds. By

[1] Eurostat
[2] US Department of Commerce
[3] European Commission forecast, May 2017
[4] Eurostat
[5] US Bureau of Labor Statistics
[6] US Bureau of Labor Statistics
[7] Eurostat
[8] Minutes of the meeting of the Federal Open Market Committee of 2 May 2017

no longer replacing all maturing bonds, the Fed plans to reduce its asset portfolio and, consequently, reduce its total assets in the course of the coming years.

In June 2017, ECB President Mario Draghi issued a statement underlining the consolidation of the economic recovery of the euro area. The ECB's key lending rate has been at a record low of 0% annually since March 2016 (deposit rate -0.4%). The Asset Purchase Programme (APP), launched by the ECB in March 2015 in order to stimulate economic activity and to bring inflation closer to the annual target of 2%, was prolonged in December 2016 until the end of 2017, but with reduced monthly volumes of EUR 60 billion from April 2017 onwards (EUR 80 billion in the period from March 2016 to March 2017). Possible changes to the ECB's Asset Purchase Programme are to be discussed at the meeting of the ECB Governing Council in September 2017.

The Bank of England is phasing out its last QE round, which was launched after the Brexit vote in June 2016. Moreover, the Bank of Canada and the Australian Reserve Bank also signalled interest rate hikes.

In contrast to these developments, China and Japan have not yet signalled a normalisation of their money supply policies. Japan's key lending rate has been at 0% annually since February 2016, with the Bank of Japan continuing its programme of government bond purchases unchanged. In China, the key lending rate has been at a record low of 4.35% since October 2015.

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 governments are hitting the debt ceiling, a shift from budget financing to project financing is being observed. At the same time, new regulatory provisions are making it more expensive for banks to hold long-term assets, and long-term lending is getting more difficult. Faced with a historically low level of capital market yields, institutional investors increasingly seek alternative investment opportunities. In this environment, infrastructure investments are an attractive asset class.

Demand for infrastructure investments in high, especially in the sectors of energy, 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[9] 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 building as well as the extension and renovation of existing ones. Flood control is another area requiring investments.

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

STRATEGIC ORIENTATION: KOMMUNALKREDIT WITH BRIDGE FUNCTION FOR INVESTORS

Kommunalkredit has a clear business model aimed at taking advantage of the opportunities offered by the paradigm change in infrastructure financing. As a specialist bank, Kommunalkredit is well positioned in the rapidly growing market of infrastructure finance. It acts as a bridge between project sponsors (developers and operators of infrastructure), 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 sponsors require structuring and financing solutions, investors are looking for asset classes with stable cash flows in the long term.

As a specialist bank for infrastructure, Kommunalkredit is distinguished by a unique combination of strengths:

- It combines a profound knowledge of the sector with the structuring know-how and the financing possibilities of a bank.
- It has close customer relations on both sides of the bridge – with project sponsors and with institutional investors.
- It has an experienced team with an excellent track record in the management of transactions and risks.

Kommunalkredit covers the entire value chain of infrastructure finance – from project structuring to project financing. The bank's primary 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, airports, ports), and **energy and the environment** (especially sustainable sources of energy).

The model of availability-based compensation for accelerated project implementation

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. It is important to underline that ownership of the infrastructure facility built remains with the public sector.

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

DEVELOPMENT OF BUSINESS IN THE FIRST HALF OF 2017

The Kommunalkredit Group is on track with the implementation of its business model as a specialist bank for infrastructure. The bank reports a positive development of its new business and has made significant structural progress. This is also reflected in the above-target result for the period after tax of EUR 13.9 million:

- Kommunalkredit significantly increased its volume of new business and concluded 14 transactions with a total financing volume of over EUR 300 million. At the same time, and in line with its strategy, the bank placed a volume of over EUR 200 million with investors.
- The bank substantially strengthened its sales team through the recruitment of internationally experienced specialists. Moreover, a branch office in Frankfurt am Main was opened in January 2017 to support Kommunalkredit's sales activities.
- The range of funding instruments was broadened and the bank's funding base was strengthened significantly: Customer deposits almost doubled to EUR 402.6 million (31/12/2016: EUR 210.8 million), and a "Debt Issuance Programme" was introduced, from which a Social Covered Bond with a volume of EUR 300 million was issued on 12 July 2017. This marked the bank's successful return to the capital market after its privatisation in 2015.
- Kommunalkredit has a high-quality loan portfolio without a single default in the first half of 2017. The non-performing-loan (NPL) ratio was 0.0%.
- The bank has an excellent capital base: As at 30 June 2017, it reported a total capital ratio of 34.4% and a common equity tier 1 ratio of 26.9%. The reduction from the 2016 year-end values is due to the successful development of new business.
- On 13 June 2017, Standard & Poor's awarded Kommunalkredit an A rating for its covered bonds. Moody's upgraded the bank's covered bonds twice in the course of the current year: from Baa3 to Baa2 on 17 March 2017 and to Baa1 on 25 July 2017.

New business, placements and funding

In the first half of the year, Kommunalkredit concluded 14 infrastructure projects in seven European countries with a total financing volume of over EUR 300 million. For the first time, the bank acted as mandated lead arranger in an international consortium for the financing of the Gipuzkoa waste-to-energy facility in Spain. Moreover, Kommunalkredit was involved in the refinancing of the A2 Motorway (section 1) in Poland as joint mandated lead arranger and joint lead bookrunner. This meant a considerable strengthening of its market position. Kommunalkredit was also involved in the financing of other infrastructure projects, such as a hospital in Great Britain, care homes in Germany, solar energy installations in France, Germany and Great Britain, and waste-to-energy facilities in Great Britain and Germany.

Acting as a bridge between project sponsors and institutional investors, Kommunalkredit not only wants to carry infrastructure financing transactions on its own books, but also place them with institutional investors. During the first half of 2017, the bank placed a volume of more than EUR 200 million, including a package of loans for social infrastructure financing as well as the financing of wind park projects in Europe.

The range of funding instruments was broadened and the bank's funding base was strengthened significantly: Customer deposits almost doubled to EUR 402.6 million in the first half of 2017 (31/12/2016: EUR 210.8 million). An essential contribution to this increase was made by the KOMMUNALKREDIT DIREKT online platform, an efficient investment product and cash management tool for municipalities and quasi-municipal enterprises. Deposits by corporate customers also increased substantially.

In the second quarter of 2017, the bank introduced a "Debt Issuance Programme", from which it issued a social covered bond with a volume of EUR 300 million on 12 July 2017. This successful transaction was Kommunalkredit's first public bond issue in the capital market since its privatisation in 2015. The great interest shown by investors is reflected in the order book, which was closed at EUR 530 million, the issue 1.8 times oversubscribed.

As the first issuer of a Social Covered Bond in Austria, Kommunalkredit met the growing international demand for this investment category. The issue was denominated in EUR. Following the buyback of CHF-denominated covered bonds in the amount of CHF 140 million on 15 May 2017 and the scheduled redemption of a CHF-denominated covered bond with a volume of CHF 305 million on 15 March 2017, the volume of outstanding CHF-denominated covered bonds was reduced to CHF 586.3 million.

Participations

Through **Kommunalkredit Public Consulting (KPC)**, its 90% subsidiary, Kommunalkredit manages national and EU-funded support programmes, above all in the fields of environmental protection, water management and energy, and provides consulting services for international organisations and financing institutions. In the first half of 2017, funds in the amount of EUR 209 million, made available by the federal government (including funds for the "crafts bonus" programme) and by Austrian provinces, were disbursed. Over 56,000 environmental protection and climate action projects were supported, representing a total capital expenditure volume of EUR 998 million. These projects played 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 (European Bank for Reconstruction and Development).

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 30 June 2017, Kommunalnet had 13,929 registered users, mainly mayors, executive directors and finance directors from 2,043 Austrian local authorities and associations of local authorities. Thus, Kommunalnet has reached the high market-penetration rate of 95% in the municipal sector and holds a unique position in the Austrian market.

BALANCE SHEET STRUCTURE AND INCOME POSITION

As at 30 June 2017, the Kommunalkredit Group reported total assets according to IFRS of EUR 3.3 billion, down by EUR 0.5 billion from the 2016 year-end value (31/12/2016: EUR 3.8 billion). The reduction in total assets is primarily due to the aforementioned placements and scheduled redemptions of loans and advances to customers, reduced investment of liquidity with the Austrian National Bank, and lower market values of hedging derivatives as a result of rising interest rates.

The portfolio of loans to customers, reported under loans and advances to customers and assets at fair value, amounted to EUR 2.1 billion as at 30 June 2017 (31/12/2016: EUR 2.4 billion). The securities portfolio is comprised in loans and advances to customers, assets at fair value and assets available for sale. It amounted to EUR 498.0 million (31/12/2016: EUR 560.8 million), including EUR 387.1 million in customer-induced transactions and EUR 110.9 million in items held as a liquidity reserve.

Risk-weighted assets and equity

As at 30 June 2017, Kommunalkredit reported regulatory own funds of EUR 288.5 million (31/12/2016: EUR 290.3 million), of which common equity tier 1 of EUR 225.5 million (31/12/2016: EUR 225.5 million). Given its own funds requirement of EUR 77.5 million (31/12/2016: EUR 59.2 million), the bank is very well capitalised. Its total capital ratio as at 30 June 2017 was 34.4% (31/12/2016: 42.3%). The common equity tier 1 ratio stood at 26.9% (31/12/2016: 32.9%) The higher own funds requirement reflects the positive development of new business, with transactions concluded in a total volume of over EUR 300 million. The stable own funds positions are due to the fact that, in accordance with regulatory provisions, profits generated in periods of less than one year do not count toward own funds until the audited annual financial statements become available.

The figures shown reflect Kommunalkredit's own funds, calculated in accordance with the provisions of CRR, as reported in its separate financial statements pursuant to the Austrian Company Code/Austrian Banking Act (Austrian GAAP). The standardized approach is applied for the calculation of risk-weighted assets and operational risk.

Funding structure / Liquidity

In the course of the first half of 2017, Kommunalkredit broadened the range of its funding instruments and significantly strengthened it funding base: Amounts owed to customers rose to EUR 801.1 million (31/12/2016: EUR 552.1 million); customer deposits increased by EUR 191.8 million and almost doubled to EUR 402.6 million (31/12/2916: EUR 210.8 million). An essential contribution to this increase was made by the KOMMUNALKREDIT DIREKT online platform, an efficient investment product and cash management tool for municipalities and quasi-municipal enterprises. Deposits by corporate customers also increased substantially. Customer deposits are characterised by a high degree of granularity. Maturities primarily range from six months and more. Amounts owed to customers also comprises money and capital market deposits, including private placement of EUR 326.2 million (31/12/2016: EUR 341.2 million), as well as liabilities from collateral received in connection with derivatives in the amount of EUR 71.1 million.

Senior and covered bonds, outstanding in the amounts of EUR 441.6 million and EUR 743.3 million respectively as at 30 June 2017 (31/12/2016: EUR 478.8 million and EUR 1.34 billion respectively), are another material funding component for the bank. The structure of liabilities at book values according to IFRS was as follows:

Table: Liabilities as at 30/06/2017 and 31/12/2016

Book values in EUR billion.	30/06/2017	31/12/2016
Securitised liabilities	1.2	1.8
Amounts owed to customers	0.8	0.6
Amounts owed to banks	0.7	0.8

Public-sector covered bonds / Cover pool

As at 30 June 2017, Kommunalkredit had a well-diversified cover pool with a nominal value of EUR 1.3 billion. At the same time, public-sector covered bonds in a nominal amount of approx. EUR 743.4 million were outstanding, comprising mainly publicly-placed, CHF-denominated covered bonds. As at 30 June 2017, the cover pool included assets from Austria (96.6%), Germany (2.1%) and Poland (1.3%); 76.9% of the cover pool is rated AAA or AA; 23.1% of the cover pool assets has an A rating.

As at 30 June 2017, prior to the EUR 300 million social covered bond issue in July 2017, Kommunalkredit's level of nominal over-collateralisation was 76.5%. For covered bonds in circulation, Kommunalkredit committed itself to maintain a voluntary nominal over-collateralisation of approx. 10% of the redemption amount.

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.

On 13 June 2017, Standard & Poor's awarded an A rating to Kommunalkredit's covered bank bonds. Moody's upgraded the public-sector covered bonds (covered bank bonds) from Baa3 to Baa2 on 17 March 2017 and from Baa2 to Baa1 on 25 July 2017.

Income position according to IFRS

In the first half of 2017, Kommunalkredit generated an after-tax result for the period according to IFRS of EUR 13.9 million, which is above the bank's target for the period. The budgeted reduction from the first half of 2016 (HY1 2016: EUR 27.5 million) is primarily due to the fact that positive one-off effects of the buyback of own issues were lower than in the previous year. Moreover, the reduction of the existing portfolio resulted in a decrease in net interest income.

The IFRS result includes not only Kommunalkredit Austria AG, but also the results of its fully consolidated subsidiaries, i.e. Kommunalkredit Public Consulting GmbH (KPC) and Kommunalkredit Beteiligungs- und Immobilien GmbH (KBI).

The material income and expense items of the result for the period according to IFRS are as follows:

- *Net interest income*
  Kommunalkredit’s net interest income amounted to EUR 16.2 million (HY1 2016: EUR 18.7 million). The reduction by EUR 2.5 million from the previous year’s level resulted from the maturing of assets, which was partly offset by new business transactions in the lending business.

- *Net fee and commission income*
  Net fee and commission income increased to EUR 8.8 million (HY1 2016: EUR 7.9 million). In the course of the implementation of the new business model, net fee and commission income from banking operations rose to EUR 1.1 million (HY1 2016: EUR -0.1 million). Overall, the bank received arrangement fees of EUR 4.8 million in the first half of 2017, of which EUR 1.1 million carry through profit or loss and EUR 3.7 million are recognised over the term of the underlying transactions as a component of the effective interest rate according to IFRS. Revenues generated by Kommunalkredit Public Consulting through the management of support programmes and consultancy services contributed EUR 7.7 million to the net fee and commission income in the first half of 2017 (HY1 2016: 8.0 million).

- *Loan impairment*
  As in the previous year, Kommunalkredit had no defaulting loans on its books in the first half of 2017. The non-performing-loan (NPL) ratio (definition of default according to Basel III) was 0.0%. The reported loan impairment of TEUR -127.3 reflects the increase of the statistically calculated “incurred but not reported losses” according to IAS 39.

- *Net trading and valuation result*
  The net trading and valuation result was positive at EUR 6.4 million (HY1 2016: EUR 31.9 million). It resulted primarily from the redemption of CHF-denominated covered bonds within the framework of a tender offer. Together with the closure of the related hedging transactions, this led to a positive result of EUR 5.2 million. Moreover, the net trading and valuation result also includes interest-related changes in the valuation of the fair value portfolio, including derivatives. The bank has no proprietary trading book.

- *General administrative expenses*
  General administrative expenses amounted to EUR 25.9 million (HY1 2016: EUR 22.7 million), including personnel expenses of EUR 17.2 million (HY1 2016: EUR 14.6 million) and other administrative expenses of EUR 8.7 million (HY1 2016: EUR 8.0 million). On the one hand, the increase in general administrative expenses resulted from targeted investments in the further development of the bank and the consistent implementation of the new business model. The sales team was strengthened through the recruitment of internationally experienced specialists and a new branch office was opened in Frankfurt am Main. On the other hand, new regulatory requirements (e.g. MiFiD 2, IFRS 9) resulted in higher expenses. An amount of EUR 6.4 million (HY1 2016: EUR 5.2 million) was invoiced to KA Finanz AG for comprehensive operational services provided in the first half of 2017 under a service agreement and recognised in the other operating result. Thus, the net amount of Kommunalkredit’s general administrative expenses came to EUR 19.5 million (HY1 2016: EUR 17.5 million).

- *Contributions to the Bank Resolution Fund*
  According to the official notice received from the FMA (Financial Market Supervisory Authority), the contribution to the Bank Resolution Fund payable for 2017 pursuant to the Bank Recovery and Resolution Act amounts to EUR 1.7 million. After the release of a provision of EUR 0.8 million for the Bank Resolution Fund, the expense amounted to EUR 0.9 million (HY1 2016: EUR 2.5 million).

- *Other operating result*
  The other operating result of EUR 6.3 million primarily comprised income from the provision of operational services invoiced to KA Finanz AG under the service agreement in place in the amount of EUR 6.4 million (HY1 2016: EUR 5.2 million). It also comprises the expense for the stability tax payable by Austrian banks in the amount of EUR 0.3 million (HY1 2016: EUR 1.9 million). In 2016, Kommunalkredit had opted for a one-off special payment of EUR 7.7 million, which significantly reduces this tax burden for the business years 2017 and beyond.

- *Taxes on income*
  The tax item for the first half of 2017 is positive at EUR 3.1 million (HY1 2016: EUR -7.0 million). This positive contribution resulted, in particular, from the capitalisation of deferred taxes from tax loss carryforwards based on the bank's tax budget. This is a purely notional amount according to IRFS, which does not result in cash inflows.

Balance sheet structure and income position as shown in the separate financial statements of Kommunalkredit in accordance with the Austrian Company Code/Austrian Banking Act (Austrian GAAP)

The operating result of the first half of 2017, as shown in the financial statements of Kommunalkredit prepared in accordance with Austrian GAAP, amounted to EUR 5.6 million (HY1 2016: 4.0 million). The profit on ordinary activities came to EUR 10.6 million (HY1 2016: EUR 26.0 million). After a positive net result from valuations and realisations of EUR 5.0 million (HY1 2016: EUR 22.0 million), comprising primarily income from the redemption of own issues, the first half of 2017 closed with a surplus for the period of EUR 10.8 million (HY1 2016: EUR 29.7 million).

In accordance with Austrian GAAP, Kommunalkredit reported total assets of EUR 3.0 billion as at 30 June 2017 (31/12/2016: EUR 3.3 billion). The reduction in total assets from the 2016 year-end value was primarily due to the runoff of asset items and lower liquidity investments with the Austrian National Bank.

PORTFOLIO / RISK STRUCTURE

Kommunalkredit has a stable portfolio of high asset quality. In line with the reorientation of the bank, the share of Austrian territorial authorities and public-sector-related customers in the total portfolio dropped to 64.0% in the first half of 2017 (31/12/2016: 75.9%). Another 15.1% is accounted for by non-Austrian territorial authorities and public-sector-related customers in other EU Member States. The excellent asset quality is also reflected in the breakdown by rating: 95.1% of the portfolio is rated investment grade, and 49.8% is rated AAA/AA. The capital-weighted average rating of the total exposure is A (according S&P rating scale).

Table: Breakdown of exposure by rating, in %

Rating range	30/06/2017	31/12/2016
AAA / AA	49.8%	60.8%
A	25.1%	24.2%
BBB	20.3%	13.7%
Investment grade – total	**95.1%**	**98.6%**
Non-investment grade	4.9%	1.4%

The breakdown of the exposure by region is as follows:

Table: Breakdown of exposure by region, in EUR million

30/06/2017 in EUR million	Exposure	Proportion	of which securities	of which guarantees	of which loans
Austria	1,886.2	67.6%	80.0	2.2	1,801.7
EU-28 (European Union excl. Austria)	863.5	30.9%	105.2	5.0	644.0
of which EU-19 (Euro area excl. Austria)	*420.4*	*15.1%*	*0.0*	*5.0*	*356.1*
Non-EU Europe	9.5	0.3%	0.0	0.0	9.0
Other	32.9	1.2%	0.0	0.0	30.0
Total	**2,792.1**	**100.0%**	**185.2**	**7.2**	**2,484.7**

NEW APPOINTMENTS TO THE EXECUTIVE BOARD AND THE SUPERVISORY 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.

The extraordinary Shareholders' Meeting of 24 July 2017 elected Martin Rey to serve as Member of the Supervisory Board.

EVENTS AFTER THE BALANCE SHEET DATE

Kommunalkredit issued the first Social Covered Bond in Austria

On 12 July 2017, Kommunalkredit successfully issued a social covered bond in a volume of EUR 300 million. The bond has a term of four years and carries a coupon of 0.375%. The instrument is the first Austrian Social Covered Bond in accordance with the Green Bond Principles of the International Capital Market Association (ICMA).

This transaction marked Kommunalkredit's return to the capital market with its first public bond issue since its privatisation in 2015. The great investor interest was reflected in an order book of EUR 530 million, the issue being 1.8 times oversubscribed. Thus, Kommunalkredit succeeded in significantly broadening its international investor base. 49.4% of the bond volume was placed with investors applying sustainability criteria in their investment activities.

The capital inflows from the issue of the social covered bond are used to finance projects in the field of social infrastructure, such as education, health care and social housing – both for the funding of Kommunalkredit's existing social infrastructure portfolio and for new projects.

OUTLOOK

Kommunalkredit expects the positive economic development to continue in the second half of 2017. Given the macro-economic fundamentals and the high demand for infrastructure investments in Europe, the general conditions for Kommunalkredit's business are favourable. The positive development of demand is relatively independent of potential negative influences from geostrategic developments, such as Brexit or growing protectionist trends.

Although the yield curve is foreseen to rise in the medium term, a decisive impact on the economic environment for Kommunalkredit will not yet be seen in the course of 2017. Significant changes in interest rate levels are not to be expected for 2017, even though the supply of money triggered by the extreme monetary policy of the ECB will diminish over time.

After a satisfactory first half of the year, we expect to close the full year with a sound result, although extraordinary income from the early redemption of own issues will be lower than in 2016 and costs will be incurred through new initiatives in our deposit business. In the first half of 2017, Kommunalkredit made substantial structural progress in the implementation of its business model as a specialist bank in the rapidly growing market for infrastructure finance. The bank achieved considerable growth in its new business, placed a substantial volume of finance with investors, and significantly increased its volume of customer deposits.

We are moving into the second half of 2017 with optimism and are looking forward to actively cooperating with our customers and market partners.

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

Vienna, 4 August 2017

INTERIM FINANCIAL STATEMENTS

Balance sheet of the Kommunalkredit Group according to IFRS[1]

Assets in EUR 1.000	30/06/2017	31/12/2016
Cash and balances with central banks	217,930.5	310,457.4
Loans and advances to banks	115,783.3	101,865.4
Loans and advances to customers	1,962,655.2	2,138,929.0
Assets designated at fair value through profit or loss	629,802.1	691,616.0
Assets available for sale	114,742.4	146,950.4
Derivatives[2]	244,510.0	337,156.4
Property, plant and equipment	26,279.9	26,940.9
Intangible assets	245.2	288.7
Current tax assets	3,526.1	3,249.1
Deferred tax assets	19,465.9	15,841.2
Other assets	13,742.6	17,510.6
Assets	**3,348,683.3**	**3,790,805.0**

Liabilities and equity in EUR 1.000	30/06/2017	31/12/2016
Amounts owed to banks	696,589.8	795,027.9
Amounts owed to customers	801,141.1	552,093.0
Derivatives[2]	229,053.5	263,347.5
Securitised liabilities	1,236,578.6	1,779,165.4
Subordinated liabilities	67,538.3	69,846.8
Provisions	7,745.8	7,819.6
Current tax liabilities	1,989.7	1,695.3
Other liabilities	29,611.1	25,030.5
Equity	278,435.5	296,779.0
of which subscribed capital	*159,491.3*	*159,491.3*
of which statutory reserves	*13,298.2*	*13,298.2*
of which available-for-sale reserve	*864.2*	*1,290.9*
of which other reserves (incl. consolidated results for the year)	*104,659.0*	*122,544.2*
of which non-controlling interests	*122.8*	*154.5*
Liabilities and equity	**3,348,683.3**	**3,790,805.0**

[1] The Kommunalkredit Group comprises Kommunalkredit Austria AG, its fully consolidated subsidiaries Kommunalkredit Public Consulting GmbH, Kommunalkredit Beteiligungs- und Immobilien GmbH, and Kommunalleasing GmbH as an associate included at equity.

[2] This item comprises interest-rate swaps and foreign exchange futures, primarily concluded to hedge interest rate and foreign exchange risks. The bank has no proprietary trading portfolio.

Income statement of the Kommunalkredit Group according to IFRS

Income Statement in EUR 1.000	01/01/2017 - 30/06/2017	01/01/2016 - 30/06/2016
Net interest income	**16,221.6**	**18,710.2**
Interest and similar income	*77,706.5*	*88,003.8*
Interest and similar expenses	*-61,484.9*	*-69,293.6*
Net provisioning for impairment losses	**-127.3**	**-15.1**
Net fee and commission income	**8,773.6**	**7,908.3**
Fee and commission income	*9,237.6*	*8,145.6*
Fee and commission expenses	*-464.0*	*-237.3*
Income from other investments	**137.6**	**0.0**
Income from investments in associates	**0.0**	**-2,322.4**
Net trading and valuation result	**6,431.1**	**31,859.0**
General administrative expenses	**-25,943.3**	**-22,674.7**
Personnel expenses	*-17,225.8*	*-14,646.9*
Other administrative expenses	*-8,717.5*	*-8,027.9*
Contributions to the Bank Resolution Fund	**-949.5**	**-2,508.5**
Other operating result	**6,292.0**	**3,553.1**
Other operating income	*6,643.2*	*5,515.8*
Other operating expenses	*-351.3*	*-1,962.7*
Result for the period before tax	**10,835.8**	**34,509.9**
Taxes on income	**3,099.6**	**-6,997.3**
Result for the period after tax	**13,935.4**	**27,512.6**
of which		
attributable to owners	13,912.1	27,476.3
attributable to non-controlling interests	23.3	36.3

Statement of comprehensive income

Comprehensive Income in EUR 1.000	01/01/2017 - 30/06/2017	01/01/2016 - 30/06/2016
Profit for the period after tax	**13,935.4**	**27,512.6**
Items to be recycled to the Income Statement	**-426.7**	**-551.0**
Change in available-for-sale reserve	**-426.7**	**-551.0**
Valuation of available-of-sale portfolio	*-568.9*	*-734.7*
Deferred tax on available-for-sale reserve	*142.2*	*183.7*
Items not to be recycled to the Income Statement	**202.7**	**-469.5**
Changes in actuarial result	**202.7**	**-469.5**
Actuarial result from personnel provisions	*270.3*	*-626.0*
Deferred tax on actuarial result from personnel provisions	*-67.6*	*156.5*
Comprehensive income	**13,711.4**	**26,492.1**
of which		
attributable to owners	13,688.1	26,455.8
attributable to non-controlling interests	23.3	36.3

Statement of cash flows

in EUR 1.000	01/01- 30/06/2017	01/01- 30/06/2016
Profit for the period after tax	**13,935.4**	**27,512.6**
Non-cash items included in the profit for the period and reconciliation to cash flow from operating activities		
Depreciation and amortisation of property, plant and equipment and intangible assets	903.6	917.1
Appropriation to/release of provisions	256.2	-28.4
Non-realised gains/losses from exchange rate fluctuations	-15.6	8.2
Gains/losses from the valuation of financial assets and gains from the buyback of own issues	-6,415.5	-31,867.2
Income tax deferrals	-3,465.2	6,637.9
Profit participations in companies valued according to the equity method	0.0	2,322.4
Non-cash deferrals/accruals and other adjustments	-3,016.6	-2,481.8
Sub total	**2,182.4**	**3,020.7**
Change in assets and liabilities from operating activities after correction for non-cash items		
Loans and advances to banks	-6,504.6	123,079.0
Loans and advances to customers	180,474.5	139,516.7
Assets available for sale and fair-value option	66,509.8	-2,476.2
Derivatives	125,280.6	-20,236.2
Other assets from operating activities	3,767.9	-2,185.6
Amounts owed to banks	-99,266.0	-26,637.8
Amounts owed to customers	241,503.2	81,331.9
Securitised liabilities	-579,279.7	-177,183.8
Other liabilities from operating activities	4,580.6	-3,894.9
Cash flow from operating activities	**-60,751.2**	**114,333.7**
Proceeds from the sale/redemption of		
financial assets	0.0	0.0
property, plant and equipment and intangible assets	0.0	0.0
Payments for the acquisition of		
financial assets	0.0	0.0
property, plant and equipment and intangible assets	-199.1	-390.4
Cash flow from investing activities	**-199.1**	**-390.4**
Cash inflow from capital increases / cash outflow from capital reductions	0.0	0.0
Dividend payments attributable to the owners of the parent	-32,000.0	-8,000.0
Dividend payments attributable to non-controlling interests	-54.9	-54.2
Change in funds from other financing activities (subordinated capital)	478.3	-2,028.5
Cash flow from financing activities	**-31,576.6**	**-10,082.6**
Cash and cash equivalents at the end of the previous period	**310,457.4**	**79,693.3**
Cash flow from operating activities	-60,751.2	114,333.7
Cash flow from investing activities	-199.1	-390.4
Cash flow from financing activities	-31,576.6	-10,082.6
Cash and cash equivalents at the end of the period	**217,930.5**	**183,553.9**
of which cash flows contained in cash flow from operating activities		
Interest received	50,498.1	48,910.9
Interest paid	-31,244.4	-27,734.0
Taxes on income paid	47.9	740.5
Dividends received	137.6	0.0

Statement of changes in equity

Development of equity 1 HY 2017 in EUR 1,000	Subscribed capital	Statutory reserves[1]	Retained earnings and other reserves	Profit for the year (attributable to owners)	Available-for-salereserve[2]	Actuarial gains/losses IAS 19	Equity excl. non-controlling interests	Non-controlling interests	Equity
as at 01/01/2017	**159,491.3**	**13,298.2**	**73,441.3**	**48,905.3**	**1,290.9**	**197.6**	**296,624.6**	**154.5**	**296,779.0**
Profit for the period	**0.0**	**0.0**	**0.0**	**13,912.1**	**0.0**	**0.0**	**13,912.1**	**23.3**	**13,935.4**
Change in AFS reserve	0.0	0.0	0.0	0.0	-426.7	0.0	**-426.7**	0.0	**-426.7**
Valuation of AFS portfolio	0.0	0.0	0.0	0.0	-426.7	0.0	**-426.7**	0.0	**-426.7**
Recycling of AFS reserve	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0	**0.0**
Change in actuarial gains/losses	0.0	0.0	0.0	0.0	0.0	202.7	**202.7**	0.0	**202.7**
Comprehensive income	**0.0**	**0.0**	**0.0**	**13,912.1**	**-426.7**	**202.7**	**13,688.2**	**23.3**	**13,711.4**
Distributions	0.0	0.0	-32,000.0	0.0	0.0	0.0	**-32,000.0**	-54.9	**-32,054.9**
Transfers	0.0	0.0	48.905.3	-48,905.3	0.0	0.0	**0.0**	0.0	**0.0**
as at 30/06/2017	**159,491.3**	**13,298.2**	**90,346.6**	**13,912.1**	**864.2**	**400.4**	**278,312.7**	**122.8**	**278,435.5**

Development of equity 1 HY 2016 in EUR 1,000	Subscribed capital	Statutory reserves[1]	Retained earnings and other reserves	Profit for the year (attributable to owners)	Available-for-salereserve[2]	Actuarial gains/losses IAS 19	Equity excl. non-controlling interests	Non-controlling interests	Equity
as at 01/01/2016	**159,491.3**	**10,508.7**	**78,690.4**	**5,540.4**	**1,578.1**	**296.4**	**256,105.2**	**158.6**	**256,263.8**
Profit for the period	0.0	0.0	0.0	27,476.3	0.0	0.0	**27,476.3**	36.3	**27,512.6**
Change in AFS reserve	0.0	0.0	0.0	0.0	-551.0	0.0	**-551.0**	0.0	**-551.0**
Valuation of AFS portfolio	0.0	0.0	0.0	0.0	-551.0	0.0	**-551.0**	0.0	**-551.0**
Recycling of AFS reserve	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0	**0.0**
Change in actuarial gains/losses	0.0	0.0	0.0	0.0	0.0	-469.5	**-469.5**	0.0	**-469.5**
Comprehensive income	**0.0**	**0.0**	**0.0**	**27,476.3**	**-551.0**	**-469.5**	**26,455.8**	**36.3**	**26,492.1**
Distributions	0.0	0.0	-8,000.0	0.0	0.0	0.0	**-8,000.0**	-54.2	**-8,054.2**
Transfers	0.0	0.0	5,540.4	-5,540.4	0.0	0.0	**0.0**	0.0	**0.0**
as at 30/06/2016	**159,491.3**	**10,508.7**	**76,230.8**	**27,476.3**	**1,027.1**	**-173.1**	**274,561.0**	**140.7**	**274,701.7**

[1] Statutory reserves as at 30/06/2017 comprise statutory revenue reserves in the amount of TEUR 3,298.2 (30/06/2016: TEUR 508.7) and other statutory reserves of the parent pursuant to § 57 (5) of the Austrian Banking Act, unchanged in the amount of TEUR 10,000.0.

[2] The available-for-sale reserve included deferred taxes of TEUR 288.1 (30/06/2016: TEUR 342.4).

NOTES TO THE INTERIM FINANCIAL STATEMENTS OF THE KOMMUNALKREDIT GROUP

1. General principles

These condensed Interim Financial Statements of the Kommunalkredit Group were prepared on the basis of the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB), as well as all interpretations of the International Financial Reporting Committee (IFRICs and SICs), as endorsed by and applied on a mandatory basis in the European Union.

These Interim Financial Statements for the period from 1 January to 30 June 2017 are in compliance with IAS 34 ("Interim Financial Reporting"). The condensed Interim Financial Statements do not contain all the information and disclosures required in the consolidated annual financial statements and therefore have to be read in conjunction with the 2016 annual financial statements of the Kommunalkredit Group. The accounting and valuation methods applied in the interim reporting period were the same as those applied for the financial statements as at 31 December 2016.

2. New accounting standard: IFRS 9 (Financial Instruments)

Published in July 2014, IFRS 9 "Financial Instruments" completely replaces IAS 39 "Financial Instruments: Recognition and Measurement" for annual periods beginning on or after 1 January 2018 (as transposed into European law). IFRS 9 applies to the accounting for financial instruments. The revision was performed in three phases:

1. Classification and measurement of financial instruments
2. Risk provisioning on the basis of the expected-credit-loss model
3. Hedge accounting

Kommunalkredit reported in detail on the implementation of IFRS 9 in its 2016 consolidated annual financial statements. In the first half of 2017, projects aimed at analysing the substantive conception and the impact of IFRS 9 were continued in order to ensure implementation in conformity with IFRS 9 as of the date of first adoption. Moreover, operational processes are being adjusted and extended to meet the requirements of IFRS 9 in connection with the classification and measurement of financial instruments as well as risk provisioning. Parallel system runs are being planned for the second half of 2017.

The expected impacts of the three phases are described in the following:

Phase 1: Classification and measurement of financial instruments

The analyses performed have led to the conclusion that Kommunalkredit's portfolio of financial assets largely meets the cash flow criterion (SPPI) and can therefore be accounted for at amortised cost. This will allow Kommunalkredit reduce its current fair-value portfolio according to IAS 39 when classifying assets under the hold-to-collect model. Kommunalkredit's new business is focused, above all, on infrastructure finance. The special characteristics of such project finance transactions are currently being analysed in view of the cash flow criterion; the majority of instruments are expected to comply with the SPPI criterion.

The second criterion for the classification of a financial instrument is the business model. The allocation of assets to the possible business models is another priority of the current project for the second half of the year. Based on the results of the analysis derived so far, the following allocations are possible for Kommunalkredit:

- "Hold to collect" business model – Measurement at amortised cost

For Kommunalkredit, this business model can be applied to positions held in the long term with the objective of generating the contractual cash flows. Therefore, those parts of Kommunalkredit's new business in infrastructure finance that are to be held to contractual maturity can be allocated to this business model.

- "Hold to collect and sell" business model – Measurement at fair value through equity

Portfolios held not only with the objective of generating the contractual cash flows, but also with the intention to sell, are allocated to this business model. Kommunalkredit's business strategy is to finance infrastructure projects and subsequently place the assets with institutional investors. Therefore, a significant part of the new business will probably be allocated to the "hold to collect and sell" business model. Portfolios actively serving for liquidity management are also allocated to this business model.

- "Hold to sell" business model – Measurement at fair value through profit or loss

Assets held for trading and/or short-term profit generation are typically allocated to this business model; the relevance of this business model is expected to be insignificant.

Assessment of the impact of Phase 1 on Kommunalkredit

Based on the results of the analyses performed to date, the majority of assets are expected to meet the SPPI criterion; accounting at amortised cost will therefore be possible. The allocation of transactions to the individual business models has not yet been completed and will be finalised in the second half of 2017.

Phase 2: Risk provisioning on the basis of an expected-credit-loss model

In its analysis of Phase 2 of IFRS 9, Kommunalkredit identified the following material issues:

- Adjustments to be made in parameter setting and modelling of the expected-credit-loss model (e.g. implementation of point-in-time PDs)
- Establishment of criteria for transfer from one stage to another, i.e. when has a significant change in credit risk occurred
- Adjustment of existing procedures and processes in conformity with IFRS 9

In the course of the current project, the necessary adjustments are being made and the technical prerequisites for the calculation procedures required are created.

Assessment of the impact of Phase 2 on Kommunalkredit
Given the high asset quality of Kommunalkredit's portfolio (95.1% rated investment grade as at 30 June 2017, of which 49.8% rated AAA/AA) and the related allocation of the majority of assets to Phase 1, no significant impact on the assets, income and financial position of Kommunalkredit is to be expected at the time of first adoption of IFRS 9.

Phase 3: Hedge accounting

Hedge accounting under IFRS 9 will be aligned more closely with a company's risk management and is to reflect its risk management strategy more clearly in the financial statements.

Assessment of the impact of this phase on Kommunalkredit
Hedging relationships established at micro-level under IAS 39 (fair-value hedges) will be continued unchanged under IFRS 9. The possibility of establishing new hedging relationships at micro- or macro-level on the basis of the new classification options under IFRS 9 is being examined.

3. Other disclosures

a. Development of earnings

For information on the development of earnings in the first half of 2017 and a description of the most significant events, please refer to the Interim Management Report.

b. Development of regulatory own funds

The provisions of Article 92 CRR regarding own funds requirements apply to Kommunalkredit. Based on these provisions and taking into account a capital conservation buffer of 1.25% for 2017 (2016: 0.625%), a common equity tier 1 ratio of at least 5.75% (2016: 5.125%), a core capital ratio of at least 7.25% (2016: 6.625%), and a total capital ratio of at least 9.25% (2016: 8.625%) apply as of 30 June 2017. By administrative notice dated 30 June 2017, the Financial Market Supervisory Authority (FMA) required Kommunalkredit within the framework of the Supervisory Review and Evaluation Process (SREP) pursuant to § 69 (2) point 3b of the Austrian Banking Act to hold additional own funds in the amount of 0.6%.

Kommunalkredit is part of a group of credit institutions whose parent is Satere Beteiligungsverwaltungs GmbH (Satere), which holds 100% of Gesona Beteiligungsverwaltung GmbH (Gesona). Gesona owns 99.78% of Kommunalkredit. Given that both Satere and Gesona are to be classified as financial holding companies as defined in CRR, Kommunalkredit – pursuant to Art. 11 para. 2 and para. 3 CRR – is the only credit institution obliged to meet the requirements of Part 2 to 4 (Own Funds, Capital Requirements, Large Exposures), Part 6 (Liquidity) and Part 7 (Leverage) of CRR on a consolidated basis. Kommunalkredit meets the definition of a superordinate credit institution pursuant to § 30 (5) of the Austrian Banking Act, which is responsible for compliance with the provisions of the Austrian Banking Act applicable to groups of credit institutions.

Besides Satere, Gesona and Kommunalkredit, Kommunalkredit Beteiligungs- und Immobilien GmbH as a provider of ancillary services also belongs to the regulatory group of credit institutions.

Regulatory group of credit institutions

Own funds and own funds requirements of the group of credit institutions according to Austrian GAAP, calculated in accordance with CRR, show the following composition and development; interim profits of the first half of 2017 have not been taken into account:

Basis for calculation pursuant to Part 3 CRR (in EUR 1,000)	30/06/2017	31/12/2016
Total exposure amount pursuant to Art. 92 CRR	839,822.5	688,041.3
Own funds requirements		
of which credit risk	57,556.2	42,075.8
of which operational risk	8,167.7	8,859.0
of which CVA charge	1,455.6	4,099.8
of which default fund of a qualifying counterparty	6.4	8.6
Total (own funds target before capital conservation buffer)	**67,185.8**	**55,043.3**
Capital conservation buffer	10,497.8	4,300.3
Own funds target	**77,683.6**	**59,343.5**

Own funds - actual in EUR 1,000	30/06/2017	31/12/2016
Common equity tier 1 after deductible items	225,947.6	226,191.5
Additional own funds after deductible items	62,956.2	64,832.9
Eligible own funds (tier 1 and tier 2)	**288,903.7**	**291,024.4**
Free equity	211,220.2	231.680.8
Total capital ratio	34.4%	42.3%
Common equity tier 1 ratio	26.9%	32.9%

Regulatory own funds of Kommunalkredit Austria AG

Own funds and own funds requirements, as reported in the separate financial statements of Kommunalkredit according to Austrian GAAP, calculated in accordance with CRR, show the following composition and development; interim profits of the first half of 2017 have not been taken into account:

Basis for calculation pursuant to Part 3 CRR (in EUR 1,000)	30/06/2017	31/12/2016
Total exposure amount pursuant to Art.92 CRR	837,455.7	686,130.0
Own funds requirements		
of which credit risk	57,539.0	42,066.2
of which operational risk	7,995.5	8,715.8
of which CVA charge	1,455.6	4,099.8
of which default fund of a qualifying counterparty	6.4	8.6
Total (own funds target before capital conservation buffer)	**66,996.5**	**54,890.4**
Capital conservation buffer	10,468.2	4,288.3
Own funds target	**77,464.6**	**59,178.8**

Own funds - actual in EUR 1,000	30/06/2017	31/12/2016
Common equity tier 1 after deductible items	225,544.2	225,500.6
Additional own funds after deductible items	62,956.2	64,832.9
Eligible own funds (tier 1 and tier 2)	**288,500.4**	**290,333.5**
Free equity	211,035.7	231,154.8
Total capital ratio	34.4%	42.3%
Common equity tier 1 ratio	26.9%	32.9%

c. Contingent liabilities

As at 30 June 2017, contingent liabilities were as follows:

in EUR 1,000	30/06/2017	31/12/2016
Contingent liabilities		
Sureties and guarantees	7,238.9	9,530.9
Other obligations		
Loan commitments and unused lines	241,211.4	39,364.1

The increase in loan commitments and unused lines primarily includes loans committed but not yet paid out for infrastructure projects originated in the first half of 2017.

d. Dividends paid

The EUR 32.0 million profit distribution in the first half of 2017 is reported separately in the Statement of Changes in Equity. The net profit for 2016 shown in the separate financial statements of Kommunalkredit prepared in accordance with Austrian GAAP, i.e. the relevant amount for profit distribution, totalled EUR 45.0 million. The IFRS net profit remaining after the distribution of EUR 32.0 million is recognised under other reserves.

e. Legal risks

As at 30 June 2017 and unchanged from 31 December 2016, Kommunalkredit was not exposed to any material legal risks.

f. Other obligations

No relevant changes to Kommunalkredit's other obligations occurred during the interim reporting period.

g. Disclosures on fair value measurement

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

Level 1: Quoted prices are available in an active market for identical financial instruments. For this level of the fair value hierarchy, Kommunalkredit refers to bid quotes for assets from Bloomberg and Reuters.

Level 2: The inputs for the valuation are observable in the market. This category includes the following pricing methods:

- Pricing on the basis of benchmark 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. As a rule, Level 3 financial instruments are measured by means of an internal model based on the net-present-value method.

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

	30/06/2017		
in EUR 1,000	Level 1	Level 2	Level 3
Available for sale	110,927.4	0.0	0.0
At fair value through profit or loss - Fair value option	0.0	629,802.1	0.0
At fair value through profit or loss - Held for trading (from asset-side items)	0.0	13,160.1	0.0
At fair value through profit or loss - Held for trading (from liability-side items)	0.0	-152,433.4	0.0
Derivatives designated as hedging instruments (from asset-side items)	0.0	231,349.9	0.0
Derivatives designated as hedging instruments (from liability-side items)	0.0	-76,620.0	0.0

The comparative values of the previous year are as follows:

	31/12/2016		
in EUR 1,000	Level 1	Level 2	Level 3
Available for sale	143,335.3	0.0	0.0
At fair value through profit or loss - Fair value option	0.0	691,616.0	0.0
At fair value through profit or loss - Held for trading (from asset-side items)	0.0	26,492.8	0.0
At fair value through profit or loss - Held for trading (from liability-side items)	0.0	-170,110.5	0.0
Derivatives designated as hedging instruments (from asset-side items)	0.0	310,663.6	0.0
Derivatives designated as hedging instruments (from liability-side items)	0.0	-93,237.0	0.0

As at 30 June 2017 and unchanged from 31 December 2016, there were no financial instruments measured at fair value classified as Level 3 of the fair value hierarchy. There were no migrations between levels in the current interim reporting period.

The breakdown of the fair values of financial instruments not recognised at fair value by class of financial instruments is as follows:

in EUR 1,000	30/06/2016 Level 1	Level 2	Level 3
Loans and receivables: Loans and advances to banks	0.0	114,969.2	0.0
Loans and receivables: Loans and advances to customers	0.0	1,992,503.1	97,879.7
Liabilities at amortised cost	0.0	-2,657,697.1	0.0

The financial instruments not recognised at fair value and classified as Level 3 relate to project finance. These instruments are measured by means of internal measurement models based on the net-present-value method. The net present value is determined on the basis of expected cash flows, with due consideration given to current yield curves and credit spreads. Classification as Level 3 is based on the fact that credit spreads cannot be observed in the market, but are derived from expert estimates.

The comparative values of the previous year are as follows:

in EUR 1,000	31/12/2016 Level 1	Level 2	Level 3
Loans and receivables: Loans and advances to banks	0.0	101,865.4	0.0
Loans and receivables: Loans and advances to customers	0.0	2,269,444.3	0.0
Liabilities at amortised cost	0.0	-3,005,073.5	0.0

There were no migrations of financial instruments not recognised at fair value between levels in the current interim reporting period.

h. Classes of financial instruments

In compliance with the requirement to classify financial instruments in groups, the Kommunalkredit Group distinguishes the classes of financial instruments shown in the following table. The table also shows the book values and fair values broken down by class of financial instruments.

The fair values of financial instruments not measured at fair value are determined in accordance with the fair value hierarchy described above. Maturity-, rating- and instrument-specific measurement parameters, in conjunction with prevailing measurement methods, are used to determine the fair values in conformity with IFRS 13.

As at 30 June 2017, the values are as follows:

30/06/2017 Classes: in EUR million	Cash and balances with central banks	At fair value through profit or loss: Held for trading	At fair value through profit or loss: Fair value option	Loans and receivables: Loans and advance to banks	Loans and receivables: Loans and advances to customers	Available for sale	Liabilities at amortised cost	Derivatives designated as hedging instruments	Book value	Fair value
Cash and balances with central banks	217.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	217.9	217.9
Loans and advances to banks	0.0	0.0	0.0	115.8	0.0	0.0	0.0	0.0	115.8	115.0
Loans and advances to customers	0.0	0.0	0.0	0.0	1,962.7	0.0	0.0	0.0	1,962.7	2,090.4
Assets at fair value	0.0	0.0	629.8	0.0	0.0	0.0	0.0	0.0	629.8	629.8
Assets available for sale	0.0	0.0	0.0	0.0	0.0	114.7	0.0	0.0	114.7	114.7
Derivatives	0.0	13.2	0.0	0.0	0.0	0.0	0.0	231.3	244.5	244.5
Amounts owed to banks	0.0	0.0	0.0	0.0	0.0	0.0	696.6	0.0	696.6	695.4
Amounts owed to customers	0.0	0.0	0.0	0.0	0.0	0.0	801.1	0.0	801.1	749.1
Derivatives	0.0	152.4	0.0	0.0	0.0	0.0	0.0	76.6	229.1	229.1
Securitised liabilities	0.0	0.0	0.0	0.0	0.0	0.0	1,236.6	0.0	1,236.6	1,159.2
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	67.5	0.0	67.5	54.0

As at 31 December 2016, the values are as follows:

31/12/2016 Classes: in EUR million	Cash and balances with central banks	At fair value through profit or loss: Held for trading	At fair value through profit or loss: Fair value option	Loans and receivables: Loans and advance to banks	Loans and receivables: Loans and advances to customers	Available for sale	Liabilities at amortised cost	Derivatives designated as hedging instruments	Book value	Fair value
Cash and balances with central banks	310.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	310.5	310.5
Loans and advances to banks	0.0	0.0	0.0	101.9	0.0	0.0	0.0	0.0	101.9	101.9
Loans and advances to customers	0.0	0.0	0.0	0.0	2,138.9	0.0	0.0	0.0	2,138.9	2,269.4
Assets designated at fair value through profit or loss	0.0	0.0	691.6	0.0	0.0	0.0	0.0	0.0	691.6	691.6
Assets available for sale	0.0	0.0	0.0	0.0	0.0	147.0	0.0	0.0	147.0	147.0
Derivatives	0.0	26.5	0.0	0.0	0.0	0.0	0.0	310.7	337.2	337.2
Amounts owed to banks	0.0	0.0	0.0	0.0	0.0	0.0	795.0	0.0	795.0	793.7
Amounts owed to customers	0.0	0.0	0.0	0.0	0.0	0.0	552.1	0.0	552.1	497.0
Derivatives	0.0	170.1	0.0	0.0	0.0	0.0	0.0	93.2	263.3	263.3
Securitised liabilities	0.0	0.0	0.0	0.0	0.0	0.0	1,779.2	0.0	1,779.2	1,658.3
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	69.8	0.0	69.8	56.0

i. Related party disclosures

Ownership structure

Name of the company	Relation to Kommunalkredit	Registered office	Shares held
Gesona Beteiligungsverwaltung GmbH	Direct parent	Vienna, Austria Company Register No 428969m	99.78% in Kommunalkredit
Satere Beteiligungsverwaltungs GmbH	Controlling parent	Vienna, Austria Company Register No 428981f	100% in Gesona

Satere Beteiligungsverwaltungs GmbH (Satere) is held by Interritus Limited (Interritus), holding 55%, and Trinity Investments Designated Activity Company Limited (Trinity), holding 45%; the two shareholders exercise joint control over Satere on the basis of contractual arrangements. Thus, Satere is to be classified as a joint arrangement according to IFRS 11 and the controlling parent of the Kommunalkredit Group.

In the current business year, Kommunalkredit assumed the fiduciary administration of loans for a party related to Trinity under a framework agreement. On the basis of a trust agreement, positions in an amount of EUR 261.9 million were held in trust as at 30 June 2017. As Kommunalkredit has no rights or obligations relative to the underlying loan transactions, the criteria for recognition on the balance sheet do not apply. Fee and commission income in the amount of TEUR 258.4 was generated from the fiduciary administration of these transactions in the interim reporting period, of which open balances in the amount of TEUR 92.2 as at 30 June 2017 are reported under other assets.

A related party of Interritus holds a contractual sub-participation in the amount of TEUR 10,000.0 in a project finance transaction arranged by Kommunalkredit in the current business year. The terms and conditions of the sub-participation correspond to those of the underlying project finance transaction.

Tax group

Effective as of 2016, a tax group pursuant to § 9 of the Corporate Income Tax Act was formed, with Satere Beteiligungsverwaltungs GmbH as the group parent and Gesona Beteiligungsverwaltung GmbH, Kommunalkredit, KBI, KPC and TrendMind IT Dienstleistung GmbH (TrendMind) as group members.

Relations with associates

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

- Loans and receivables in the amount of TEUR 40,959.0 (31/12/2016: TEUR 42,191.4)
- Contingent liabilities in the form of guarantees in the amount of TEUR 1,350.0, unchanged from the previous year
- Other off-balance-sheet obligations in the form of committed but unused lines in the amount of TEUR 1,421.0 (31/12/2016: TEUR 1,581.0)

Transactions with persons in key positions

Persons in key positions are persons directly or indirectly in charge of and responsible for the planning, management and supervision of the activities of Kommunalkredit. The members of the Executive Board and the Supervisory Board are understood to be persons in key positions at Kommunalkredit.

As at 30 June 2017 and unchanged from 31 December 2016, no loans/advances to members of the Executive Board or members of the Supervisory Board were outstanding. No guarantees were issued by Kommunalkredit for Board members.

Furthermore, there were no business relations between Kommunalkredit and the members of its Executive Board and its Supervisory Board during the interim reporting period, nor were there any open balances between Kommunalkredit and its Board members.

j. Relations with KA Finanz AG

Kommunalkredit Austria AG provides operational services for the banking operations of KA Finanz AG under a service agreement (SA) and a service level agreement (SLA). As at 30 June 2017, 17 employees of Kommunalkredit (31/12/2016: 18 employees) were working for KA Finanz AG on the basis of a staff leasing agreement. They are responsible for portfolio management, risk management and the company's operational business under the leadership of the Executive Board of KA Finanz AG.

The residual portfolio of derivative transactions (mirror swaps) concluded between Kommunalkredit and KA Finanz AG within the framework of the 2015 demerger, still held by Kommunalkredit as at 31 December 2016, was run down, as contractually agreed, in the first quarter of 2017.

As of 30 June 2017, Kommunalkredit holds in trust and manages in its own name, but at the cost and risk of KA Finanz AG, financial instruments with a nominal value of TEUR 200,432.0 (31/12/2016: TEUR 218,001.3).

4. Issues, buyback transactions and redemptions of bonds or equity

In the reporting period, Kommunalkredit bought back/redeemed ahead of schedule CHF-denominated liabilities in a value of EUR 128.0 million (01/01 to 30/06/2017: EUR 146.0 million) and redeemed securitised liabilities in a value of EUR 337.9 million (01/01 to 30/06/2016: EUR 93.2 million) on schedule at maturity.

5. Segment reporting

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

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

Vienna, 4 August 2017

STATEMENT BY THE LEGAL REPRESENTATIVES ON THE INTERIM FINANCIAL REPORT

We herewith **confirm** to the best of our knowledge that the condensed **Consolidated Interim Financial Statements** prepared in accordance with the relevant accounting standards present a true and fair view of the assets, the financial position and the income of the Group and that the **Interim Management Report** of the Group presents a true and fair view of the assets, the financial position and the income of the Group as regards the important events during the first six months of the business year and their impact on the condensed Consolidated Interim Financial Statements, and as regards the material risks and uncertainties of the remaining six months of the business year.

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

Vienna, 4 August 2017

AUDITOR'S REPORT ON THE REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2017

Introduction

We have been engaged by the company to review the interim condensed set of financial statements in the half-yearly report for the six months ended 30 June 2017, which comprises the condensed combined and consolidated income statement, the condensed combined and consolidated statement of comprehensive income, the condensed combined and consolidated statement of financial position, the condensed combined and consolidated statement of changes in equity, the condensed combined and consolidated statement of cash flows and the related notes to the condensed, interim consolidated financial statements.

The management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standards (IAS) 34 as adopted by the European Union.

Our responsibility is to provide a review summary on these interim condensed set of financial statements based on our review.

Scope of review

We conducted our review in accordance with the relevant expert opinions and standards, in particular International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Austrian generally accepted auditing standards and International standards on auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of interim financial statements in the half-yearly report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union.

Statement on the half-year group management report and on the declaration of the legal representatives as per section 87 of the Austrian Securities Exchange Act (BörseG)

We have read the half-year group management report in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements. Based on our review, nothing has come to our attention that causes us to believe that the management report in the half-yearly report contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

The half-yearly report comprises the required declaration of the legal representatives as per section 87 paragraph 1 number 3 BörseG.

Vienna, 4 August 2017

PwC Wirtschaftsprüfung GmbH

signed:

Dipl.Kfm.Univ. Dorotea-E. Rebmann
Austrian Certified Public Accountant

This report is a translation of the original report in German, which is solely valid. Publication and sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the management report for the Group. For deviating versions, the provisions of Section 281 (2) UGB apply.

Balance sheet of Kommunalkredit Austria AG according to the Austrian Company Code/Austrian Banking Act[1]

Assets **in EUR 1.000**	**30/06/2017**	**31/12/2016**
Cash and balances with central banks	217,804.9	310,456.7
Public-sector debt instruments eligible as collateral for central bank funding	105,189.3	108,082.8
Loans and advances to banks	117,201.4	100,048.9
Loans and advances to customers	2,341,282.9	2,556,794.6
Bonds and other fixed-income securities	129,955.7	96,257.4
Participations	2,625.1	2,425.1
Investments in associates	6,339.8	6,339.8
Intangible non-current assets	245.2	288.7
Property, plant and equipment	1,915.4	1,904.2
Other assets	29,298.8	74,242.2
Accruals/deferrals	6,669.1	4,818.5
Deferred taxes	7,666.0	7,141.2
Total assets	**2,966,193.5**	**3,268,800.2**

Liabilities **in EUR 1.000**	**30/06/2017**	**31/12/2016**
Amounts owed to banks	712,539.6	795,561.5
Amounts owed to customers	799,937.3	538,202.2
Securitised liabilities	1,085,291.2	1,535,524.8
Other liabilities	35,476.2	42,489.9
Accruals/deferrals	8,485.5	4,897.6
Provisions	21,812.3	26,807.1
Fund for General Banking Risks	40,000.0	40,000.0
Additional capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No. 575/2013	66,042.0	67,527.6
Subscribed capital	159,491.3	159,491.3
Revenue reserve	3,298.2	3,298.2
Statutory reserve pursuant to § 57 (5) Austrian Banking Act	10,000.0	10,000.0
Net profit	23,819.9	44,999.9
of which profit carryforward	*12,999.9*	*9,367.2*
of which result for the period	*10,820.0*	*37,508.1*
Total liabilities	**2,966,193.5**	**3,268,800.2**

[1] In contrast to the Consolidated Financial Statements according to IFRS – where Kommunalkredit Austria AG is treated as an economic entity including Kommunalkredit Public Consulting GmbH and Kommunalkredit Beteiligungs- und Immobilien GmbH (KBI) – this balance sheet shows the banking operations of Kommunalkredit Austria AG according to Austrian GAAP (Austrian Company Code/Austrian Banking Act).

Income statement of Kommunalkredit Austria AG according to the Austrian Company Code/Austrian Banking Act

in EUR 1.000	01/01/2017 - 30/06/2017	01/01/2016 - 30/06/2016
Net interest income	**15,184.9**	**18,549.6**
Interest and similar income	76,986.9	88,088.1
Interest and similar expenses	-61,801.9	-69,538.5
Income from investments	813.1	487.4
Net fee and commission income	3,039.5	-56.8
Income from financial transactions	15.6	-8.2
Other operating income	7,740.6	6,584.5
Operating income	**26,793.8**	**25,556.5**
General administrative expenses	**-20,766.7**	**-19,460.9**
Personnel expenses	-12,747.3	-10,951.5
Other administrative expenses (non-personnel)	-7,069.9	-6,000.8
Bank Resolution Fund	-949.5	-2,508.5
Depreciation	-130.3	-142.2
Other operating expenses	-337.0	-1,930.1
Operating expenses	**-21,234.1**	**-21,533.2**
Operating result	**5,559.7**	**4,023.3**
Result from valuations and realisations	5,008.9	22,001.2
of which realisation from early redemption of own issues	*5,149.6*	*42,466.2*
of which realisation from securities, loans and derivatives	*-13.4*	*4,550.0*
of which change in provision pursuant to § 57 (1) Austrian Banking Act	*0.0*	*-25,000.0*
of which change in valuation adjustments	*-127.3*	*-15.1*
Profit on ordinary activities	**10,568.5**	**26,024.5**
Taxes on income	263.5	3,715.6
Other taxes	-12.0	-27.5
Result for the period	**10,820.0**	**29,712.6**

Key indicators of Kommunalkredit Austria AG's regulatory own funds according to the Austrian Banking Act

in EUR 1.000	30/06/2017	31/12/2016
Risk-weighted assets relative to credit risk according to Basel III	719,237.3	525,827.5
Total own funds requirement	66,996.5	54,890.4
Own funds	288,500.4	290,333.5
Total capital ratio	34.4%	42.3%
Common equity tier 1	225,544.2	225,500.6
Common equity tier 1-ratio	26.9%	32.9%

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