Disclosure Report

pursuant to Sec. 26 and 26a BWG (Austrian Banking Act) in conjunction with OffV (Disclosure Regulation / DisclReg)

(Reporting date 31-12-2013)

Pursuant to § 26 of the Austrian Banking Act, credit institutions must disclose information relating to their organisational structure, their risk management and their risk capital position at least once a year. KA Finanz AG (in the following called KF) meets its disclosure requirements through publication of this Disclosure Report on its homepage at www.kafinanz.at.

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Risk management for individual risk categories

Overview

KF's primary business purpose is to manage and phase out the non-strategic portfolio run by the former Kommunalkredit prior to the demerger, while minimising as much as possible the input of resources by the Republic of Austria. Every effort is being made to realise the potential for value recovery and to secure liquidity.

Active portfolio monitoring aimed at the early identification of risks and active portfolio management, as well as active liquidity management, are therefore part of the core tasks of KF.

Organisation

The Executive Board and the Risk Officer of KF are responsible for risk management, in particular for defining the bank's risk strategy, and for the adequate measurement, control and limitation of risks.

The overall control and limitation of risks is performed within the framework of the monthly meetings of the Risk Management Committee (RMC). In addition to the RMC, other committees have been established that hold weekly or – if the need arises – even more frequent meetings. These include, in particular, the Credit Committee, which focuses on portfolio monitoring and the planning of measures relating to the risk portfolio, and the Asset-Liability Committee (ALCO), with its responsibility for operational liquidity, interest-rate and capital management.

In operational and administrative terms, KF's system of risk management is supported by services provided by Kommunalkredit Austria AG (KA) under the service level agreement, such as the drafting of limit and risk reports as well as portfolio analyses.

Specific risks of KA Finanz AG

The following risks are specifically monitored at KF:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The position of KF as regards these types of risk and the company's strategies for their measurement, monitoring and control are described in the following.

Credit risk

Credit risk is the risk of financial losses arising from a counterparty not meeting its payment obligations. KF distinguishes the following types of credit risk: counterparty and/or default risk, concentration risk and country risk.

KF's credit risk management is based on the following principles:

- Active credit risk monitoring is one of the core tasks of KF as a portfolio run-down facility.
- The development of existing credit risks is continuously monitored.
- The portfolio reduction measures taken include redemption upon maturity, disposals when positions reach or approach their true economic value, and the early elimination of positions to avoid foreseeable credit risks or reduce concentration risks. In 2013, the focus of activities was primarily on the latter, i.e. on further reducing concentration risks. The bank's capital position must always be taken into consideration; the corresponding steps in the decision-making process are documented.

<u>Rating procedure</u>

Ratings by external rating agencies (Moody's, Standard & Poor's, Fitch) are available for the majority of borrowers, which are continuously monitored and updated. All other customers are rated internally on the basis of their most recent balance sheet figures at least once a year. On an internal rating scale (master scale), external as well as internal ratings are allocated to certain probabilities of default. The master scale is reviewed regularly for its forecasting quality and, if necessary, adjusted on the basis of unexpected losses incurred.

Thus, all credit exposures can be fully classified on the basis of their probability of default and the type of collateral provided.

<u>Credit exposure</u>

For the on-balance-sheet portfolio, especially for securities and loans, the credit risk exposure corresponds to the book value (including accrued interest). For credit default swaps (CDS), the credit exposure corresponds to the nominal value minus credit risk provisions, and for derivatives to the positive fair value plus maturity-specific and product-specific add-on factors; CDS and derivatives are part of the off-balance-sheet portfolio.

Financial and personal forms of collateral (sureties and guarantees) are considered in credit exposures. Financial collateral taken into consideration primarily includes netting and cash collateral arrangements made to reduce the counterparty risk. Financial collateral received reduces the existing exposure. CDS hedges with matching maturities and netting arrangements also reduce the existing CDS exposure. If other personal forms of collateral are available, the exposure can be counted towards the guarantor. Depending on the assessment of the risk, the exposure is transferred to the guarantor and included in the portfolio model and the limit system.

<u>Unexpected loss – Credit VaR model</u>

A portfolio approach is essential for the quantification of credit risk. KF quantifies the economic credit risk (risk of default) as well as the risk of rating changes and RWA risk on a quarterly basis. The calculation is based on rating and maturity dependent probabilities of default (PD) as well as average historical loss ratios (LGD).

<u>Concentration risk</u>

Risk concentrations are identified prior to the closing of transactions (exclusively hedging and funding transactions) and in the course of the monthly credit risk reports that are submitted to the RMC. The total portfolio is broken down according to different parameters (breakdown by country, region, top 100 borrowers, rating, sector). In addition, risk concentrations in individual sub-portfolios are identified and monitored through portfolio analyses. Portfolio analyses comprise correlating regional and/or sectoral risks or risk concentrations and permit the early detection, limitation and management of risk portfolios under current and future conditions. Depending on the risk assessment, reviews are performed at regular intervals. Event-triggered portfolio reviews can also be performed on an ad-hoc basis between the scheduled intervals.

Country risk

Exposures of subsidiaries and branch offices are recognised not in the country of the parent, but in the respective country of establishment. The country risk of KF is monitored by the RMC at least on a monthly basis and quarterly reports are submitted to the credit approval committee of the Supervisory Board. For each country, information on the country rating, exposure by product type, expected and unexpected loss, and limit utilisation is reported.

Liquidity risk

Liquidity risk management

KF defines liquidity risk in the narrow sense of the term as the risk of the bank's being unable to meet its present and future payment obligations fully or on schedule (risk of insolvency). Funding risk is defined as the risk of not being able to raise additional funding at all or only at increased cost. In terms of time, KF distinguishes between short-term (up to one year) and long-term (more than one year) liquidity risk.

KF's liquidity risk management is based on the following principles:

- near-time monitoring and control of the liquidity position
- adequate limitation of the liquidity risk
- a clearly defined process to secure liquidity in the event of liquidity bottlenecks

Monitoring the liquidity risk comprises:

- daily monitoring and operational control of the liquidity position by Treasury
- dynamic liquidity forecasts (for periods of less than one year) under certain scenario assumptions, including combined stress tests
- statistical analysis of liquidity gaps (for periods of more than one year)
- planning of medium- and long-term funding
- maintenance and further development of the liquidity model

Short-term liquidity risk (< 1 year)

For the purposes of short-term liquidity control, the management uses short and medium term liquidity scenarios. These scenarios include not only contractual cash flows, but also expected cash flows from new issues, money-market and repo prolongations, the termination of deals, and the expected liquidity demand for cash collaterals, i.e. under CSA/ISDA arrangements. The resulting liquidity gaps are managed daily in the short-term liquidity scenario, with subsequent monthly management.

In order to quantify and limit the short-term liquidity risk, the analysis is also performed for a combined stress scenario, and the maximum "time-to-wall" is determined for this scenario.

In 2013, KF's liquidity situation was stable throughout due to active portfolio run-down measures and the positive market development resulting in reduced funding requirements, as well as due to sustained high demand for KF's own issues. The following table shows the expected liquidity gaps, the additional liquidity to be raised through measures planned, and the liquidity position after such measures, as of 31 December 2013 for the next twelve months. KF's liquidity position corresponds to the funding strategy laid down in the restructuring plan for KF as a portfolio run-down facility based mostly on money market funding and benefiting from the cost and flexibility advantages afforded by its being owned by the Republic of Austria (now with FIMBAG as its trustee), all the while aiming at maximising own contributions.

Liquidity position as at 31-12-2013

In million EUR as at 31-12-2013	Expected liquidity gap	Additionally available liquidity	Liquidity position after measures taken
Up to 1 month	-1,030	2,314	1,285
More than 1 month up to 3 months	-3,031	2,852	-179
More than 3 months up to 1 year	-2,210	2,553	343
Total (cumulative up to 1 year)	**-6,271**	**7,720**	**1,449**

Liquidity position as at 31-12-2012

in million EUR as at 31-12-2012	Expected liquidity gap	Additionally available liquidity	Liquidity position after measures taken
Up to 1 months	-839	2,157	1,318
More than 1 month up to 3 months	-2,450	2,366	-84
More than 3 months up to 1 year	-3,047	3,067	21
Total (cumulative up to 1 year)	**-6,336**	**7,591**	**1,255**

Long-term liquidity risk (≥ 1 year)

For the purposes of liquidity control and the structural analysis of its liquidity position, KF performs a detailed analysis of the expected cash flows over the entire term of all on- and off-balance transactions. The overhangs from inflows and payouts are monitored at a periodic and cumulative level and provide the basis for strategic liquidity control within the framework of the RMC.

Organisation and reporting

The structural liquidity risk is discussed at Executive Board level within the framework of the monthly RMC meetings. At the weekly ALCO meeting, the operational liquidity risk is monitored on the basis of the dynamic liquidity forecast under different scenario assumptions and controlled accordingly. Compliance with liquidity risk limits is also monitored within the framework of ALCO. Moreover, an updated liquidity forecast, including an assessment of additionally required and realisable liquidity, is generated and reported to the Chief Treasury Officer and the risk management unit of KF.

Market risk

Market risks arise from potential changes of risk factors, which may lead to a drop in the market value of the financial positions dependent on these risk factors. When it comes to valuing the KF portfolio, the most important market risk factors by far are credit spreads and interest. With the restructuring plan basically providing for portfolio run-down through redemptions, a major part of the portfolio is classified as non-current assets in view of the underlying portfolio structure, which means that changes in market parameters will in most cases not impact on profit or loss.

The following market risks are specifically monitored and controlled at KF:

- Interest rate risk
- Credit spread risk
- Currency risk
- Option risk
- Basis risk

Interest rate risk

For the measurement, control and limitation of interest rate risks, KF distinguishes between the period-oriented, short-term repricing risk and the NPV-oriented, long-term risk of changing interest rates. The former is the risk of a drop in net interest income, while the latter is the risk of losses in net present value due to interest rate changes.

To ensure efficient monitoring and limitation of interest rate risks, KF uses analytical tools permitting the targeted control of the NPV risk of interest rate changes and the risk of net interest income of the period. In particular, interest gap structures (expiry of fixed interest periods) and net present value

sensitivities are analysed by currency and maturity range, value-at-risk (VaR) models are calculated on the basis of historical volatilities and correlations, and different interest rate scenarios are simulated.

Equally weighted historical volatilities and correlations (observation period 150 days) are used to calculate the interest VaR (holding period 20 trading days, confidence interval 97.5%). The VaR calculated considers KF's entire portfolio of transactions, but not its equity (paid-in capital and reserves). As at 31 December 2013, the interest VaR (confidence level 97.5%, holding period 20 trading days) stood at EUR 29.2 million.

The interest rate risk is monitored and controlled at least monthly within the framework of the RMC.

In addition to monthly reporting at the RMC, near-time operational control of the interest rate risk and the repricing risk is performed by the weekly ALCO meetings.

Currency risk

It is KF's fundamental risk strategy not to take any open currency positions. To this end, all investments in foreign currencies are hedged by means of currency swaps or funded in matching currencies.

For operational control purposes, a system for the control of open FX positions has been established, which considers not only disbursements and redemptions, but also interest, commission and premium accruals as well as cash-outs from the derivatives business. The currency risk is monitored and controlled daily. Exponentially weighted historical volatilities and correlations of exchange rates over a past observation period of 400 days are used to calculate the FX VaR (holding period 1 trading day, confidence interval 99%). As at 31 December 2013, the open FX position stood at TEUR 574.7 and the diversified FX VaR at TEUR 3.5 (31-12-2012: TEUR 13.7).

Operational risk

See details under § 12 Disclosure Regulation.

§ 3 DisclReg
Information relating to the scope of consolidation

§ 3 lit. 1 DisclReg

Name of the credit institution: KA Finanz AG (KF)

§ 3 lit. 2 DisclReg

Scope of consolidation and other participations

Given the fact that KF's participations are immaterial, as shown under § 13, consolidation is not performed.

As at 31 December 2013, KF does not constitute a group of financial institutions, as defined in § 30 of the Austrian Banking Act.

§ 3 lit. 3 and 4 DisclReg

Currently not relevant to KF.

§ 4 DisclReg
Structure of own funds

§ 4 lit. 2 to 5 DisclReg

31-12-2013

in TEUR	Eligible own funds
Subscribed capital	**389,000.0**
of which paid-in capital	389,000.0
Reserves	76,091.1
Fund for general banking risks	95,000.0
Net loss	-156,492.7
Core capital (tier 1)	**403,598.4**
Eligible subordinated liabilities	160,140.5
Provision pursuant to § 57 para.1 Austrian Banking Act	59,129.4
Supplementary own funds (tier 2)	**219,269.9**
Reclassified subordinated capital (tier 3)	**0.0**
Total eligible own funds	**622,868.3**

Subscribed capital

As at 31 December 2013, subscribed capital, unchanged from the previous year, amounted to EUR 389,000,000.00, divided into 3,890,000 no par value shares. The shares are bearer shares and represent a share in the subscribed capital of EUR 100.00 each. All shares are held by the Republic of Austria.

There are no shares that have been issued and not fully paid in, and there are no authorised shares. As at 31 December 2013 and during the business year, KF had no treasury stock in its portfolio.

Supplementary capital

As at 31 December 2013, supplementary capital comprised the following:

ISIN	Interest rate at reporting date	Maturing on	Currency	Nominal in EUR	Right to call	Conversion to capital
S0284217709	4.26	08-02-2019	EUR	7,583,000.00	no	no
XS0270579856	3.016	25-10-2021	EUR	18,957,000.00	Issuer	no
				26,540,500.00		

The supplementary capital meets the conditions of § 23 para.7 of the Austrian Banking Act (old version). Given the negative result for the year before appropriations to reserves, no profit-dependent coupon will be paid out in 2014 in accordance with the terms of the issue and the contractual provisions. Ad-hoc disclosures to that effect were already published in previous years pursuant to § 48d of the Stock Exchange Act. These ad-hoc disclosures are herewith explicitly referred to. There is no liability item for these interest coupons shown on the Balance Sheet.

As in the previous year, there are no amounts owed to companies in which an equity investment is held at the balance sheet date.

Subordinated liabilities

As at 31 December 2013, subordinated liabilities comprised the following:

ISIN	Interest rate on reporting date	Maturing on	Currency	Nominal in EUR	Right to call	Conversion to capital
XS0286975973	0.418	28-02.2017	EUR	40,000,000.00	Issuer in case of tax event	no
XS0140045302	6.08	13-12-2018	EUR	19,500,000.00	Issuer	no
XS0255270380	6.848	07-06-2021	EUR	5,000,000.00	no	no
XS0144772927	6.46	27-03-2022	EUR	5,000,000.00	Issuer	no
XS0185015541	5.43	13-02-2024	EUR	20,000,000.00	Issuer	no
AT0000441209	5	27-02-2024	EUR	19,000,000.00	Issuer	no
XS0279423775	4.44	20-12-2030	EUR	35,000,000.00	Issuer in case of tax event	no
XS0257275098	4.9	23-06-2031	EUR	10,000,000.00	Issuer’s choice on 23-06-2016	no
				153,500,000.00		

The subordinated liabilities meet the conditions of § 23 para.8 of the Austrian Banking Act (old version).

As in the previous year, this position does not include amounts owed to companies in which an equity investment is held.

§ 5 DisclReg
Minimum own funds requirement

§ 5 lit.1 DisclReg

Securing minimum capital adequacy

<u>ICAAP approaches to the assessment of the bank's equity position</u>
The ICAAP (internal capital adequacy assessment process) is a core element of Pillar 2 of the Basel Accord, comprising all procedures and measures applied by to identify, measure and control the risks taken and to secure an adequate level of capitalisation.

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

- *Regulatory perspective*

The goal is to ensure compliance with the regulatory minimum capital adequacy requirements. To this end, the regulatory capital requirements are compared with regulatory own funds.

- *Liquidation perspective*

From this perspective, the economic risks of the bank are measured. Unlike the regulatory perspective, this perspective also considers liquidity and market risks. KF uses value-at-risk approaches to quantify the economic risk. The economic risk capital thus determined is compared with the economic risk-carrying capacity, which in KF's case is equal to the regulatory own funds.

- *Operational capital monitoring (going-concern perspective)*

KF's operational capital monitoring from the going-concern perspective is aimed at maintaining a core capital ratio of at least 7%. Foreseeable losses are to be covered without the minimum core capital ratio falling below 7%. A P&L oriented quantification of risk (credit, market and liquidity risk as well as operational risk) is used under different (stress) scenarios.

§ 5 lit.2 DisclReg

Own funds required to cover credit risk under the standardised approach (31-12-2013)

Basel II approach		Minimum own funds required in TEUR	Minimum own funds required in %
Standardised approach	Exposure to central banks or sovereigns	34,358.3	13.19
	Exposure to regional territorial authorities and religious communities recognised by the state	24,959.1	9.58
	Exposure to public entities, administrative bodies and enterprises	19,595.8	7.52
	Exposure to multilateral development banks	1,012.3	0.39
	Exposure to institutions	33,526.9	12.87
	Exposure to corporates	81,265.9	31.20
	Overdue exposures	1,297.8	0.50
	High-risk exposures	9,925.7	3.81
	Securitisation positions	49,750.9	19.10
	Other items	4,808.1	1.85
Total – Standardised approach		**260,500.8**	**100.00**

§ 5 lit.3 DisclReg

KF applies the standardised approach to credit risk pursuant to § 22a of the Austrian Banking Act.

§ 5 lit.4 DisclReg

Own funds required to cover currency risk (31-12-2013)

Total own funds required to cover currency risk (in TEUR)	**0.00**

§ 5 lit.5 DisclReg

Own funds required to cover operational risk – Standardised approach (31-12-2013)

Total own funds required to cover operational risk (in TEUR)	**0.00**

§ 6 DisclReg Counterparty risk

§ 6 lit.1 DisclReg

KF considers the counterparty risk from derivative, repo and securities lending transactions to be part of the credit risk and applies a uniform method to determine the credit-risk-related exposure to be taken into account in the limit system.

§ 6 lit.2 DisclReg

Financial and personal forms of collateral (sureties and guarantees) are considered in credit exposures. Financial collateral taken into consideration primarily includes netting and cash collateral arrangements made to reduce the counterparty risk. Financial collateral received reduces the existing exposure. CDS hedges with matching maturities and netting arrangements also reduce the existing CDS exposure. If other personal forms of collateral are available, the exposure can be counted towards the guarantor. Depending on the assessment of the risk, the exposure is transferred to the guarantor and included in the portfolio model and the limit system.

§ 6 lit.3 DisclReg

Risk concentrations are identified prior to the closing of transactions (exclusively hedging and funding transactions) and in the course of the monthly credit risk reports that are submitted to the RMC. The total portfolio is broken down according to different parameters (breakdown by country, region, top 100 borrowers, rating, sector). In addition, risk concentrations in individual sub-portfolios are identified and monitored through portfolio analyses. Portfolio analyses comprise correlating regional and/or sectoral risks or risk concentrations and permit the early detection, limitation and management of risk portfolios under current and future conditions. Depending on the risk assessment, reviews are performed at regular intervals. Event-triggered portfolio reviews can also be performed on an ad-hoc basis between the scheduled intervals.

§ 6 lit.4 DisclReg

Since the amount of collateral to be deposited by KF in derivative, repo and securities lending transactions primarily depends on the market value of the underlying transaction and regular cash settlement of market values is practiced, a downgrade of KF's rating would not have a material impact on the amount of collateral.

§ 6 lit.5 6 to 8 DisclReg

To hedge currency and interest risks, the following derivative transactions (not yet settled at the reporting date) were made in the banking book (fair values including interest accruals):

31-12-2013

Product in TEUR	Nominal	Positive market values	Negative market values	Sum total of market values	Risk weight of receivables	Own funds required
Interest-related transactions	**10,908,497.0**	**529,923.0**	**-1,574,261.0**	**-1,044,338.0**	**22,747.8**	**1,819.8**
Interest-rate swaps	*10,908,497.0*	*529,923.0*	*-1,574,261.0*	*-1,044,338.0*	*22,747.8*	*1,819.8*
Currency-related transactions	**1,719,666.0**	**1,012,929.0**	**-1,265,885.0**	**-252,956.0**	**6,769.0**	**541.5**
Interest-rate swaps	*729,766.0*	*18,275.0*	*-276,242.0*	*-257,967.0*	*795.8*	*63.7*
Currency swaps	*989,900.0*	*994,654.0*	*-989,643.0*	*5,011.0*	*5,973.2*	*477.9*
Options	***0.0***	***237,469.0***	***-237,469.0***	***0.0***		
Options bought	*1,000,000.0*	*237,469.0*	*0.0*	*237,469.0*		
Options sold	*-1,000,000.0*	*0.0*	*-237,469.0*	*-237,469.0*		
Total	**12,628,163.0**	**1,780,321.0**	**-3,077,615.0**	**-1,297,294.0**	**29,516.8**	**2,361.3**

In the above transactions, the mark-to-market method is applied to determine the value of the receivables.

CDS portfolio as at balance sheet date (31-12-2013):

Product in TEUR	Nominal	Market values	Risk weight of receivables	Own funds required
CDS sell	*2,456,009.0*	*-76,578.0*	*465,373.8*	*37,229.9*
CDS buy	*-577,855.0*	*-8,388.0*		*0.0*
Total Credit derivatives	**1,878,154.0**	**-84,966.0**	**465,373.8**	**37,229.9**

Depending on the type of contract, credit default swaps (CDS) are treated either as derivatives or as contingent liabilities:

- CDS contracts under which payments are dependent on a change in credit rating/index or on a risk premium (trigger):
  Treatment as derivatives; single-item measurement and setting up of a provision for impending losses in the amount of the potential negative fair value on the balance-sheet date. Positive fair values are not taken into consideration; the strict lower-of-cost-or market principle is maintained.
- Triggerless CDS:
  Treatment as contingent liability; setting up of provisions for impending losses – analogously to the method applied for specific loan loss provisions – depending on the expected loss.

KF exclusively holds triggerless CDS contracts.

§ 6 lit.9 DisclReg

No disclosure required under this item, as KF does not use an internal model to calculate the counterparty risk.

§ 7 DisclReg Credit and dilution risk

§ 7 para.1 lit.1 DisclReg

To identify default, KF uses the definition of overdue receivables of § 22a para.4 lit.10 of the Austrian Banking Act. Overdue receivables are defined as receivables with payment overdue for 90 days.

§ 7 para.1 lit.2 DisclReg

The portfolio is reviewed regularly for objective indications of impairments of customer exposures or exposures to groups of related customers. Impairment tests are performed either in the course of the annual rating updates or on an event-triggered basis. Loan loss provisions are determined by the risk management unit and are subject to approval by the Executive Board.

in million EUR	31-12-2013
Specific loan loss provisions	62.6
Portfolio loan loss provisions	0.8
Provisions pursuant to § 57 para.1 Austrian Banking Act	59.1
Provisions pursuant to § 57 para.3 Austrian Banking Act	95.0
Total	**217.5**

Counterparties with increased credit risk (watch list)

A multi-stage risk control process is applied to identify and manage increased credit risks, with all counterparties being classified in four risk classes:

Level 0: Standard risk class for all counterparties not belonging to any of the following risk classes
Level 1: Counterparties with slightly increased credit risk and/or a negative trend and therefore subject to close monitoring
Level 2: Distressed exposures (payment arrears, credit impairment), except for distressed loans for which default according to Basel III has been identified
Level 3: Default according to Basel III

All counterparties of levels 1 to 3 are entered in the watch list of counterparties with increased credit risk, which is continuously updated and reported quarterly to the Credit Committee and the Supervisory Board of KF. The watch list primarily serves the purpose of qualitative information on the exposure at risk. Measures to be taken are decided in consultation with the Executive Board within the framework of the Credit Committee.

§ 7 para.1 lit.3 DisclReg

Value of receivables before credit risk minimisation (31-12-2013)

Value of receivables / Exposure class in TEUR	Average value of receivables	Value of Receivables
Exposure to central banks or sovereigns	6,890,789.8	4,356,511.2
Exposure to regional territorial authorities and religious communities recognised by the state	1,212,970.9	1,077,439.1
Exposure to public entities, administrative bodies and enterprises	439,282.9	441,673.7
Exposure to multilateral development banks	154,280.5	97,062.6
Exposure to institutions	3,574,205.0	2,525,535.9
Exposure to corporates	2,131,746.6	1,768,420.6
Overdue exposures	9,296.5	12,834.3
Very high risk exposures	31,017.8	124,071.2
Securitisation positions	668,456.6	622,360.3
Other items	115,288.0	71,610.0
Total - Standardised approach	**15,227,334.6**	**11,097,518.9**

Since 1 October 2010 and following the approval of the change in approach by the FMA, KF has consistently used the standardised approach to measure credit risk.

§ 7 para.1 lit.4 DisclReg

Value of receivables before credit risk minimisation (31-12-2013)

Value of receivables / Exposure class in TEUR	Austria	Western Europe	Central and Eastern Europe	Rest of the world	Not allocated	Total
Exposure to central banks or sovereigns	602,168.6	2,022,301.0	1,142,385.8	589,655.8	0.0	4,356,511.2
Exposure to regional territorial authorities and religious communities recognised by the state	0.0	507,492.6	44,410.9	525,535.6	0.0	1,077,439.1
Exposure to public entities, administrative bodies and enterprises	151,516.0	83,493.7	35,444.6	171,219.4	0.0	441,673.7
Exposure to multilateral development banks	0.0	0.0	0.0	0.0	97,062.6	97,062.6
Exposure to institutions	200,628.5	1,944,152.3	48,118.1	332,637.0	0.0	2,525,535.9
Exposure to corporates	70,992.2	977,709.6	25,459.3	694,259.5	0.0	1,768,420.6
Overdue exposures	0.0	0.0	6,777.2	6,057.1	0.0	12,834.3
High-risk exposures	0.0	124,071.2	0.0	0.0	0.0	124,071.2
Securitisation positions	0.0	63,365.3	0.0	558,995.0	0.0	622,360.3
Other items	64,303.1	632.0	0.0	6,674.9	0.0	71,610.0
Total	**1,089,608.4**	**5,723,217.7**	**1,302,595.9**	**2,885,034.3**	**97,062.6**	**11,097,518.9**

§ 7 para.1 lit.5 DisclReg

A breakdown of KF's receivables by relevant segments would result in a breakdown by exposure class, as already shown under § 7 para.1 lit.3. Therefore, there is no need for separate presentation under lit.5.

§ 7 para.1 lit.6 DisclReg

Value of receivables before credit risk minimisation (31-12-2013)

Value of receivables / Exposure class in TEUR	Repayable on demand	Up to 3 months	Up to 1 year	Up to 5 years	More than 5 years	Total
Exposure to central banks or sovereigns	127,981.1	519,291.9	228,119.7	2,444,501.5	1,036,617.0	4,356,511.2
Exposure to regional territorial authorities and religious communities recognised by the state	0.0	105,785.4	21,028.7	110,032.0	840,593.0	1,077,439.1
Exposure to public entities, administrative bodies and enterprises	0.0	6,093.2	24,849.3	46,488.5	364,242.7	441,673.7
Exposure to multilateral development banks	0.0	0.0	16,593.4	46,676.4	33,792.8	97,062.6
Exposure to institutions	1,663,979.2	5,034.2	273,176.1	279,180.3	304,166.1	2,525,535.9
Exposure to corporates	10,531.0	48,227.2	81,994.7	296,037.2	1,331,630.5	1,768,420.6
Overdue exposures	0.0	0.0	0.0	6,777.2	6,057.1	12,834.3
High risk exposures	0.0	0.0	0.0	0.0	124,071.2	124,071.2
Securitisation positions	0.0	0.0	0.0	4,070.9	618,289.4	622,360.3
Other items	0.0	0.0	0.0	0.0	71,610.0	71,610.0
Total	**1,802,491.3**	**684,431.9**	**645,761.9**	**3,233,764.0**	**4,731,069.8**	**11,097,518.9**

§ 7 para.1 lit.7 DisclReg

Value of receivables before credit risk minimisation (31-12-2013)

Value of receivables / Exposure class in TEUR	Receivables	At risk of default [1]	Impairment	LLP set up	LLP released	Reclassification Utilisation / Currency differences
Exposure to central banks or sovereigns	4,356,511.2	20,244.0	3,168.7	3,168.7	0.0	0.0
Exposure to regional territorial authorities and religious communities recognised by the state	1,077,439.1	152,388.5	0.0	0.0	0.0	0.0
Exposure to public entities, administrative bodies and enterprises	441,673.7	6,093.2	0.0	0.0	3,862.0	0.0
Exposure to multilateral development banks	97,062.6	0.0	0.0	0.0	0.0	0.0
Exposure to institutions	2,525,535.9	0.0	0.0	0.0	151.0	0.0
Exposure to corporates	1,768,420.6	0.0	840.1	0.0	6,964.8	0.0
Overdue exposures	12,834.3	12,834.3	6,021.7	0.0	0.0	6.021.7
High risk exposures	124,071.2	124,071.2	53,372.7	53,372.7	0.0	0.0
Securitisation positions	622,360.3	28,761.2	0.0	0.0	4,300.7	-6.310.7
Other items	71,610.0	0.0	0.0	0.0	0.0	0.0
Total	**11,097,518.9**	**344,392.4**	**63,403.2**	**56,541.4**	**15,278.5**	**-289.0**

§ 7 para.1 lit.8 DisclReg

Value of receivables before credit risk minimisation (31-12-2013)

Country in TEUR	Receivables	At risk of default[1]	Overdue	Impairment	LLP set up	LLP released	Reclassification Utilisation / Currency differences
Austria	1,089,608.4	0.0	0.0	840.1	0.0	131.0	0.0
Western Europe	5,723,217.8	185,114.0	0.0	53,372.7	53,372.7	687.0	0.0
Central and Eastern Europe	1,302,595.8	6,777.2	6,777.2	0.0	0.0	0.0	0.0
Rest of the world	2,885,034.3	152,501.3	6,057.0	9,190.4	3,168.7	14,460.0	-289.0
Not allocated	97,062.6	0.0	0.0	0.0	0.0	0.0	0.0
Total	**11,097,518.9**	**344,392.4**	**12,834.2**	**63,403.2**	**56,541.4**	**15,278.0**	**-289.0**

[1] Receivables at risk of default according to risk classes 2 and 3 (excl. overdue receivables) after impairment.

§ 7 para.1 lit.9 DisclReg

31-12-2013

in TEUR	2013	of which credit transactions	of which other transactions
As at beginning of reporting year	**22,428.8**	**973.7**	**21,455.1**
+ Addition	56,541.4	0.0	56,541.4
- Release	15,278.0	209.8	15,068.2
- Utilisation	0.0	0.0	0.0
+ changes due to currency conversion	289.0	0.0	289.0
As at end of reporting year	**63,403.2**	**763.9**	**62,639.3**
of which specific loan loss provisions	62,639.3	0.0	62,639.3
of which portfolio loan loss provisions	763.9	763.9	0.0

§ 8 DisclReg Applying the standardised approach to credit risk

§ 8 lit.1 DisclReg

For customers in segments applying the standardised approach according to Basel II (see section on “Basel II”), mostly external ratings are used (Moody’s, S&P or Fitch).

§ 8 lit.2 DisclReg

The services of rating agencies and rating agents are used for the following exposure classes:

31-12-2013

Exposure classes	Approach
Sovereign	Standardised approach
PSE (public sector entities)	Standardised approach
Corporate	Standardised approach
Project finance (Special finance)	Standardised approach
Securitisations	Standardised approach
Regions / local authorities	Standardised approach
Banks	Standardised approach

§ 8 lit.3 DisclReg

Issues are rated exclusively on the basis of external ratings – KF does not intend to use internal ratings. Issues are only rated if the risk of the issue is assessed to differ from the issuer rating.

§ 8 lit.4 DisclReg

Every active customer is assigned an external or internal rating, which is updated at least once a year.

Unless the standard methodology pursuant to § 21b, para.6, of the Austrian Banking Act is used, the rating class is determined on the basis of internal rating approaches.

§ 8 lit.5 DisclReg

As at 31 December 2013, KF's portfolio under the standardised approach is broken down by exposure class as follows:

Basel II approach / Exposure class	Risk weight	Value of receivable before CCF	Value of receivable after credit risk mitigation	Value of receivable after CCF
in TEUR	in %	in TEUR	in TEUR	in TEUR
Exposure to central banks or sovereigns	0	3,472,355.9	3,794,930.5	3,794,930.5
	20	176,561.9	196,955.7	196,955.7
	50	476,439.0	427,932.3	427,932.3
	100	231,154.4	176,121.7	176,121.7
Exposure to regional territorial authorities and religious communities recognised by the state	0	46,603.1	46,603.1	46,603.1
	20	881,902.4	810,040.9	810,040.9
	50	0.0	0.0	0.0
	100	148,933.5	149,980.9	149,980.9
Exposure to public entities, administrative bodies and enterprises	0	0.0	0.0	0.0
	20	153,565.8	60,191.0	60,191.0
	50	0.0	0.0	0.0
	100	288,107.8	232,909.7	232,909.7
	150	0.0	0.0	0.0
Exposure to multilateral development banks	0	33,792.8	33,792.8	33,792.8
	20	63,269.9	63,269.9	63,269.9
Exposure to institutions	0	0.0	0.0	0.0
	20	2,371,497.3	1,348,316.1	1,348,316.1
	50	10.0	10.0	10.0
	100	154,028.7	103,654.7	103,654.7
	150	0.0	30,509.0	30,509.0
Exposure to corporates	0	0.0	0.0	0.0
	20	248,517.1	225,907.3	225,907.3
	50	396,605.3	361,233.0	361,233.0
	100	1,075,785.9	764,520.5	764,520.5
	150	47,512.3	17,003.3	17,003.3
Overdue exposures	50	0.0	0.0	0.0
	100	6,057.1	6,057.1	6,057.1
	150	6,777.2	6,777.2	6,777.2
High risk exposures	100	124,071.2	124,071.2	124,071.2

Securitisation positions	20	376,650.7	376,650.7	376,650.7
	50	49,736.2	49,736.2	49,736.2
	100	151,855.5	151,855.5	151,855.5
	350	20,182.3	20,182.3	20,182.3
	1250	23,935.5	23,935.5	23,935.5
Other items	0	4.0	4.0	4.0
	20	14,384.0	14,384.0	14,384.0
	100	57,222.1	57,222.1	57,222.1
Total – Standardised approach		**11,097,518.9**	**9,674,758.2**	**9,674,758.2**

The credit conversion factor (CCF) is the expected percentage of off-balance-sheet positions converted into on-balance-sheet receivables on condition that default occurs. The value of receivables after CCF corresponds to the value of on-balance-sheet receivables, off-balance-sheet receivables and receivables from derivatives, with off-balance-sheet receivables being multiplied by the CCF.

Based on credit risk mitigation techniques, a receivable can migrate from one exposure class to another. The system applied complies with the disclosure guidelines of the Austrian National Bank.

§ 9 DisclRegulation
Special finance, participations and other assets

Not relevant to KF at present, as the standardised approach is used to calculate credit risk.

§ 10 DisclReg
Other types of risk

31-12-2013

Types of trading book risks, commodity position risk and currency risk (incl. gold) not held in the trading book	Minimum own funds required in TEUR	Minimum own funds required in %
Own funds required for counterparty risk	**0.0**	
Position risk in debt instruments and equities, currency and commodity position risk (standardised approach)	0.0	0
of which currency risk incl. risk from gold positions	0.0	0
Position risk in debt instruments and equities, currency and commodity position risk (internal model)	0.0	0
Minimum own funds required for the position risk in debt instruments and equities, currency and commodity position risk (excl. counterparty risk)	**0.0**	**0**

As at 31 December 2013, minimum own funds required for the special risk of interest-rate changes in securitisation positions was TEUR 0.

§ 11 DisclReg
Internal model for market risk limitation

No disclosure required, as KF does not use an internal model to calculate minimum own funds required for market risks; an internal model is used solely for risk control purposes.

§ 12 DisclReg
Operational risk

§ 12 lit.1 DisclReg

The standardised approach is used to calculate the regulatory minimum own funds required for operational risk.

For a future-oriented consideration of operational risk in respect of KF's risk-carrying capacity, KF takes guidance from an advanced measurement approach and quantifies the risk as the sum total of a parameter derived from the default database (scaled to VaR) and expert estimates for scenarios not seen in the past. Operational risk comprises the outsourcing risk from the SLA.

KF 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 also part of the operational risk. External events classified as pure credit risk, market risk, liquidity risk or other types of risk with no operational background are not covered by this definition. The purpose of operational risk management (ORM) is to generate added value for the bank through the ORM process.

Responsibility for the ORM process lies with KF's Operational Risk Officer. Operational Risk Correspondents (ORCs) in the various units, appointed by the management after consultation with the Operational Risk Officer, act as points of contact and interfaces to operational risk management and support the ORM process. In addition, the Operational Risk Officer of KF receives regular reports on operational risk events in accordance with the provisions of the service level agreement.

An operational default database and risk & control self-assessments are the instruments available for the management of operational risks. The operational default database shows the profits/losses generated by operational events. These are recorded in the database and reported to the Executive Board on a monthly basis after assessment by the line managers in charge. Operational risk & control self-assessments represent a prospective, future-oriented view. Risks are identified and assessed subjectively for their severity. At KF, these assessments are performed as coached self-assessments, i.e. individual risks are assessed and evaluated by the departments concerned. The results from the operational default database serve as input and provide feedback for the revaluation of risks. Within the framework of the monthly RMC meetings and quarterly Executive Board meetings, the management is informed about operational risks.

KF's Business Continuity Management (BCM) ensures adequate, comprehensive and efficient business continuity management. This includes the drafting and management of continuity and start-up plans as well as the implementation of measures designed to minimise interruptions of critical business processes.

KF has outsourced essential parts of its organisation to KA under the service level agreement (SLA). Any risks arising on that basis are covered through the assumption of liability by KA (for losses of more than EUR 10,000 in the event of gross negligence) in accordance with the SLA.

§ 12 lit.2 and 3 DisclReg

No disclosure required, as the advanced measurement approach is not used.

§ 13 DisclReg
Participations not held in the trading book

§ 13 lit.1 DisclReg

The portfolio of other participations comprises the shares held by KF in Einlagensicherung and SALEM Beteiligungsverwaltung zwölfte GmbH, which are immaterial participations (see § 13 lit.3 Disclosure Regulation).

§ 13 lit.2 DisclReg

Participations are measured at cost, unless persistent losses or a diminished level of equity require a write-down to pro-rata equity or to the income value.

§ 13 lit.3 DisclReg

Composition of participations in affiliated companies as at 31-12-2013

Name and registered office in TEUR	**Investment 31-12-2013 in %**	**Equity 31-12-2013** in TEUR	**Disposals**	**Cumulative amortisation**
Participations				
Einlagensicherung der Banken und Bankiers GmbH, Wien	0.10	1)	0.0	0.0
SALEM Beteiligungsverwaltung zwölfte GmbH, Wien	100	1)	0.0	0.0

Name and registered office in TEUR	**Book value 31-12-2013**	**Book value 31-12-2012**	**Disposals 2013**	**Additions 2013**
Participations				
Einlagensicherung der Banken und Bankiers GmbH, Wien	0.0	0.0	0.0	0.0
SALEM Beteiligungsverwaltung zwölfte GmbH, Wien	23.0	23.0	0.0	0.0

1) not shown due to immateriality

§ 13 lit.4 DisclReg

No disclosure required, as this provision is of no relevance to KF.

§ 13 para.5 and 6 DisclReg

No significant gains or losses from the sale of participations were reported in the business year 2013. Neither non-realised gains or losses nor accrued revaluation gains or losses were reported.

§ 14 DisclReg
Interest risk from non-trading-book positions

§ 14 lit.1 DisclReg

For the measurement, control and limitation of interest rate risks, KF distinguishes between the period-oriented, short-term repricing risk and the NPV-oriented, long-term risk of changing interest rates. The former is the risk of a drop in net interest income, while the latter is the risk of losses in net present value due to interest rate changes.

To ensure efficient monitoring and limitation of interest rate risks, KF uses analytical tools permitting the targeted control of the NPV risk of interest rate changes and the risk of net interest income of the period. In particular, interest gap structures (expiry of fixed interest periods) and net present value sensitivities are analysed by currency and maturity range, value-at-risk (VaR) models are calculated on the basis of historical volatilities and correlations, and different interest rate scenarios are simulated.

The interest rate risk is monitored and controlled at least monthly within the framework of the RMC. In addition to monthly reporting at the RMC, near-time operational control of the interest rate risk and the repricing risk is performed by the weekly ALCO meetings.

§ 14 lit.2 DisclReg

KF's portfolio mainly comprises positions with clearly defined interest rate and capital commitment. There are no private customer deposits or amounts owed to private customers that would require modelling of replication assumptions.

§ 14 lit.3 DisclReg

NPV sensitivities are calculated within the framework of the analysis of the interest rate risk. In particular, parallel shifts of yield curves (+1bp, +25 bp, +50bp) are analysed by currency with and without current credit spreads. The following table shows KF's net present value risk of interest rate changes in the event of a parallel shift of the yield curve by one basis point (DV01) for the main currencies as at 31 December 2013. Rating- and maturity-dependent mean rates of default are assumed for the calculation of net present values.

NPV risk of interest rate changes in KF's banking book as at 31-12-2013 in TEUR in the event of a parallel shift of the yield curve of +1 bp:

EUR	USD	GBP	CHF	Other	Total	VAR total
+131	+89	+456	+1	+24	**+700**	+131

Equally weighted historical volatilities and correlations (observation period 150 days) are used to calculate the interest VaR (holding period 20 trading days, confidence interval 97.5%). The VaR calculated considers KF's entire portfolio of transactions, but not its equity (paid-in capital and reserves). As at 31 December 2013, the interest VaR (confidence level 97.5%, holding period 20 trading days) stood at EUR 29.2 million.

§ 15 DisclRegulation Securitisations

§ 15 lit. 1, 4, 7, 10, 11 DisclReg

KF has not conducted any securitisation transactions to date and currently acts solely as an investor in structured securitisations to generate interest income. For disclosures on the size and structure of the portfolio, see § 15 lit.14b. Apart from that, KF has no function in securitisation transactions.

§ 15 lit.2 DisclReg

KF's securitisation portfolio mainly comprises securitisations of US government-guaranteed student loans, US military housing transactions and European ABS. Significant credit risk factors are due to the type of securitised receivables, for instance relating to the servicer quality in student loan securitisations or home price developments and the strategic orientation of the US Army in military housing transactions. Besides credit risk, market risks, especially interest rate and credit spread risks, are relevant to the securitisation portfolio.

§ 15 lit.3 DisclReg

KF does not hold any re-securitisations.

§ 15 lit.5 DisclReg

Currently not relevant to KF, as this requirement only applies to originators of ABS structures.

§ 15 lit.6 DisclReg

Cash flow models based on the modelling of the receivables underlying the positions and the transaction structure are used to quantify market and credit risks. Quarterly stress tests are performed to evaluate the real economic value by transaction for different scenarios.

§ 15 lit.8 DisclReg

31-12-2013

Exposure class	Approach
Residential mortgage-backed securities	Standardised approach
Commercial mortgage-backed securities	Standardised approach
Collateralised debt obligations	Standardised approach
Military housing	Standardised approach
Student loans	Standardised approach
Other ABS	Standardised approach
Total	Standardised approach

§ 15 lit.10c DisclReg

Fair value measurement is performed on the basis of quotes, if available; if quotes are not available, comparable transactions or model valuations are used. The major part of the securitisation portfolio is classified as non-current assets and therefore measured at amortised cost on the basis of the mitigated lower-of-cost-or-market principle.

§ 15 lit.11 DisclReg

The weighted receivables for securitisation positions are calculated according to the standardised approach using ratings by the three rating agencies shown under § 8 lit.1.

§ 15 lit.12 DisclReg

No disclosure required under this item, as weighted receivables are not calculated on the basis of an internal measurement approach.

§ 15 lit.14b DisclReg

The structure of KF's securitisation portfolio, broken down by type of securitisation and relevant risk weight, is as follows:

Receivables in TEUR (31-12-2013)

Type of securitisation	20%	50%	100%	350%	1.250%	Total
Residential mortgage-backed securities	8,752.4	11,768.5	637.5	0.0	3,981.1	25,139.5
Commercial mortgage-backed securities	0.0	2,319.0	18,033.6	0.0	14,439.7	34,792.3
Collateralised debt obligations	0.0	0.0	0.0	0.0	0.0	0.0
Military housing	0.0	35,648.7	133,184.4	20,182.3	5,514.7	194,530.2
Student loans	363,827.4	0.0	0.0	0.0	0.0	363,827.4
Other ABS	4,070.9	0.0	0.0	0.0	0.0	4,070.9
Total	**376,650.7**	**49,736.2**	**151,855.5**	**20,182.3**	**23,935.5**	**622,360.3**

§ 15 lit.14c DisclReg

As a portfolio run-down facility, KF does not engage in any new asset-side business; no new securitisation transactions are made.

§ 15 lit.14d DisclReg

No disclosure required, as KF has no securitisation facilities.

<u>§ 15 lit.14e DisclReg</u>

As at 31 December 2013, the sum total of receivables, weighted at 1,250%, amounted to TEUR 23,936. There are no positions to be deducted from equity pursuant to § 23 para.13 lit.4d of the Austrian Banking Act.

§ 15 lit.15a DisclReg

Weighted receivables in TEUR (31-12-2013)

Type of securitisation	20%	50%	100%	350%	1250%	Total
Securitisation exposure	**376,650.7**	**49,736.2**	**151,855.5**	**20,182.3**	**23,935.5**	**622,360.3**
– Risk-weighted receivables	75,330.1	24,868.1	151,855.5	70,638.1	299,194.2	**621,886.0**
of which own funds requirement	6,026.4	1,989.4	12,148.4	5,651.1	23,935.5	49,750.9
Total own funds required for securitisations	**6,026.4**	**1,989.4**	**12,148.4**	**5,651.1**	**23,935.5**	**49,750.9**

§ 15 lit.15b DisclReg

No disclosure required, as KF has no exposure from re-securitisations.

§ 15 lit.16 DisclReg

31-12-2013

Type of securitisation	Receivables	Impairment	LLP set up	LLP released	Reclassification / Utilisation / Currency differences
Residential mortgage-backed securities	25,139.5	0.0	0.0	536.4	0.0
Commercial mortgage-backed securities	34,792.3	0.0	0.0	0.0	0.0
Collateralised debt obligations	0.0	0.0	0.0	0.0	0.0
Military housing	194,530.2	0.0	0.0	3,764.3	0.0
Student loans	363,827.4	0.0	0.0	0.0	0.0
Other ABS	4,070.9	0.0	0.0	0.0	-6,310.7
Total	**622,360.3**	**0.0**	**0.0**	**4,300.7**	**-6,310.7**

§ 15a DisclReg
Remuneration policy and practices

KF's remuneration policy was elaborated by an interdisciplinary working group comprising representatives of KF (Operating Officer) and KA via the SLA (strategy and legal issues, controlling, credit risk, human resources), as well Deloitte as an external consultant. The remuneration policy is decided and reviewed by the Supervisory Board. A Remuneration Committee has been set up to monitor the remuneration policy and its implementation at regular intervals and to report to the Supervisory Board. The members of the Remuneration Committee are Klaus Liebscher (chairman, remuneration expert), Adolf Wala (deputy chairman), Werner Muhm and Stefan Pichler (since 26-6-2013) as shareholder representatives, and Franz Hofer and Marc Schimpel (since 19-10-2013) as employee representatives. Georg Schöppl (until 28-5-2013) and Christine Sipek (until 18-10-2013) resigned from the Remuneration Committee.

The criteria of success determining the amount of variable remuneration are the risk-adjusted result of the company and the achievement of individual targets.

The individual performance premium is determined by the performance of the company, as it depends on the achievement of the budgeted annual result and on compliance with the regulatory minimum own funds requirements. Risk-adjustment of the results of the company is ensured through their connection with the nominal portfolio run-down targets of KF. Through the introduction of lower and upper limits (ceiling), flexibility of the variable remuneration components is guaranteed.

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

KF takes a comprehensive view of performance, which is understood to comprise qualitative and quantitative targets set on the basis of specified criteria (risk adjustment, long-term approach and sustainability, consideration of main tasks and day-to-day business, organisational unit). Target achievement is evaluated on the basis of a four-stage performance assessment scale. Depending on the achievement of individual targets, the system allows considerable variations: On the one hand, the individual performance premium is subject to an upper limit; on the other hand, it may not be paid out at all.

As a matter of principle, deferral at a ratio of 60/40 applies for all identified staff, i.e. 60% of the variable remuneration is paid out immediately, whereas 40% is deferred over a period of 5 years and paid out on a pro-rata basis.

In the absence of instruments suitable to be paid out as remuneration on account of KF's ownership structure, all variable remuneration is paid out in cash. In the year under review, neither recruitment premiums nor severance pay were paid out.

§ 15a para.1 lit.6 DisclReg

Given the purpose of KF, there is only one business segment. Therefore, a breakdown of remuneration by segment is not necessary.

§ 15a para.1 lit.7a-f and para.2 DisclReg

KF has no employed staff of its own. Certain members of the staff of KA are delegated to KF and work exclusively for KF. The amounts shown here as remuneration refer to the delegated staff members. However, in KF's annual financial statements these amounts are not reported under personnel expenses, but under other administrative expenses.

The following table shows the total remuneration paid out in 2013 to delegated staff members in senior management functions. KF has no other delegated staff members whose activities would have a material impact on the risk profile of the credit institution.

The Executive Board members of KA also act as Executive Board members for KF. Their remuneration is invoiced by KA on a pro-rata basis to KF and reported under KF's other administrative expenses. Therefore, KF does not show these amounts as remuneration of managing directors.

in EUR	Senior management
Number of beneficiaries	5
Sum total of remuneration	873,897.5
of which fixed	*723,917.5*
of which variable	*149,980.0*
Breakdown of variable remuneration:	
- *Cash payments, not provisioned*	*99,888.0*
- *Cash payments, provisioned*	*50,092.0*
Deferred remuneration:	
- *Portions earned*	*0.0*
- *Portions not yet earned, incl. previous years*	*50,092.0*
Deferred remuneration	
- *granted in 2013*	*50,092.0*
- *paid out in 2013*	*0.0*
- *reduced in 2013 due to performance adjustments*	*0.0*

§ 16 DisclReg Disclosure regarding the internal ratings based approach

No disclosure required, as the internal ratings based approach is not used.

§ 17 DisclReg Regarding credit risk mitigation

§ 17 lit.1 DisclReg

Netting is used by KF exclusively in the derivatives business. As at 31 December 2013, all relevant derivatives were held in the banking book. Netting is not used for credit risk mitigation in customer business.

Netting arrangements have been made with Kommunalkredit Austria AG and a number of international banks. As at 31 December 2013, the value of receivables (netting effect) was reduced by TEUR 485,250.6.

§ 17 lit.2 DisclReg

The rules and procedures for the valuation and management of collateral are laid down in KF’s collateral catalogue, which classifies the types of collateral permitted in KF. The approach taken in the collateral catalogue is primarily based on the regulatory eligibility of collateral.

§ 17 lit.3 DisclReg

For the purpose of credit risk mitigation, KF primarily relies on financial collateral and personal collateral (sureties and guarantees). Other forms of collateral (real estate, movables, receivables, etc.) play a minor role and do not serve as eligible collateral as defined by the regulatory authorities.

§ 17 lit.4 DisclReg
Personal collateral available to KF comprises CDS-buy positions as well as guarantees by sovereigns and regional territorial authorities. Almost all CDS collateral givers are in rating class 2, most of the guarantors are in rating classes 1 and 4.

Personal collateral can be broken down by guarantor and rating as follows:

in TEUR (31-12-2013)

Regulatory rating class	Sovereigns and central banks	Regional territorial authorities	Public administrative bodies	Institutions	Corporates	Total
1	102,269.6	34,286.9	8,894.7	0.0	0.0	145,451.2
2	53,347.8	22,550.5	0.0	502,914.2	40,442.9	619,255.4
3	436.5	1,047.4	0.0	0.0	0.0	1,483.9
4	34,126.7	0.0	0.0	0.0	0.0	34,126.7
5	165,206.9	0.0	0.0	0.0	0.0	165,206.9
6	0.0	0.0	0.0	30,509.0	0.0	30,509.0
Total	**355,387.5**	**57,884.8**	**8,894.7**	**533,423.2**	**40,442.9**	**996,033.1**

§ 17 lit.5 DisclReg

As regards credit risk mitigation, a certain concentration of credit risk with the Republic of Austria and a number of Austrian provinces is due to the nature of KF's business. There are no comparable risk concentrations abroad and/or with corporate customers.

§ 17 lit.6 and 7 DisclReg

in TEUR (31-12-2013)

Basel II approach / Exposure class		Financial collateral	Personal collateral	Total
Standardised approach	Exposure to central banks or sovereigns	115,958.2	116,224.0	232,182.2
	Exposure to regional territorial authorities and religious communities recognised by the state	128,698.9	0.0	128,698.9
	Exposure to public entities, administrative bodies and enterprises	157,467.7	0.0	157,467.7
	Exposure to multilateral development banks			0.0
	Exposure to institutions	169,606.7	1,650,026.5	1,819,633,2
	Exposure to corporates	424,301.6	10,531.0	434,832.6
	Total – Standardised approach	**996,033.1**	**1,776,781.5**	**2,772,814.5**

Own funds required for credit risk are determined on the basis of the standardised approach.

§ 18 DisclReg Disclosure regarding the advanced measurement approach

No disclosure required, as the advanced measurement approach is not applied to calculate minimum own funds required for operational risk.