Kommunalkredit
INFRA BANKING EXPERTS

DISCLOSURE REPORT 2016

OF KOMMUNALKREDIT-GROUP

Disclosure pursuant to Part 8 CRR
(Reporting date 31/12/2016)

INFRA BANKING EXPERTS
Österreichs Bank für Infrastruktur
www.kommunalkredit.at

KOMMUNAL KREDIT

Pursuant to Art.431 and Art.433 of the Capital Requirements Regulation (CRR), institutions have to publicly disclose the information specified in Title II CRR at least once a year, subject to the provisions laid down in Art.432 CRR.

Kommunalkredit Austria AG (hereinafter called 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. Both Satere and Gesona are to be classified as financial holding companies as defined in CRR and have no material influence on the financial indicators and the risk structure of the group of credit institutions. Kommunalkredit, being the only credit institution of the group, therefore meets the disclosure obligations on behalf of the group of credit institutions through publication of this Disclosure Report, which is published on its website at www.kommunalkredit.at.

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Art. 435.1 (a) CRR

Risk management strategies and processes

Kommunalkredit Austria AG (hereinafter called 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. The remaining 0.22% is held by the Association of Austrian Local Authorities. Both Satere and Gesona are to be classified as financial holding companies in the meaning of CRR. Kommunalkredit Beteiligungs- und Immobilien GmbH (KBI) is also part of the group of credit institutions. For reasons of materiality, risk management for the group of credit institutions is conducted at the level of Kommunalkredit. However, the economic risks of KBI are taken into account in the ICAAP of Kommunalkredit in credit risk in the narrow sense of the term, on the one hand, and as a participation in participation risk, on the other hand. As group members, Satere and Gesona, apart from their participation in Kommunalkredit, currently do not hold any other financial participations and are therefore not engaged in any business activities of relevance to the risk-bearing-capacity analysis within the framework of the ICAAP.

Kommunalkredit uses risk assessments and a risk map for the complete identification of the risk drivers of its business model. 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, management frequency and limitation. The risk map serves to establish a uniform understanding of the concept of risk and a uniform view of risk priorities, and to review the system for completeness and identify potential gaps in risk management. The types of risk covered are those which are classified as highly relevant, but are characterised by low risk transparency and low management frequency and therefore given top priority in respect of further development needs. This analysis is performed annually.

For the main types of risk (above all 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 for in order to cover risks that are not sufficiently quantifiable (above all operational risk, reputational risk, legal risks and other risks) as well as potential model inaccuracies.

Within the framework of the risk strategy for the main types of risk, the Executive Board specifies the principles for the adequate management and limitation of risks and limits the economic capital allocated to each risk type, each business area and, in an integrated approach, for the bank as a whole, depending on the risk-bearing 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 degree of utilisation and observance of the risk budget as well as the risk appetite of the bank. Counterparty limits as well as the operational risk limits for the open FX position are reviewed on a daily basis. Kommunalkredit does not engage in 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.

Art. 435.1 (b) and (c) CRR

Structure and organisation of the risk management and monitoring function, and scope and nature of risk reporting and measurement systems

In accordance with the division of tasks within the bank, overall responsibility for the ICAAP process 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 (in particular 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 of the Supervisory Board has been set up. The committee's mandate includes, 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's organisational structure for risk management 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, which is independent of the front office, is exercised by Credit Risk Management and Risk Controlling 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 by the Risk Management Committee, the Asset Liability Committee and the Credit Committee.

The Risk Management Committee constitutes the central element of the comprehensive risk management process, providing monthly information to the Executive Board on the overall risk position of the bank. In organisational terms, responsibility for the Risk Management Committee lies with Risk Controlling. The Risk Management Committee 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, Risk Controlling is in charge of this committee. Within the framework of its meetings the market situation is evaluated, limits are monitored and measures to manage interest rate and liquidity risks are discussed. Additionally, 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 Management is in charge of this committee (analysis and assessment of single-name risks, second vote in credit approval and review processes, management of single-name risks and other risks, management of non-performing loans, qualitative portfolio analyses and ratings).

Responsibility for the quantification of risks and the aggregate risk cover as well as the performance of stress tests lies with Risk Controlling.

Pursuant to § 39.5 of the Austrian Banking Act, Risk Controlling and Credit Risk Management perform the tasks of a risk management department, independent of Kommunalkredit's operational business, and have direct access to the Executive Board of Kommunalkredit. The Supervisory Board is informed regularly on the risk position of the bank not only through reports submitted by the Risk Committee, but also through comprehensive quarterly risk reports and monthly data sheets illustrating the development of the most important capital, earnings and risk indicators.

The objective of integrated 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-bearing 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.

Art. 435.1 (d) CRR

Risk management guidelines and policies

Principles of risk management

- 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 management. 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 limit breaches. 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 Kommmunalkredit produced at least once a month and, if necessary, supplemented by ad-hoc risk reports.
- An integrated IT infrastructure, as a prerequisite for the systematic reduction of risks from interfaces and data inconsistencies and as a basis for efficient reporting and data processing processes, constitutes an essential organisational and risk-policy objective.

Art. 435.1 (e) and (f) CRR

Risk declaration by the Executive Board on the adequacy of the risk management arrangements of the institution and on its risk profile

Complete risk identification is ensured through comprehensive annual risk assessment.

Pursuant to § 39 (5) of the Austrian Banking Act, a risk management function, independent of the bank's operational business, has been set up; it reports directly to the Executive Board.

The risk management system and the risk management process of the bank correspond to the relevance and materiality of risks and the complexity of the business model; they meet the general prudential risk management requirements, including the Austrian Banking Act, the Austrian Regulation on Risk Management by Financial Institutions (KI-RMVO), CRR and CRD IV.

For the purpose of limiting risks in accordance with the risk-bearing capacity of the bank, a limit system has been implemented, which covers and continuously monitors all counterparty-related limits in terms of volume and portfolio-related limits for the main types of risk. At the highest level of aggregation, the risk appetite is defined and limited as a function of the bank's risk-bearing capacity.

Kommunalkredit's risk management procedures and processes were subject to the regular comprehensive review, which is to be performed annually. The adequacy of all components of the risk management process was reviewed, including in particular

- complete coverage of all risks relevant to the business model,
- adequate strategies for the management of the main types of risk,
- adequacy of methods employed to measure and limit risks,
- adequacy of hedging targets within the framework of the three perspectives taken in analysing the risk-bearing capacity (regulatory perspective, going-concern perspective, liquidation perspective)
- adequacy of reporting frequency and content for identifiable risks,
- adequacy of the risk organisation and the management bodies.

The review process, comprising risk assessments and workshops, was coordinated and supported by Risk Controlling. The Executive Board and all units of the bank were included in the process. The results were documented in the form of a final report, a comprehensive risk map and a risk profile approved by the Executive Board. A report on the performance and the results of the review was submitted to the Supervisory Board.

For the purpose of securing and monitoring capital adequacy, the main types of risk are covered through risk-bearing-capacity analyses, quantified and compared with the bank's aggregate risk cover on a monthly basis. Risk tolerance is determined by the hedging targets defined for the different perspectives of risk-bearing capacity and subjected to monthly reviews (establishment of risk status).

From the liquidation perspective, risk tolerance is defined in terms of risk budgets (risk budget limits) for each main risk type and a minimum capital buffer in % of aggregate risk cover. The utilisation of risk limits and the amount of the actual capital buffer, compared to the minimum capital buffer, are determined and reviewed every month in absolute terms and as a percentage of the aggregate risk cover at a confidence level of 99.95%.

From the going-concern perspective, risk tolerance is defined in terms of the hedging target of a minimum tier 1 ratio of 13%. The capital buffer required to reach the hedging target is determined and reviewed every month in absolute terms and as a percentage of the aggregate risk cover at a confidence level of 95%.

Values in EUR million as at 31-12-2016	Liquidation perspective	Going-concern perspective
Aggregate risk cover	680	96
Economic risk position	135	31
Capital buffer	**545**	**65**
Capital buffer in %	**80.1%**	**67.8%**

The robustness of the business model and the adequacy of own funds are verified regularly through stress tests.

The requirement to report to the Supervisory Board and to the Risk Committee set up pursuant to Sect. 39d of the Austrian Banking Act was met through submission of comprehensive risk reports.

The Executive Board and the Supervisory Board stated that the risk-bearing capacity of the bank was adequate at any time of the business year 2016 and that they were not / are not aware of any risks jeopardizing the risk-bearing capacity of the bank.

Art. 435.2 (a) CRR

Directorships held by members of the management body (as of 31-12-2016)

Name	Function at Kommunalkredit Austria AG	Directorships	
		Number of management functions	Number of supervisory functions
Dr. Patrick Bettscheider	Chairman of the Supervisory Board[1]	3	2
Christopher Guth, MSc	Deputy Chairman of the Supervisory Board	2	1
Dipl.-Kfm. Friedrich Andreae, MSc	Member of the Supervisory Board	2	1
Mag. Katharina Gehra, MSc	Member of the Supervisory Board	4	1
Diplom-Betriebswirt (FH) Jürgen Meisch	Member of the Supervisory Board	1	3
Mag. Werner Muhm[2]	Member of the Supervisory Board	1	5
Franz Hofer, MSc	Member of the Supervisory Board	-	2
Mag. Patrick Höller	Member of the Supervisory Board	-	1
Mag. Alois Steinbichler, MSc[3]	Chairman of the Executive Board	1	1
Jörn Engelmann	Member of the Executive Board[4]	1	2
Mag. Wolfgang Meister[5]	Member of the Executive Board[6]	1	1

[1] Delegated by Interritus Limited, elected Chairman of the Supervisory Board at the extraordinary Supervisory Board meeting of 7 April 2016

[2] Werner Muhm resigned from the Supervisory Board of Kommunalkredit as of the end of the General Shareholders' Meeting of 10 March 2017

[3] Within the Kommunalkredit Group: Chairman of the Supervisory Board of Kommunalkredit Public Consulting GmbH and Deputy Chairman of the Syndicate Assembly of Kommunalnet E-Government Solutions GmbH

[4] As of 1 February 2017, the Executive Board was enlarged and Bernd Fislage was appointed to the Executive Board, as planned, as Chief Distribution Officer of Kommunalkredit.

[5] Within the Kommunalkredit Group: Deputy Chairman of the Supervisory Board of Kommunalkredit Public Consulting GmbH

[6] As of 1 February 2016, the Executive Board was enlarged and Bernd Fislage was appointed to the Executive Board, as planned, as Chief Distribution Officer of Kommunalkredit.

Art. 435. 2 (b) CRR

Strategy for the selection of members of the management body

Pursuant to § 29 of the Austrian Banking Act, Kommunalkredit has established a Nomination Committee. In compliance with its legal and statutory duties pursuant to § 29 of the Austrian Banking Act, the Nomination Committee held its annual meeting for 2016 in March 2016; an extraordinary meeting of the Nomination Committee was held in December 2016.

Exercising its tasks pursuant to § 29 points 1 to 3 of the Austrian Banking Act regarding succession planning and recruitment for vacant positions, job profiles for the Executive Board and the Supervisory Board have been established by the Nomination Committee.

The **qualifications and competencies** required of persons selected as candidates for **Executive Board positions** are as follows:

International banking experience with a special focus on public finance; strategic and operational management experience in a market-oriented business units of comparable size and complexity with accountability for its results; profound understanding of banking processes; aptitude for the tasks assigned within the Executive Board; restructuring and portfolio management competencies; fulfilment of all regulatory fit & proper requirements: entrepreneurial personality; high level of social skills; strong implementation record; confident and self-assured manners; negotiating skills; communication skills; ability to share responsibility for the overall strategy with the other members of the Executive Board; Relevant experience; ability to lead and motivate staff.

The **qualifications and competencies** required of persons selected as candidates for **Supervisory Board positions** are as follows:

Practice-related knowledge enabling the candidate to question Executive Board decisions; experience on supervisory boards (desirable); diversity in respect of the other Supervisory Board members; understanding of the business activities of the bank; awareness of responsibility; integrity; willingness to contribute; independence; personality; fulfilment of regulatory fit & proper requirements; practical experience with remuneration policy pursuant to § 39 (3) of the Austrian Banking Act (if required); requirements to be met by a financial expert pursuant to § 63(a) of the Austrian Banking Act (if necessary).

The qualifications and competencies required of potential candidates for Executive Board and Supervisory Board positions are based on the bank's internal "Fit & Proper Policy" adopted to ensure compliance with the legal requirements. The Fit & Proper Policy specifies the quality requirements to be met by Kommunalkredit's Executive Board and Supervisory Board members and defines criteria for the selection and aptitude assessment of members of the management and supervisory bodies and/or for the identification and assessment of holders of key functions and their aptitude. A special Fit & Proper Office ensures compliance with and fulfilment of these requirements. In accordance with the Fit & Proper Circular of the Financial Markets Supervisory Authority (FMA), regular fit & proper training is provided for Executive Board and Supervisory Board members and for holders of key functions.

Art. 435. 2 (c) CRR

Diversity strategy with regard to the selection of members of the management body

A common target ratio of 15% for the underrepresented gender has been defined for the Executive Board and the Supervisory Board, the decisive selection criteria being the qualifications of the candidates and their suitability for the position. The target is to be reached by 31 December 2020, at the latest.

Art. 435. 2 (d) CRR

Information regarding the establishment of a Risk Committee

Pursuant to § 39d of the Austrian Banking Act, a Risk Committee of the Supervisory Board was established, tasked to advise the management on the current and future risk appetite and risk strategy of the bank and to monitor implementation of this risk strategy relating to the management, monitoring and limitation of risks and the capitalisation and liquidity of the bank.

The Risk Committee met once in 2016.

Art. 435. 2 (e) CRR

Information flow on risk to the management body

As part of Kommunalkredit's organisational structure for risk management, the tasks, competences and responsibilities within the framework of the risk management process are clearly defined and set out. 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, which is independent of the front office, is exercised by Credit Risk Management and Risk Controlling 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 by the Risk Management Committee, the Asset Liability Committee 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 organizational terms, responsibility for this committee lies with Risk Controlling. The Risk Management Committee 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, Risk Controlling is in charge of this committee. Within the framework of its meetings, the market situation is evaluated, limits are monitored and interest-rate and liquidity risk management measures are discussed. Besides the ALCO, there is a detailed daily liquidity monitoring process.

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 Management is in charge of this committee (analysis and assessment of single-name risks, second opinion in credit approval and/or review processes, management of single-name risks and/or other risks, management of non-performing loans, qualitative portfolio analyses and ratings).

Art. 436 CRR Scope of application

Art. 436 (a) CRR

Name of the institution to which the requirements of this Regulation apply

Name of the group of credit institutions: Kommunalkredit Austria
Name of the institution: Kommunalkredit Austria AG (Kommunalkredit)

Art. 436 (b) CRR

Information on the scope of consolidation and entities therein

Regulatory scope of consolidation

Satere Beteiligungsverwaltungs GmbH (Satere), which holds 100% of Gesona Beteiligungsverwaltung GmbH (Gesona), is the top-level parent of the group of credit institutions. Gesona owns 99.78% of Kommunalkredit. Given that both Satere and Gesona are to be classified as financial holding companies in the meaning of 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. Pursuant to Art.13 para.2 CRR, the disclosure requirements of Part 8 also have to be met on the basis of the consolidated position of the financial holding company. Kommunalkredit also 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.

Satere prepares its consolidated financial statements on the basis of local accounting rules as laid down in the Austrian Company Code; therefore, the capital ratios of the group of financial institutions are calculated in accordance with the provisions of Austrian Company Code/Austrian Banking Act and the provision of CRR.

Scope of consolidation of Satere for accounting purposes

Satere is the group parent in the meaning of § 244 of the Austrian Company Code. For accounting purposes and pursuant to the provisions of the Austrian Company Code, the scope of consolidation of the Satere Group as at 31 December 2016 comprises the following entities, besides Kommunalkredit as the parent:

Name and registered office	Investment direct	indirect	Share in capital in %
1. Fully consolidated companies			
Gesona Beteiligunsverwaltung GmbH, Wien	x		100.00%
Kommunalkredit Austria AG, Wien		x	99.78%
KOMMUNALKREDIT Beteiligungs- und Immobilien GmbH (KBI), Wien		x	99.78%
Kommunalkredit Public Consulting GmbH (KPC), Wien		x	89.80%
2. Other participations at book value (not within scope of consolidation)			
Kommunalleasing GmbH (Kommunalleasing), Wien		x	49.89%
Kommunalkredit Vermögens-verwaltungs GmbH in Liqu., Wien		x	99.78%
TrendMind IT Dienstleistung GmbH, Wien		x	99.78%
Kommunalnet E-Government Solutions GmbH, Wien		x	44.80%

Affiliated companies have been included in the scope of full consolidation; the balance sheet date of the consolidated companies is the same as that of the parent.

Details on the affiliated companies are described under Article 447 CRR.

Art. 436 (c), (d) and (e) CRR

Information on material practical or legal impediments to the transfer of own funds or repayment of liabilities among the parent and its subsidiaries, the aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation and, if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9

Currently, these provisions are not relevant to Kommunalkredit.

Art. 437 CRR Own funds

Art. 437.1 (a) and (d) CRR

Reconciliation of the items of regulatory own funds and the balance sheet, and disclosure of the nature and amounts of the components listed under (d) i-iii

The reconciliation of the items of common equity tier 1, additional tier 1 capital and deductions from own funds with the consolidated balance sheet of Satere results in the following:

31-12-2016 in TEUR	Capital as shown in consolidated financial statements of Satere according to Austrian GAAP [1)]	Own funds pursuant to CRR
Common equity tier 1 (CET1): Instruments and reserves		
Capital instruments and the related premium	137,052.9	137,052.9
- of which subscribed capital	35.0	35.0
- of which capital reserves	137,017.9	137,017.9
Retained earnings and other reserves	81,935.5	49,427.42
Fund for general banking risks	40,000.0	40,000.0
Common equity tier 1 (CET1) before regulatory adjustments	258,988.4	226,480.3
Intangible assets (negative amount)	-288.7	-288.7
Total regulatory adjustments of common equity tier 1		-288.7
Common equity tier 1 (CET1)		226,191.5
Additional tier 1 capital (AT1)		0.0
Core capital (T1 = CET1 + AT1)		226,191.5
Tier 2 capital (T2): Instruments and reserves		
Capital instruments and the related premium	65,000.0	64,832.9
- of which subordinated securitised liabilities	65,000.0	64,832.9
Tier 2 capital (T2)		64,832.9
Total regulatory own funds (TC = T1 + T2)		291,024.4
Total risk exposure amount pursuant to Art. 92 CRR		688,040.8

1) preliminary unaudited values

The difference between the common equity tier 1 of Satate, as shown in the consolidated financial statements prepared in accordance with the Austrian Company Code/Austrian Banking Act, and the regulatory core capital according to CRR in the amount of TEUR 32,508.1, besides the difference in the scope of consolidation, primarily results from the planned profit distribution by Satere in the amount of TEUR 32,000.0, which has to be deducted in the calculation of regulatory own funds.

Subscribed capital

As at 31-12-2016, the share capital of Satere as the parent amounts to EUR 35,000.00 and is fully paid in.

The share capital of Kommunalkredit as at 31 December 2016 amounts to EUR 159,491,290.16, unchanged from the previous year, and is divided into 31,007,059 no-par-value shares, 99.78% of which (corresponding to 30,938,843 no-par-value shares) is held by Gesona Beteiligungsverwaltung GmbH, Vienna; 0.22% (corresponding to 68,216 no-par-value shares) is held by the Association of Austrian Local Authorities. Each no-par-value share represents an equal stake in the share capital. The nominal value of one share is EUR 5.14. There are no shares that have been issued but not fully paid in. There are no authorised shares.

The management of Satere will propose to the Annual Shareholders' Meeting that of the net profit reported by Satere in its separate financial statements for 2016 of TEUR 39,906.9 an amount of TEUR 32,000.00 be distributed and the balance of TEUR 7,906.9 be carried forward to new account.

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

As at 31 December 2016, tier 2 capital comprises eight (31-12-2015: eight) EUR-denominated subordinated bond issues in a total nominal amount of EUR 65,000.0 (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.

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) Austrian Banking Act, old version						
Subordinated bond 2006-2021	5.4	30-10-2021	EUR	5,000,000.0	Issuer in case of tax event	No
Subordinated bonded note 2007-2022	4.67	23-02-2022	EUR	10,000,000.0	None	No
Subordinated bonded note 2007-2022	4.67	23-02-2022	EUR	10,000,000.0	None	No
Subordinated bonded note 2007-2037	5.08	09-02-2037	EUR	10,000,000.0	Issuer	No
Subordinated bonded note 2007-2037	5.08	09-02-2037	EUR	800,000.0	Issuer	No
Subordinated bonded note 2007-2037	5.08	09-02-2037	EUR	10,200,000.0	Issuer	No
Subordinated bonded note 2007-2047	5.0175	07-03-2047	EUR	10,000,000.0	Issuer	No
Subordinated bonded note 2007-2047	5.0175	07-03-2047	EUR	9,000,000.0	Issuer	No

Art. 437.1 (b) and (c) CRR

Description of the main features of the capital instruments issued by the institution and their full terms and conditions

The main features of the common equity tier 1 items, additional tier 1 items and tier 2 items are shown in Annex 1. The full terms and conditions of these instruments are published on the Kommunalkredit website under "Investor Relations / Bondholder Information & Funding / Documentation".

Art. 437.1 (e) CRR

Description of all restrictions applied to the calculation of own funds and the instruments, prudential filters and deductions to which those restrictions apply

All components of own funds meet the requirements of CRR and are not subject to any restrictions.

Art. 437.1 (f) CRR

Basis on which the capital ratios are calculated

The capital ratios of Kommunalkredit are calculated on the basis laid down in CRR:

	(A) Amount 31-12-2016 in TEUR	(B) Reference to Article in Regulation (EU) No 575/2013	(C) Amounts subject to treatment prior to Regulation (EU) No. 575/2013, or specified amount of outstanding exposure pursuant to Regulation (EU) No 575/2013
Common equity tier 1 (CET 1): Instruments and reserves			
Capital instruments and the related premium	137,052.9	26 (1), 27, 28, 29, EBA list pursuant to Art. 26(3)	
of which subscribed capital	35.0		
Retained earnings	14,909.2	26 (1) (c)	
Cumulative other result (and other reserves)	34,518.2	26 (1)	
Fund for general banking risks pursuant to § 57(3) Austrian Banking Act	40,000.0	26 (1) (f)	
Common equity tier 1 (CET1) before regulatory adjustments	**226,480.3**		
Common equity tier 1 (CET1) regulatory adjustments			
Intangible assets	-288.7	36 (1) (b), 37, 472 (4)	
Total regulatory adjustment of common equity tier 1 (CET1)	**-288.7**		
Common equity tier 1 (CET1)	**226,191.5**		
Additional tier 1 capital (AT1)	**0.0**		
Core capital (T1 = CET1 + AT1)	**226,191.5**		
Tier 2 capital (T2): Instruments and reserves			
Capital instruments and the related premium	64,832.9	62,63	
- of which subordinated securitised liabilities	64,832.9		
Credit risk adjustments (provision pursuant to § 57(1) Austrian Banking Act)	0.0	62 (c) and (d)	
Tier 2 capital (T2) before regulatory adjustments	**64,832.9**		
Total regulatory adjustments of tier 2 capital (T2)	**0.0**		
Tier 2 capital (T2)	**64,832.9**		
Total regulatory own funds (TC = T1 + T2)	**291,024.4**		
Total risk exposure amount	688,040.8		
Equity ratios and buffers			
CET 1 ratio (expressed as a percentage of the total risk exposure amount)	**32.9%**	**92 (2) (a), 465**	
Core capital ratio (expressed as a percentage of the total risk exposure amount)	**32.9%**	**92 (2) (b), 465**	
Total capital ratio (expressed as a percentage of the total risk exposure amount)	**42.3%**	**92 (2) (c)**	
Capital conservation buffer	**0.625%**		

Art. 438 CRR Capital Requirements

Art. 438 (a) and (b) CRR

Securing minimum capital adequacy and results of internal capital assessment

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

Kommunalkredit uses the method of risk-bearing-capacity analysis for the quantitative assessment of its capital adequacy. Depending on the target pursued, three different perspectives are applied:

- Regulatory perspective (Regulatory control loop)

  Target: Securing compliance with regulatory capital adequacy requirements

  Regulatory capital requirements are compared with the regulatory aggregate risk cover (total own funds).

  Risk status: As at 31 December 2016, Kommunalkredit's total capital ratio, after profit and dividend, was 42.3%; the tier 1 ratio was 32.9%. As of 1 January 2017, the minimum requirements applicable to Kommunalkredit, including the capital conservation buffer, are 9.25% for the total capital ratio and 7.25% for the tier 1 ratio.

- 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 bank's own funds, adjusted for hidden burdens and reserves. A confidence level of 99.95% is applied in determining the economic risk.

  Risk status: As at 31 December 2016, the economic risks correspond to 19.9% of the aggregate risk cover. Thus, the risk buffer amounts to 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 secured with a certain degree of probability. The defined level of protection from risk under the going-concern perspective currently is a minimum tier 1 ratio of 13%.

  All risks carrying through profit or 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%. Aggregate risk cover is broken down into primary and secondary risk cover, always considering possible realisation and external effects; early warning levels have been introduced. A confidence level of 95% is applied in determining the economic risk.

Risk status: As at 31 December 2016, the economic risks correspond to 32.2% of the aggregate risk cover. Thus, the risk buffer amounts to 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-bearing capacity is quantified. In addition to the stressed risk-bearing 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 macroeconomic stress tests, reverse stress tests are performed. These are intended to show the extent to which parameters and risks can be stressed before regulatory or internal minimum requirements can no longer be met.

Art. 438 (c) CRR

In case of calculation of risk-weighted exposure amounts in accordance with Chapter 2 of Part 3, Title II (standardised approach), 8% of the risk-weighted exposure amounts for each exposure class

Capital requirements of the group of credit institutions for credit risk based on standardised approach

31-12-2016

Basel III approach		Minimum own funds requirement in TEUR	Minimum own funds requirement in %
Standardised approach	Exposures to central governments or central banks	609.2	1.4
	Exposures to regional or local territorial authorities	0.0	0.0
	Exposures to public-sector bodies	3,605.3	8.6
	Exposures to institutions	2,058.9	4.9
	Exposures to corporates	30,973.9	73.6
	Defaulted exposures	0.0	0.0
	High-risk items	497.0	1.2
	Other items	4,260.3	10.1
	Equity exposures	71.2	0.2
Total own funds requirements		**42,075.8**	**100.0**

Art. 438 (d) CRR

In case of calculation of risk-weighted exposure amounts in accordance with Chapter 3 of Part 3, Title II (internal rating based approach), 8% of the risk-weighted exposure amounts for each exposure class

Kommunalkredit uses the standardised approach in accordance with Chapter 2 of Part 3, Title II CRR.

Art. 438 (e) CRR

Own funds requirements calculated in accordance with points (b) and (c) of Article 92 para.3

Own funds requirement for market risk/trading book (31-12-2016)

Total own funds requirement for market risk (in TEUR)	**0.0**

Own funds requirement for currency risk (31-12-2016)

Total own funds requirement for currency risk (in TEUR)	**0.0**

Art. 438 (f) CRR

Own funds requirements calculated in accordance with Part 3, Title III, Chapters 2, 3 and 4

Own funds requirement for operational risk – standardised approach (31-12-2016)

Total own funds requirement for operational risk (in TEUR)	**8,859.0**

Art. 439 CRR Exposure to counterparty credit risk

Art. 439 (a) CRR

Calculation of internal capital and upper limits for counterparty credit exposures

Legally binding netting arrangements for derivatives and repo transactions have been agreed upon with all active counterparties (close-out netting). For derivatives, credit support agreements and/or collateral annexes to framework agreements (CSA) providing for daily collateral margining have been concluded with all active financial counterparties. No additional collateral has to be provided in the event of a downgrade of Kommunalkredit. Derivative framework contracts concluded by Kommunalkredit are not contractually dependent on the credit rating of the bank or the respective counterparty. The only exceptions are derivative contracts in the cover pool, for which framework contracts and netting agreements are concluded on market terms and conditions (unilateral collateralisation by the counterparty, rating trigger).

The exposure to the counterparty default risk in derivative transactions, taken into account in credit risk, is defined as the residual risk from the current replacement cost (positive market value), taking into account CSAs and netting agreements plus an “add on” for potential market value changes during the so-called “margin period of risk” between the counterparty default and the close-out/replacement of the derivative transaction.

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

If a counterparty default risk arises for Kommunalkredit from the difference between the liability/receivable and the market value of the collateral put up/received in repo transactions or securities lending transactions, this risk counts as exposure to the counterparty and is included 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 in economic terms through volume-based counterparty and credit concentration limits, on the one hand, and credit VaR-based portfolio limits, on the other hand. Given the aforementioned clearing and settlement principles, the counterparty default risk from derivatives, repo transactions and securities transactions is immaterial.

Developing the market infrastructure for the clearing of OTC derivatives has been one of the most important issues in recent years. In accordance with the European Market Infrastructure Regulation (EMIR), clearing of transactions via a central counterparty has been made obligatory. The counterparty default risk is to be reduced through the presence of a central clearing house between the two counterparties. In the clearing process, the clearing house replaces the former OTC contracting party and assumes the risk of default. This risk is hedged through the provision of initial and variation margins.

EMIR defines four categories of counterparties for the determination of the point in time at which the clearing obligation takes effect. Given its trading activities in OTC derivatives, Kommunalkredit has been classified as belonging to category 3. As decided by the European Commission, the clearing obligation for category 3 banks (counterparties with a transaction volume of less than EUR 8 billion) will take effect as of 21 June 2019.

Since the autumn of 2016, Kommunalkredit has been in a position to clear transactions via two clearing members.

Art. 439 (b) CRR

Policies for securing collateral and establishing credit reserves

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 considered in the portfolio model and the limit system. Financial collateral, above all netting arrangements and cash collateral, is considered to reduce the counterparty risk. Thus, financial collateral received reduces the exposure. Kommunalkredit has drawn up a collateral catalogue stating the prerequisites for drawing on such collateral qualifying as eligible funds. The rules governing the establishment of credit reserves are specified under Art.442 CRR (a) and (b).

Art. 439 (c) CRR

Rules with respect to wrong-way risk exposures

No information to be provided, as the counterparty risk is not calculated on the basis of an internal model.

Art. 439 (d) CRR

Information on the amount of collateral to be provided in the event of a downgrade on the institution’s credit rating

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

The exposure to the counterparty default risk in derivative transactions, taken into account in credit risk, is defined as the residual risk from the current replacement cost (positive market value), taking into account CSAs and netting agreements plus an “add on” for potential market value changes during the so-called “margin period of risk” between the counterparty default and the close-out/replacement of the derivative transaction.

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

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

Given the aforementioned clearing and settlement principles, the counterparty default risk from derivatives, repo transactions and securities transactions is immaterial.

Art. 439 (e) to (h) CRR

Information on the gross positive value of contracts, netting benefits, netted current credit risk exposure, collateral held and net derivatives credit exposure, measures for exposure value as well as notional values of credit derivatives and credit derivative transactions

The following table shows the structure of derivative transactions as at 31 December 2016:

Value in TEUR	Amount
Nominal	4,393,817.4
Fair value according to mark-to-market approach	**377,276.1**
Netting effect	112,751.5
Exposure value after netting	**264,524.6**
Effects of credit risk mitigation	216,409.6
Net exposure value	**48,115.0**

Based on ISDA/CSA arrangements, credit balances in a nominal amount of TEUR 133,940.0 were provided as collateral for negative market values of derivative transactions. Amounts owed include collateral in a nominal amount of TEUR 216,480.8.

The netting effect (i.e. difference between exposure value before and after netting) amounted to TEUR 112,751.5 as at 31 December 2016.

For the above transactions, the mark-to-market method is used to determine the exposure value.

As at 31 December 2016, Kommunalkredit did not hold any credit derivatives.

Art. 439 (i) CRR

Estimate of α

No information to be provided, as the counterparty risk is not calculated on the basis of an internal model.

Art. 440 CRR Anti-cyclical capital buffer

As at 31 December 2016, there were no material risk positions in countries of the European Union applying an anti-cyclical capital buffer. Anti-cyclical capital buffers are being reviewed on a regular basis.

Art. 442 CRR Credit risk adjustments

Art. 442 (a) and (b) CRR

Approaches and methods relating to specific and general credit risk adjustments; definitions for accounting purposes of "past due" and "impaired"

To identify defaults, Kommunalkredit uses the definition of default of an obligor of Article 178 CRR, which covers the case of an obligor being "past due" more than 90 days (amounts owed past due) as well as the case of an obligor being "unlikely to pay". Kommunalkredit's definition of "distressed" applies to exposures classified as risk level 2 (workout – recovery) and risk level 3 (workout – resolution).

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

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

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

Risk class 2: Workout – recovery
Exposures classified as workout cases.

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

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

- Interest waived due to the counterparty's rating

- Significant credit risk adjustment, e.g.:
    - Rating downgrade to B range or below
    - Default rating by an external rating agency
    - Reduction of current market price by more than 25%
    - Termination and call of receivable due to counterparty's rating
- Concessions granted for reasons of counterparty's rating (forbearance)
- Insolvency proceedings or similar proceedings have been instituted, or commencement of bankruptcy proceedings has been rejected for lack of assets, or the debtor as a legal person has been wound up by decision of a court or an administrative authority.
    - Material negative information available
- Payment past due in excess of 90 days, with the receivable past due exceeding the approved and communicated credit line by more than 2.5%, but at least by EUR 250.00.

In addition, a portfolio loan loss provision is calculated. To determine the provisioning requirement, the financial assets are broken down by risk profile into comparable groups. On the basis of empirical values and the bank's monitoring processes, portfolio loan loss provisions are set up for these groups; the parameters considered are "loss identification period" (LIP), "probability of default" and "loss given default".

As at 31-12-2016, Kommunalkredit's non-performing loan ratio (NPL) was 0.00%.

Table: Nominal values by risk class, including impaired assets

Risk class in TEUR	31-12-2016
1	24.1
2	0.0
3	0.0

Credit Risk Management submits updated monthly reports on counterparties with increased credit risk within the framework of the Credit Committee meeting, which then decides on the measures to be taken.

Art. 442 (c) CRR

Total amount of exposures without taking into account the effects of credit risk mitigation and the average amount of the exposures broken down by exposure class

The exposure value corresponds to the sum total of on-balance-sheet exposures, off-balance-sheet exposures and exposure amounts from derivatives, with the nominal value of off-balance-sheet exposures being multiplied by the credit conversion factor (CCF). The CCF is defined in Art.111 (1) CRR and corresponds to 100% for full-risk items (e.g. guarantees qualifying as a credit substitute), 50% for medium-risk items (e.g. unused credit facilities with an original maturity of more than one year) and 0% for low-risk items (e.g. unused credit facilities that can be withdrawn any time without restriction and period of notice or which are automatically withdrawn in the event of a rating downgrade). It is important to note that through the use of credit risk mitigation techniques an exposure can migrate from one exposure class to another.

Exposure class Values in TEUR	Exposure value before CRM and before substitution effects[1]	Exposure value before CRM and after substitution effects[2]	Difference
Exposures to central governments or central banks	436,952.5	475,441.1	38,488.6
Exposures to regional or local territorial authorities	869,163.2	1,934,438.1	1,065,275.0
Exposures to public-sector bodies	907,560.8	219,247.7	-688,313.0
Exposures to institutions	418,495.9	419,458.7	962.7
Exposures to corporates	845,395.0	428,981.7	-416,413.3
Defaulted exposures	0.0	0.0	0.0
High-risk items	5,000.0	5,000.0	0.0
Other items	42,382.3	42,382.3	0.0
Equity exposures	890.6	890.6	0.0
Total	3,525,840.2	3,525,840.2	0.0

1 Exposure value before CRM and before substitution effects: value of exposure before application of credit risk mitigation techniques (CRM) without substitution effects on the exposure (i.e. collateral not taken into account in exposure classification)

2 Exposure value before CRM and after substitution effects: value of exposure before application of credit risk mitigation (CRM) techniques with substitution effects on the exposure (i.e. collateral is taken into account in allocation to exposure classes – transfer to collateral giver)

The following tables on Art.442 (c) to (i) CRR show the exposure values and/or exposure classes before CRM and substitution effects.

Average exposure value in TEUR (before credit risk mitigation and value adjustment) as at 31 December 2016.

Exposure class Values in TEUR	Average exposure value	Exposure value 31-12-2016
Exposures to central governments or central banks	320,854.7	436,952.5
Exposures to regional or local territorial authorities	958,322.4	869,163.2
Exposures to public-sector bodies	955,484.9	907,560.8
Exposures to institutions	543,838.8	418,495.9
Exposures to corporates	858,493.1	845,395.0
Defaulted exposures	0.0	0.0
High-risk items	5,000.0	5,000.0
Other items	91,506.4	42,382.3
Equity exposures	1,265.6	890.6
Total	3,734,766.0	3,525,840.2

Art. 442 (d) CRR

Geographic distribution of the exposures broken down in significant areas by material exposure classes

Exposure value in TEUR (before credit risk mitigation and after value adjustment) as at 31-12-2016

Exposure class in TEUR	Austria	Western Europe	Central and Eastern Europe	Rest oft he world	Total
Exposures to central governments or central banks	313,639.0	10,802.1	112,511.3	0.0	436,952.5
Exposures to regional or local territorial authorities	834,879.8	34,283.4	0.0	0.0	869,163.2
Exposures to public-sector bodies	899,694.0	3.812.3	4,054.5	0.0	907,560.8
Exposures to institutions	107,442.5	308.811.2	757.6	1,484.6	418,495.9
Exposures to corporates	514,023.1	308,877.8	22,494.1	0.0	845,395.0
Defaulted exposures	0.0	0.0	0.0	0.0	0.0
High-risk items	0.0	0.0	0.0	5,000.0	5,000.0
Other items	42,382.3	0.0	0.0	0.0	42,382.3
Equity exposures	890.6	0.0	0.0	0.0	890.6
Total	**2,712,951.4**	**666,586.8**	**139,817.5**	**6,484.6**	**3,525,840.2**

Art. 442 (e) CRR

Distribution of the exposures by industry or counterparty type

Exposure value in TEUR (before credit risk mitigation and after value adjustment) as at 31-12-2016

Exposure class in TEUR	Energy & Environment	Financial institutions	Public finance	Social infrastructure	Transport	Other	Total
Exposures to central governments or central banks	0.0	310,451.4	126,501.0	0.0	0.0	0.0	436,952.5
Exposures to regional or local territorial authorities	0.0	0.0	795,256.1	73,907.1	0.0	0.0	869,163.2
Exposures to public-sector bodies	248,827.5	150,531.8	60,416.4	442,729.1	5,056.0	0.0	907,560.8
Exposures to institutions	0.0	418,366.8	0.0	0.0	0.0	129.1	418,495.9
Exposures to corporates	263,107.9	19,476.5	8,165.5	483,869.2	69,848.5	927.5	845,395.0
Defaulted exposures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
High-risk items	0.0	5,000.0	0.0	0.0	0.0	0.0	5,000.0
Other items	0.0	17,172.6	0.0	0.0	0.0	25,209.7	42,382.3
Equity exposures	0.0	0.0	0.0	0.0	0.0	890.6	890.6
Total	511,935.4	920,999.1	990,338.9	1,000,505.4	74,904.4	27,157.0	3,525,840.2

Kommunalkredit has no exposures to small and medium-sized enterprises (SMEs).

Art. 442 (f) CRR

Breakdown of all exposures by residual maturity

Exposure value in TEUR (before credit risk mitigation and after value adjustment) as at 31-12-2016

Exposure class in TEUR	Repayable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total
Exposures to central governments or central banks	313,639.0	0.0	10,802.1	112,511.3	0.0	436,952.5
Exposures to regional or local territorial authorities	26.1	288.0	5,645.8	90,599.0	772,604.1	869,163.2
Exposures to public-sector bodies	0.0	15,637.6	74,333.0	116,246.7	701,343.5	907,560.8
Exposures to institutions	153,931.5	8,563.1	3,315.6	25,379.5	227,306.1	418,495.9
Exposures to corporates	868.6	109.7	9,755.1	145,012.4	689,649.3	845,395.0
Defaulted exposures	0.0	0.0	0.0	0.0	0.0	0.0
High-risk items	2,575.0	0.0	0.0	0.0	2,425.0	5,000.0
Other items	13,904.4	68.6	335.4	1,108.9	26,965.0	42,382.3
Equity exposures	0.0	0.0	0.0	0.0	890.6	890.6
Total	484,944.7	24,667.1	104,187.0	490,857.8	2,421,183.6	3,525,840.2

Art. 442 (g) CRR

Broken down by significant industry or counterparty type, the amount of i) impaired exposures and past due exposures, ii) specific and general credit risk adjustments and iii) charges for specific and general credit risk adjustments

As at 31 December 2016, there were no non-performing loans or receivables past due; the NPL ratio was 0.0%. No specific loan loss provisions were set up as at 31 December 2016; portfolio loan loss provisions amounted to TEUR 148.0.

Art. 442 (h) CRR

Amount of impaired exposures and past due exposures broken down by significant geographic areas

As at 31 December 2016, there were no non-performing loans or receivables past due; the NPL ratio was 0.0%. No specific loan loss provisions were set up as at 31 December 2016; portfolio loan loss provisions amounted to TEUR 148.0.

Art. 442 (i) CRR

Reconciliation of changes in the specific and general credit risk adjustments for impaired exposures

31-12-2016

Values in TEUR	2016	of which lending and securities transactions (specific loan loss provision)	of which portfolio LLP	of which fund for general banking risks (§ 57 (3) Austrian Banking Act)
as at beginning of reporting year	15,212.5	0.0	212.5	15,000.0
+ addition	25,000.0	0.0	0.0	25,000.0
- release	64.6	0.0	64.6	0.0
- utilisation	0.0	0.0	0.0	0.0
+ change from currency conversion	0.0	0.0	0.0	0.0
as at end of reporting year	40,148.0	0.0	148.0	40,000.0

Art. 443 CRR Unencumbered assets

Assets as at 31 December 2016

Values in TEUR	Book values of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
Assets	2,296,806.9	n.a.	945,060.6	n.a.
Equity instruments	0.0	0.0	0.0	0.0
Debt instruments	119,998.6	128,896.0	90,754.2	112,101.7
Other assets	0.0	n.a.	0.0	n.a.

Collateral received as at 31 December 2016

	Fair value of encumbered collateral received and/or own debt instruments issued	Fair value of collateral received and/or own debt instruments issued qualifying for encumbrance
Collateral received	0.0	0.0
Equity instruments	0.0	0.0
Debt instruments	0.0	0.0
Other collateral received	0.0	0.0
Own debt instruments issued other than own covered bonds (“Pfandbriefe”) or ABS	0.0	0.0

Encumbered assets/collateral received and related liabilities as at 31 December 2016

Values in TEUR	Coverage of liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt instruments issued other than encumbered covered bonds (“Pfandbriefe”) and ABS
Book value	1,753,187.4	2,296,806.9

Amount of encumbrance

The most important sources of encumbrance were covered bonds with a public cover pool and tender transactions with the Austrian National Bank. Moreover, assets were used as collateral for EIB funding.

As at 31 December 2016, the asset encumbrance ratio was 70.9%.

Art. 444 CRR Use of ECAIs (external credit assessment institutions)

Art. 444 (a) CRR

Names of the nominated ECAIs and export credit agencies (ECAs)

Kommunalkredit uses external ratings by Moody's, Standard & Poor's and Fitch.

Art. 444 (b) CRR

Exposure classes for which an ECAI or ECA is used

Rating agencies and rating agents are used for the following exposure classes:

31-12-2016

Exposure classes	Approach
Exposures to central governments or central banks	Standardised approach
Exposures to regional or local territorial authorities	Standardised approach
Exposures to corporates	Standardised approach
Exposures to institutions	Standardised approach
Exposures to public-sector bodies	Standardised approach
Other items	Standardised approach

Art. 444 (c) CRR

Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book

If available, an issue rating by an ECAI for the exposure in question is used. An issuer rating is used if no other rating is available. In all other cases, the exposure is regarded as non-rated for the calculation of the risk-weighted exposure values. The risk weight is determined if one or several ratings are available from nominated ECAIs pursuant to Art.138 CRR.

Art. 444 (d) CRR

Association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part 3, Title II, Chapter 2

Kommunalkredit uses the standard association published by EBA for the association of the external ratings of the nominated ECAIs with the credit quality steps prescribed in Part 3, Title II, Chapter 2.

Art. 444 (e) CRR

Exposure values and exposure values after credit risk mitigation associated with each credit quality step prescribed in Part 3, Title II, Chapter 2

Due to the availability of collateral and the use of credit risk mitigation techniques, an exposure can migrate from one exposure class to another (substitution effect). The risk weights are determined on the basis of the credit quality steps of the exposure class concerned pursuant to CRR Part 3, Title II, Chapter 2.

Basel III approach/Exposure class	Rating	Exposure value before substitution effects and credit risk mitigation in TEUR	Exposure value after substitution effects and credit risk mitigation in TEUR
Exposures to central banks or central governments	no rating	0.0	0.0
	1	313,639.0	333,244.5
	2	108,082.8	126,965.9
	3	15,230.7	15,230.7
	4	0.0	0.0
	5	0.0	0.0
	6	0.0	0.0
Exposures to regional or local territorial authorities	no rating	625,040.9	968,423.9
	1	244,122.3	816,143.1
	2	0.0	147,071.6
	3	0.0	0.0
	4	0.0	0.0
	5	0.0	0.0
	6	0.0	0.0
Exposures to public-sector bodies	no rating	785,788.6	193,732.9
	1	121,772.2	25,514.8
	2	0.0	0.0
	3	0.0	0.0
	4	0.0	0.0
	5	0.0	0.0
	6	0.0	0.0
Exposures to institutions	no rating	19,133.7	2,196.5
	1	42,748.9	3,048.9
	2	190,684.8	27,957.7
	3	165,928.5	36,757.7
	4	0.0	0.0
	5	0.0	0.0
	6	0.0	0.0
Exposures to corporates	no rating	823,356.2	369,219.8
	1	22,038.9	0.0
	2	0.0	27,590.0
	3	0.0	4,159.0
	4	0.0	0.0
	5	0.0	0.0
	6	0.0	0.0

Basel III approach/Exposure class	Rating	Exposure value before substitution effects and credit risk mitigation in TEUR	Exposure value after substitution effects and credit risk mitigation in TEUR
Defaulted exposures	no credit ratings applied	0.0	0.0
High-risk items	no credit ratings applied	5,000.0	5,000.0
Other items	no credit ratings applied	42,382.3	42,382.3
Equity exposures	no credit ratings applied	890.6	890.6
Total – standardised approach		**3,525,840.2**	**3,145,530.0**

Art. 445 CRR Market risk

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 of its trading book, Kommunalkredit does not engage in any activities with the intention to trade or any other activities resulting in open positions in the trading book. Therefore, the minimum own funds requirement for types of risks on the trading book was TEUR 0 as at 31 December 2016. Own funds requirements resulting from commodity risks and foreign currency risks (including gold) as well were TEUR 0 as at 31 December 2016.

Kommunalkredit neither issued any securitisation positions, nor did it hold any such positions as at 31 December 2016. The minimum own funds requirement for the specific interest rate risk of securitisation positions therefore was TEUR 0 as at 31 December 2016.

Art. 446 CRR Operational risk

The standardised approach is used to calculate the regulatory minimum own funds requirement for operational risk. The own funds requirement of the group of credit institutions for operational risk amounts to TEUR 8,859.0 as at 31 December 2016, which is significantly above the losses actually suffered in the past.

The modified standardised approach is used for a future-oriented consideration of operational risk relative to the bank's risk-bearing capacity. The calculation of the equity backing required for operational risk considers not only the regulatory own funds requirement, but also the gross income target for the quantification of the exposure. The calculation is based on the average of the budgeted gross income for the coming three years.

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, funding risk or other types of risk with no operational background are not covered by this definition. Operational risk management (ORM) is intended to generate added value for the bank through the ORM process.

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

An operational default database as well as risk and control self-assessments are the instruments available for the management of operational risk. The operational default database represents a retrospective view, i.e. realised gains/losses from operational events in the past are recorded in the database and cleared for further processing by the line managers in charge. Operational risk and control self-assessments represent a prospective, future-oriented view. Risks are identified and their severity is subjectively assessed. In 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 RMC meetings and once every quarter at the weekly Executive Board meetings.

Art. 447 CRR Exposures in equities not included in the trading book

Art. 447 (a) CRR

Regarding exposures in equities, a differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used

Besides Kommunalkredit Public Consulting GmbH (KPC), a specialised provider of management services for support programmes and advisory services for international organisations and financial institutions, Kommunalkredit's portfolio of participations mainly comprises strategic participations supporting the public-sector-related infrastructure project business.

Kommunalkredit's participations and its investments in affiliated companies are measured at cost, unless persistent losses or a reduction in equity require a write-down to pro-rata equity or to the income value.

Art. 447 (b) CRR

Regarding exposures in equities, the balance sheet value, the fair value and, if relevant, a comparison to the market price

Composition of investments in affiliated companies as at 31 December 2016 (scope of consolidation for accounting purposes):

Name and registered office	Investment direct	Investment indirect	Invest-ment in %	Annual financial statement disclosures (local GAAP): Most recent annual financial statements	Total assets in TEUR	Equity in TEUR	Profit/loss for the year in TEUR
1. Fully consolidated companies							
Gesona Beteiligunsverwaltung GmbH, Wien	x		100.00%	31/12/2016	176,098.5	176,090.3	31,853.5
Kommunalkredit Austria AG, Wien		x	99.78%	31/12/2016	3,268,800.2	217,789.4	37,508.1
KOMMUNALKREDIT Beteiligungs- und Immobilien GmbH (KBI), Wien		x	99.78%	31/12/2016	27,264.8	6,558.8	-81.1
Kommunalkredit Public Consulting GmbH (KPC), Wien		x	89.80%	31/12/2016	7,600.4	1,415.9	607.5
2. Other participations at book value (not included in scope of consolidation)							
Kommunalleasing GmbH (Kommunalleasing), Wien *		x	49.89%	31/12/2016	109,803.1	-21,805.6	1,231.0
Kommunalkredit Vermögens-verwaltungs GmbH in Liqu., Wien		x	99.78%	31/12/2016	47.6	47.6	-5.1
TrendMind IT Dienstleistung GmbH, Wien		x	99.78%	31/12/2016	672.9	388.6	137.6
Kommunalnet E-Government Solutions GmbH, Wien		x	44.80%	31/12/2016	1,188.1	917.5	132.3

* preliminary unaudited figures

Pursuant to § 238 (2) Austrian Company Code, the schedule of participations contains all participations in which Satere holds a stake of at least 20%.

Art. 447 (c) CRR

Types, nature and amounts of exchange-traded exposures

No information provided, as this provision is not relevant to Kommunalkredit.

Art. 447 (d) and (e) CRR

Information on cumulative realised gains and losses from sales and liquidations and on unrealised gains or losses as well as latent revaluation gains or losses

None of the investments shown in the schedule of participations was sold in 2016. Kommunalkredit Vermögensverwaltungs GmbH, which was no longer operational in recent years, has been in the process of liquidation since 20 September 2016. The investment in Kommunalleasing was impaired by TEUR 750.0 in 2016. Apart from that, no unrealised gains or losses, deferred revaluation gains or losses, or other items of this type were included in common equity tier 1.

Art. 448 CRR Exposure to interest rate risk on positions not included in the trading book

Art. 448 (a) and (b) CRR

Nature of the interest rate risk and the key assumptions, and information on variations in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks

For the measurement, management and limitation of interest rate risks on positions not included 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 on positions not included 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 RMC and the 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 risk 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-rate 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 shift 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 the event of a +25bp parallel shift in the yield curve:

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

Art. 449 CRR Exposure to securitisation positions

Kommunalkredit has not issued any securitisation positions and currently does not hold any securitisation positions.

No further information to be provided regarding Art. 449 CRR, as this provision is not relevant to Kommunalkredit.

Art. 450 CRR Remuneration policy

Art. 450 (a)

Information concerning the decision-making process used for determining the remuneration policy

Kommunalkredit's remuneration policy was elaborated by an interdisciplinary working group with Deloitte Consulting GmbH as an external advisor, and subsequently adopted by the Executive Board and the Supervisory Board. The Remuneration Committee of the Supervisory Board regularly monitors implementation and reports to the Supervisory Board. As of 31 December 2016, the members of the Remuneration Committee are Katharina Gehra (Chairwoman, remuneration expert) and Christopher Guth (Deputy Chairman) as capital representatives and Patrick Höller as staff representative. The Remuneration Committee met once in 2016.

Art. 450 (b) to (f)

Information on the link between pay and performance, the most important design characteristics of the remuneration system, the ratios between fixed and variable remuneration, and the performance criteria on which variable components of remuneration are based as well as their main parameters

The performance criteria used as a basis for the variable components of remuneration are the level of the risk-adjusted financial result and the degree of individual target achievement.

Through its linkage to the achievement of the budgeted annual result and to fulfilment of the regulatory minimum own funds requirements, the financial result of the institution influences the level of the individual performance premium. Through the introduction of lower and upper limits (ceiling) with regard to the financial result, a flexible policy governing the variable remuneration components is guaranteed.

The individual performance premium is calculated on the basis of three factors: function, individual performance and financial result.

Kommunalkredit takes a holistic view of performance, considering qualitative and quantitative targets agreed upon on the basis of specified criteria (risk adjustment, long-term nature and sustainability, consideration of main tasks and day-to-day business, consideration of organisational unit), the achievement of which is verified on the basis of a four-step performance assessment scale. The system allows considerable variations, depending on individual target achievement. On the one hand, the individual performance premium is subject to an upper limit, and on the other hand, it may not be paid out at all.

As a matter of principle, a 60/40 deferral ratio is applied for all identified staff, i.e. 60% of the variable component is paid out directly, whereas 40% is deferred over five years and paid out on a pro-rata basis. Performance premiums exceeding 100% of the fixed annual salary or a particularly high amount, as defined in point 64 of the FMA Circular of December 2012, are paid out at a ratio of 40/60 in compliance with regulatory provisions.

Given Kommunalkredit's ownership situation, there are no instruments suited for use as remuneration. The variable remuneration components are therefore paid out in cash.

Art. 450 (1) (g) CRR

Aggregate quantitative information on remuneration, broken down by business area

The amounts of remuneration for senior management and members of staff whose actions have a material impact on the risk profile of the institution for the business year 2016, broken down by business area, are shown in the following table:

in EUR	Front-office	Back-office	Total
Total amount of remuneration	1,689,746.9	2,933,024.8	4,622,771.7
Number of beneficiaries	12	25	37

Art. 450 (1) (h) i) to (h) vi) CRR and Art. 450 (2) CRR

Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution

In accordance with the requirements of CRR, fixed and variable remuneration paid out for the business year 2016 is broken down as follows:

in EUR	Managing Directors	Senior management	Other employees	Total
Number of beneficiaries	3	22	19	44
Sum total of remuneration	1,813,365.6	2,800,390.3	1,822,381.3	6,436,137.2
of which fixed	1,163,365.6	2,278,790.3	1,650,081.3	5,092,237.2
of which variable	650,000.0	521,600.0	172,300.0	1,343,900.0
Of variable remuneration: - Cash, non-provisioned - Cash, provisioned	 290,000.0 360,000.0	 419,600.0 102,000.0	 172,300.0 0.0	 881,900.0 462,000.0
Deferred remuneration - Vested portions - Unvested portions, incl. prior years	 28,500.0 435,600.0	 107,172.7 366,305.4	 0.0 0.0	 135,672.7 801,905.4
Deferred remuneration - Awarded in 2016 - Paid out in 2016 - Reduced in 2016 through performance adjustments	 360,000.0 28,500.0 0.0	 102,000.0 107,172.7 0.0	 0.0 0.0 0.0	 462,000.0 135,672.7 0.0
Severance pay				
- Paid out in 2016	-	200,000.0	-	200,000.0
- Number of beneficiaries	-	1	-	1
- Maximum amount awarded to an individual	-	200,000.0	-	200,000.0
Number of individuals whose remuneration exceeds EUR 1 million				
Remuneration between EUR 1 mln and EUR 1.5 mln	1	-	-	1

No new sign-on payments were made to the group of persons referred to above in 2016.

Art. 451 CRR Leverage

Institutions are required to define principles and procedures for the determination, management and monitoring of the risk of excessive leverage. The leverage ratio determined pursuant to Art.429 of Regulation (EU) No 575/2013 and incongruences between assets and liabilities are to serve as indicators of the risk of excessive leverage. The leverage ratio is the institution's capital measure (tier 1) divided by its total exposure measure (total assets plus defined off-balance-sheet items).

Information regarding the leverage ratio calculated pursuant to Art.429 CCR and the management of the risk of excessive leverage is disclosed in the following:

Art. 451 (1) (a) and (b)

Disclosure of the leverage ratio and how the institution applies Article 499 (2)

As at 31 December 2016, the leverage ratio stands at 7.2%.

The choice allowed to institutions by Art.499 (2) is not applicable to Kommunalkredit, as the transitional provisions of CRR do not apply to the capital instruments of Kommunalkredit.

	Reconciliation of total assets with total exposure measure	Amounts to be recognised
1	Total of assets recognised in the annual financial statements	3,269,015.6
4	Adjustments for derivative financial instruments	-141,256.7
5	Adjustments for securities financing transactions (SFT)	0.0
6	Adjustment for off-balance-sheet transactions (i.e. conversion of off-balance-sheet transactions into credit equivalent amounts)	20,561.2
7	Other adjustments	-288.7
8	**Total exposure measure of leverage ratio**	3,148,031.4

	Uniform disclosure system for the leverage ratio	Exposure values of CRR leverage ratio
	On-balance-sheet exposure values (except derivatives and securities financing transactions (SFT)	
1	Items recognised on the balance sheet (excl. derivatives, securities financing transactions (SFT) and fiduciary assets, but incl. collateral)	3,212,714.7
2	(Assets deducted for the calculation of core capital)	-288.7
3	**Total of on-balance-sheet exposure values (excl. derivatives, securities financing transactions (SFT) and fiduciary assets) (total of lines 1 and 2)**	**3,212,425.9**
	Derivative exposure values	
4	Replacement cost of all derivative transactions (i.e. corrected for eligible additional amounts received in cash)	18,440.9
5	Amounts added for the potential future replacement value relative to all derivative transactions (mark-to-market method)	29,691.7
7	(Receivables deducted for additional cash payments for derivative transactions)	-133,088.2
11	**Total of derivative exposure values (total of lines 4 to 10)**	**-84,955.7**
	Other off-balance-sheet exposure values	
17	Off-balance-sheet exposure values at gross nominal value	48,889.7
18	(Adjustments for conversion to credit equivalent amounts)	-28,328.5
19	**Other off-balance-sheet exposure values (total of lines 17 and 18)**	**20,561.2**
	Equity and total exposure values	
20	**Core capital**	**226,191.5**
21	**Total exposure measure of the leverage ratio (total of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**3,148,031.4**
	Leverage ratio	
22	**Leverage ratio**	**7.19%**

Breakdown of on-balance-sheet exposures (without derivatives, securities financing transactions (SFT) and exempted exposures)		
		Exposure values of the CRR leverage ratio
EU-1	Total on-balance-sheet exposures (excl. derivatives, securities financing transactions (SFT) and exempted exposures), of which:	3,212,714.7
EU-3	Exposure amounts of the non-trading book, of which:	3,212,714.7
EU-5	Exposures treated in the same way as exposures to central governments	2,407,079.7
EU-6	Exposures to regional territorial authorities, multilateral development banks, international organisations and public-sector bodies NOT treated in the same way as exposures to central governments	219,247.7
EU-7	Institutions	154,934.9
EU-10	Corporates	385,465.6
EU-12	Other exposure classes (e.g. equity exposures, securitisation positions and other non-credit-obligation)	45,986.7

Art. 451 (1) (d)

Description of the processes used to manage the risk of excessive leverage

Besides considering the regulatory perspective in the calculation of risk-carrying capacity as at the reporting date, Kommunalkredit prepares a dynamic capital budget, including regulatory equity ratios, for the budgeting period on a monthly basis and/or according to requirements. Portfolio run-off, new business, and known or expected special effects are considered for a base case and a pessimistic case. In addition to the (common equity) tier-1 ratio, the total capital ratio and the large lending limit, the leverage ratio is also taken into account.

Art. 451 (1) (e)

Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

The positive development of the leverage ratio is due to the increase of the core capital ratio on account of the positive result, on the one hand, and the reduction of the total exposure resulting from the scheduled run-down of assets in the year under review, on the other hand. Moreover, cash collateral was taken into account for the first time in the calculation of the exposure value of derivative transactions pursuant to Art.429a CRR.

Art. 452 CRR Use of the IRB approach to credit risk

No information provided, as Kommunalkredit does not use the IRB approach.

Art. 453 CRR Use of credit risk mitigation techniques

Art. 453 (a) CRR

Policies and processes for the use of on- and off-balance sheet netting

Kommunalkredit uses netting in derivative and repo transactions; on-balance sheet netting is not used.

Legally binding framework agreements are concluded with all counterparties for derivatives and repo transactions (ISDA Master Agreement, German Framework Agreement for Financial Forward Transactions, Global Master Repurchase Agreement, German Framework Agreement for Repo Transactions, Austrian Framework Agreement for Repo Transactions), according to which netting of the receivables and liabilities of all single transactions under a framework agreement is performed in the event of default (close-out netting). Kommunalkredit ensures the enforceability and legal validity of contractual netting arrangements pursuant to Art.297 (1) CRR for derivatives and/or pursuant to Art.194 (1) CRR for repo transactions through legal opinions produced on behalf of Kommunalkredit and/or international organizations (in particular the International Swaps and Derivatives Association ISDA) and the International Capital Market Association (ICMA) for the jurisdiction of the counterparty.

On 15 December 2016, the Delegated Regulation with regard to regulatory technical standards for non-centrally cleared derivatives was published. The regulation provides, inter alia, for the exchange of variation margins, daily margining and a further standardisation of collateral annexes. Any non-centrally cleared OTC derivative transaction made by registered counterparties on or after 1 March 2017 must be collateralised, unless an exemption from the duty of collateralisation applies.

For derivatives, Kommunalkredit usually concludes credit support agreements and/or collateral annexes to framework contracts providing for periodic (usually daily) collateral margining. As at 31 December 2016, all derivatives were included in the banking book. Collateral margining is also agreed upon for repo transactions. Kommunalkredit ensures the realisability of the collateral in the event of the counterparty filing for bankruptcy and its further utilisation through legal opinions produced on behalf of Kommunalkredit, ISDA and/or ICMA for the jurisdiction of the counterparty.

Compliance with the requirements set out in Art.296.2 (b) and Art.296.3 as well as Art.297.2 CRR was confirmed in the annex to the audit report by the statutory auditor (audit and report on compliance with the legal provisions relevant to banks pursuant to § 63 (4) ff Austrian Banking Act annexed to the audit report).

Pursuant to Art.111.2 CRR, the calculation of the exposure value for derivatives is performed in accordance with the rules of Part 3, Title 2, Chapter 6 CRR (Art.271 ff CRR). The reduced potential future credit exposure, i.e. the exposure value after netting, is calculated pursuant to Art.298.1 (c) CRR for all contracts covered by netting arrangements. As at 31 December 2016, the netting effect (i.e. difference between exposure value before and after netting) amounted to TEUR 112,751.5.

Pursuant to Art.111.2 CRR, the calculation of the exposure value for repo transactions is performed in accordance with the rules of Part 3, Title 2, Chapter 4 CRR (Art.192 ff CRR). The reduced potential future credit exposure, i.e. the exposure value after netting, is calculated pursuant to Art.220 in conjunction with Art.223 ff CRR for all contracts covered by netting arrangements. As at 31 December 2016, there were no exposures from repo transactions.

Art. 453 (b) CRR

Policies and processes for collateral valuation and management

For the purposes of credit risk mitigation, Kommunalkredit exclusively uses personal collateral, cash deposits with Kommunalkredit and netting framework arrangements. Cash deposits are measured at their nominal value, with currency or maturity mismatches taken into account through a corresponding discount. In the case of personal collateral, collateral givers are subject to the same credit approval and rating process as the primary obligor, i.e. the credit standing and/or creditworthiness is assessed on a case-by-case basis and documented in the development of the exposure so that risk-limiting measures can be initiated, if necessary.

Art. 453 (c) CRR

Main types of collateral taken

Kommunalkredit exclusively takes financial collateral and personal forms of collateral (sureties and guarantees) for credit risk mitigation. Other forms of collateral (real estate, movables, receivables, etc.) are rarely taken and do not qualify as eligible collateral in accordance with prudential rules.

Art. 453 (d) CRR

Main types of guarantor and credit derivative counterparty

Most of the personal forms of collateral available to Kommunalkredit are guarantees of central governments and regional territorial authorities.

31-12-2016 – Guarantors by rating and exposure class

Regulatory rating	Central governments and central banks in TEUR	Regional territorial authorities in TEUR	Public Administrative bodies in TEUR	Institutions in TEUR	Corporates in TEUR	Total in TEUR
no rating	0.0	417,850.3	12,735.2	962.7	0.0	431,548.3
1	19,605.5	574,820.3	0.0	0.0	0.0	594,425.8
2	18,883.1	147,071.6	0.0	0.0	27,590.0	193,544.8
3	0.0	0.0	0.0	0.0	4,159.0	4,159.0
4	0.0	0.0	0.0	0.0	0.0	0.0
5	0.0	0.0	0.0	0.0	0.0	0.0
Total	**38,488.6**	**1,139,742.3**	**12,735.2**	**962.7**	**31,749.0**	**1,223,677.8**

Art. 453 (e) CRR

Information about market or credit risk concentration within the credit mitigation taken

Given Kommunalkredit's portfolio, there is a certain credit risk concentration with a number of Austrian provinces. There are no such risk concentrations in Kommunalkredit's international and corporate business.

Art. 453 (f) and (g) CRR

For each exposure class, information on the total exposure value that is covered i) by eligible financial collateral and other eligible collateral and ii) by guarantees or credit derivatives

31-12-2016

Basel III approach/ Exposure class	Financial collateral	Personal collateral	Total
Exposures to central governments or central banks	0.0	0.0	0.0
Exposures to regional or local territorial authorities	0.0	74,467.3	74,467.3
Exposures to public-sector bodies	0.0	701,048.2	701,048.2
Exposures to institutions	349,497.8	0.0	349,497.8
Exposures to corporates	0.0	448,162.3	448,162.3
Defaulted exposures	0.0	0.0	0.0
High-risk items	0.0	0.0	0.0
Other items	0.0	0.0	0.0
Equity exposures	0.0	0.0	0.0
Total – Standardised approach	**349,497.8**	**1,223,677.8**	**1,573,175.6**

The own funds requirement for credit risk is calculated in accordance with the standardised approach.

Art. 454 CRR Use of the advanced measurement approaches to operational risk

No information provided, as Kommunalkredit does not use the advanced measurement approach for the calculation of the minimum own funds requirement for operational risk.

Art. 455 CRR Use of internal market risk models

No information provided, as Kommunalkredit does not use an internal model for the calculation of the minimum own funds requirement for market risk; an internal model is used exclusively for risk management purposes.

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

Annex 1: Main Features of Capital Instruments pursuant to Art.437.1 (b) CRR

1	Issuer	Kommunalkredit Austria	Kommunalkredit Austria	Kommunalkredit Austria	Kommunalkredit Austria
2	Unique identifier (such as ISIN) / internal designation	Variable global certificate 1 & 2	XS0271821513 / DIP 525	SSD 45	SSD 46
3	Governing law of the instrument	Austrian law	German law	German law, subordination pursuant to Austrian law	German law, subordination pursuant to Austrian law
	Regulatory treatment				
4	Transitional CRR rules	Common equity tier 1	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules	Common equity tier 1	Tier 2 capital	Tier 2 capital	Tier 2 capital
6	Eligible at solo/consolidated/solo and consolidated level	Eligible at solo and consolidated level	Eligible at solo and consolidated level	Eligible at solo and consolidated level	Eligible at solo and consolidated level
7	Type of instrument	Share capital	Subordinated liabilities	Subordinated liabilities	Subordinated liabilities
8	Amount recognised as eligible own funds (in EUR, as at last reporting date)	159.491.290	4.832.877	10.000.000	10.200.000
9	Nominal amount of the instrument (in EUR)	159.491.290	5.000.000	10.000.000	10.200.000
9a	Issue price (in %)	n.a.	100	100	100
9b	Redemption price (in %)	n.a.	100	100	100
10	Accounting classification	Liability - at amortised cost	Liability - at amortised cost	Liability - at amortised cost	Liability - at amortised cost
11	Original date of issuance	26.09.2015	30.10.2006	07.02.2007	07.02.2007
12	Perpetual or dated	Perpetual	Dated	Dated	Dated
13	Original maturity date	No maturity date	30.10.2021	09.02.2037	09.02.2037
14	Issuer call option	No maturity date	No	Yes	Yes
15	Optional call date, contingent call date and redemption amount	n.a.	Issuer call possible under certain conditions in case of tax event	09.02.2017	09.02.2017
16	Subsequent call dates, if applicable	n.a.	n.a.	Annually from 09.02.2017	Annually from 09.02.2017
	Coupons / dividends				
17	Fixed or floating dividend/coupon payments	Floating	Floating	Fixed	Fixed
18	Nominal coupon and reference interest rate, if applicable	n.a.	5.40 % * n / N n: number of calendar days of (30YCMS - 2YCMS) >= minus 0.05 % N: total number of calendar days	5.08 % p.a.	5.08 % p.a.
19	Existence of dividend stopper	Yes	n.a.	n.a.	n.a.
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	n.a.	n.a.	n.a.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	n.a.	n.a.	n.a.
21	Existence of step-up or other incentive to redeem	No maturity date	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	n.a.	n.a.	n.a.
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible: conversion trigger	n. a.	n. a.	n. a.	n. a.
25	If convertible: partially or fully	n. a.	n. a.	n. a.	n. a.
26	If convertible: conversion rate	n. a.	n. a.	n. a.	n. a.
27	If convertible: mandatory or optional conversion	n. a.	n. a.	n. a.	n. a.
28	If convertible: instrument type convertible into	n. a.	n. a.	n. a.	n. a.
29	If convertible: issuer of instrument it converts into	n. a.	n. a.	n. a.	n. a.
30	Write-down features	No	No	No	No
31	If write-down: triffer for write-down	n. a.	n. a.	n. a.	n. a.
32	If write-down: partial or full	n. a.	n. a.	n. a.	n. a.
33	If write-down: permanent or temporary	n. a.	n. a.	n. a.	n. a.
34	If temporary write-down: mechanism of write-up	n. a.	n. a.	n. a.	n. a.
35	Position in subordination herarchy in liquidation (specify instrument type senior to instrument)	Subordinated instruments	Non-subordinated instruments	Non-subordinated instruments	Non-subordinated instruments
36	Non-compliant transitioned features	No	No	No	No
37	If yes, specify non-compliant features	n. a.	n. a.	n. a.	n. a.

1	Kommunalkredit Austria	Kommunalkredit Austria	Kommunalkredit Austria	Kommunalkredit Austria	Kommunalkredit Austria
2	SSD 47	SSD 48	SSD 49	SSD 50	SSD 51
3	German law, subordination pursuant to Austrian law	German law, subordination pursuant to Austrian law	German law, subordination pursuant to Austrian law	German law, subordination pursuant to Austrian law	German law, subordination pursuant to Austrian law
4	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
6	Eligible at solo and consolidated level	Elibible at solo and consolidated level	Eligible at solo and consolidated level	Eligible at solo and consolidated level	Eligible at solo and consolidated level
7	Subordinated liabilities	Subordinated liabilities	Subordinated liabilities	Subordinated liabilities	Subordinated liabilities
8	800.000	10.000.000	10.000.000	10.000.000	9.000.000
9	800.000	10.000.000	10.000.000	10.000.000	9.000.000
9a	100	100	100	100	100
9b	100	100	100	100	100
10	Liability - at amortised cost	Liability - at amortised cost	Liability - at amortised cost	Liability - at amortised cost	Liability - at amortised cost
11	07.02.2007	23.02.2007	23.02.2007	07.03.2007	07.03.2007
12	Dated	Dated	Dated	Dated	Dated
13	09.02.2037	23.02.2022	23.02.2022	07.03.2047	07.03.2047
14	Yes	No	No	Yes	Yes
15	09.02.2017	No	No	07.03.2017	07.03.2017
16	Annually from 09.02.2017	n.a.	n.a.	Annually from 07.03.2017	Annually from 07.03.2017
17	Fixed	Fixed	Fixed	Fixed	Fixed
18	5.08 % p.a.	4.67 % p.a.	4.67 % p.a.	5.0175 % p.a.	5.0175 % p.a.
19	n.a.	n.a.	n.a.	n.a.	n.a.
20a	n.a.	n.a.	n.a.	n.a.	n.a.
20b	n.a.	n.a.	n.a.	n.a.	n.a.
21	No	No	No	No	No
22	n.a.	n.a.	n.a.	n.a.	n.a.
23	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	n. a.	n. a.	n. a.	n. a.	n. a.
25	n. a.	n. a.	n. a.	n. a.	n. a.
26	n. a.	n. a.	n. a.	n. a.	n. a.
27	n. a.	n. a.	n. a.	n. a.	n. a.
28	n. a.	n. a.	n. a.	n. a.	n. a.
29	n. a.	n. a.	n. a.	n. a.	n. a.
30	No	No	No	No	No
31	n. a.	n. a.	n. a.	n. a.	n. a.
32	n. a.	n. a.	n. a.	n. a.	n. a.
33	n. a.	n. a.	n. a.	n. a.	n. a.
34	n. a.	n. a.	n. a.	n. a.	n. a.
35	Non-subordinated instruments	Non-subordinated instruments	Non-subordinated instruments	Non-subordinated instruments	Non-subordinated instruments
36	No	No	No	No	No
37	n. a.	n. a.	n. a.	n. a.	n. a.