

# Disclosure

## pursuant to Part 8 CRR

(Reporting date 30-09-2015)

Pursuant to Art. 431 and Art. 433 CRR, institutions have to publicly disclose the information specified in Part II CRR at least once a year, subject to the provisions laid down in Art. 432 CRR. KA Finanz AG (hereinafter called KF) meets the disclosure requirements through publication of this Disclosure Report on its website at [www.kafinanz.at](http://www.kafinanz.at), most recently as at 31 December 2014.

Pursuant to Art. 433 CRR, institutions have to assess the need to publish some or all disclosures more frequently than annually in the light of the relevant characteristics of their business.

Effective as of 26 September 2015, the part of Kommunalkredit Austria AG (KA) remaining after the demerger (KA Residual) was merged into KF; the disclosures required and published herein therefore relate to KF after the merger (reporting date 30-09-2015).

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## **Art. 435 CRR Risk management objectives and policies**

### **Art. 435.1 (a) to (d) CRR**

**Risk management strategies and processes; structure and organisation of the risk management and monitoring function, and scope and nature of risk reporting and measurement systems; risk management guidelines and policies**

#### **Overview**

The primary business purpose of KA Finanz AG (KF) is to manage and phase out the non-strategic portfolio held by the former Kommunalkredit Austria (KA) prior to the demerger, while minimising, as much as possible, the input of resources by the Republic of Austria and making every effort 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, management and limitation of risks.

The overall management 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 KA under the service level agreement (SLA), such as the drafting of limit and risk reports as well as portfolio analyses.

#### **Specific risks of KF**

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 measurement, monitoring and management strategies 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, risk of rating changes, 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 run-off 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. The bank's capital position must always be taken into consideration; the corresponding steps in the decision-making process are documented.

#### Rating procedure

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.

#### Credit exposure

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 protection provider. Depending on the assessment of the risk, the exposure is transferred to the guarantor and included in the portfolio model and the limit system.

#### Unexpected loss – Portfolio credit risk model

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 the 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).

#### Concentration risk

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 sector-specific 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 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 management of the liquidity position by Treasury,
- dynamic liquidity forecasts (for periods of less than one year) under certain scenario assumptions, including combined stress scenarios,
- 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 2015, KF's liquidity situation was stable throughout the year due to continued, active portfolio run-down measures and to an increase in the volume of funding guaranteed by the Republic of Austria. 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 30 September 2015 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-off facility, i.e. funding based mostly on the money market and benefiting from the cost and flexibility advantages afforded by its being owned by the Republic of Austria (now held in trust by FIMBAG), all the while aiming at maximising own contributions.

### Liquidity position as at 30-09-2015

in EUR million as at 30-09-2015	Expected liquidity gap	Additionally available liquidity	Liquidity position after measures
Up to one months	-3,238	3,749	511
More than one month up to three months	-1,457	1,468	11
More than three months up to one year	-3,937	3,694	-242
<b>Total (cumulative up to one year)</b>	<b>-8,631</b>	<b>8,911</b>	<b>280</b>

### Liquidity position as at 31-12-2014

in EUR million as at 31-12-2014	Expected liquidity gap	Additionally available liquidity	Liquidity position after measures
Up to one month	-1,254	1,832	578
More than one month up to three months	-1,104	1,000	-104
More than three months up to one year	-2,658	2,330	-328
<b>Total (cumulative up to one year)</b>	<b>-5,016</b>	<b>5,163</b>	<b>147</b>

### Long-term liquidity risk ( $\geq 1$ year)

For the purposes of liquidity management 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 management 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 managed 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 available 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.

For the valuation of the KF portfolio, the most important market risk factors by far are credit spreads and interest rates. With the restructuring plan basically providing for portfolio run-down through redemptions, a major part of the portfolio is designated 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, management 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 decline 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 management 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 99.9%). The VaR calculated considers KF's entire portfolio of transactions, but not its equity (paid-in capital and reserves). As at 30 September 2015, the interest VaR (confidence level 99.9%, holding period 20 trading days) stood at EUR 72.0 million.

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

In addition to monthly reporting at the RMC, near-time operational management of the interest rate risk and the repricing risk is performed at 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.

A system of operational management 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 managed 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 30 September 2015, the cumulative open FX position stood at TEUR 776.7 and the diversified FX VaR at TEUR 3.8 (31-12-2014: TEUR 3.0).

### Operational risk

We refer to our comments under Art. 446 CRR.

#### **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**

KF's risk management systems and processes correspond to the relevance and materiality of the risks and the function of KF as a run-off facility; they meet the general, prudential risk management requirements and the standards of the banking business, including the Austrian Banking Act, the Austrian Regulation on Risk Management by Financial Institutions (KI-RMVO), CRR, CRD IV.

KF's business activities focus on the structured run-down of the existing portfolio; KF does not engage in any new asset-side business. The core tasks of KF therefore consist in active portfolio monitoring for the purpose of early identification of risks, active portfolio management, and active liquidity management.

Pursuant to § 39 (5) Austrian Banking Act, the Risk Office has been established as a risk management function independent of the institution's operational business with direct access to the Executive Board.

In 2015, KF's risk management procedures and processes were subjected to the annual comprehensive review (ICAAP review). The review focused on the adequacy of all components of the risk management process. The priority targets of the most recent review included

- the performance of the annual risk assessments and a review of the risk strategies of the institution as a whole and at single-risk level;
- the review and, if necessary, the adaptation of the perspectives of the risk-bearing-capacity analysis and the stress tests,
- the review and, if necessary, the adaptation of risk quantification methods and limits,
- the review and updating of guidelines and other documents.

The ICAAP review was coordinated by the Risk Officer of KF and supported by the KF management and the units of KA involved via the SLA. The Executive Board was involved in the process through regular information. The results were documented in a final report and approved by the Executive Board. The final report was also submitted to the Supervisory Board.

The risk assessments showed that, above all, credit and liquidity risk continue to be highly relevant to KF as a run-off facility; at the same time, concentration risks, mainly exposures to the European peripheral countries, have declined sharply as a result of accelerated portfolio run-down activities.

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 individual 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 limits for each main risk type and a minimum capital buffer in per cent of aggregate risk cover. The utilisation of risk limits and the amount of the actual capital buffer, compared with 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 99.9%. As at 30 September 2015, the capital buffer, as seen from the liquidation perspective, amounted to EUR 119 million or 28% of own funds (31-12-2014: EUR 226 million or 39% of own funds).

From the going-concern perspective, risk tolerance is defined in terms of the hedging target of a minimum tier-1 ratio of 7% for the coming 12 months. The capital buffer required to reach the hedging target on the basis of a moderate stress scenario (risk-off scenario) is determined and reviewed every month. Based on a common equity tier-1 ratio of 15.2% as at 30 September 2015, the common equity tier-1 ratio would drop to 12.4% over the coming 12 months in the moderate stress case, which corresponds to a capital buffer of EUR 189.4 million.

For the purpose of risk limitation, operational limits have been implemented; above all, counterparty-related exposure limits, country limits, market risk limits and liquidity risk limits are subject to continuous monitoring.

In the course of 2015, the Supervisory Board and the Risk Committee, the latter set up pursuant to § 39d Austrian Banking Act, received regular, comprehensive reports on the risk position of the bank submitted by the Executive Board and the Risk Officer of KF.

## Art. 435.2 (a) CRR

### Directorships held by members of the management body

Name	Function in KA Finanz AG	Other directorships	
		Name	Function
Dr. Klaus Liebscher	Chairman of the Supervisory Board	FIMBAG Finanzmarkteteiligung AG des Bundes	Member of the Management Board
		Kommunalkredit Austria AG	Chairman of the Supervisory Board
		Bank Winter & Co AG	Deputy Chairman of the Supervisory Board
		Privatstiftung der Gemeinschaft der Freunde Wüstenrot	Chairman of the Management Board
		Österreichische Volksbanken-AG	Chairman of the Supervisory Board
KR Adolf Wala	Deputy Chairman of the Supervisory Board	FIMBAG Finanzmarkteteiligung AG des Bundes	Member of the Management Board
		Kommunalkredit Austria AG	Deputy Chairman of the Supervisory Board
		SOZIALBAU gemeinnützige Wohnungsaktiengesellschaft	Member of the Supervisory Board
		LYKOS AG	Deputy Chairman of the Supervisory Board
Mag. Werner Muhm	Member of the Supervisory Board	Kommunalkredit Austria AG	Member of the Supervisory Board
		Leopold Museum-Privatstiftung	Member of the Management Board
		WIENER STADTWERKE Holding AG	Member of the Supervisory Board
		WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group	Member of the Supervisory Board
		Oesterreichische Nationalbank	Authorised signatory
Univ.-Prof. Dr. Stefan Pichler	Member of the Supervisory Board	Kommunalkredit Austria AG	Member of the Supervisory Board
		Jubiläumstiftung der WU Wien	Member of the Management Board
		Petra Pichler KG	Limited partner
Mag. Marc Schimpel	Member of the Supervisory Board <sup>1</sup>	Kommunalkredit Austria AG	Member of the Supervisory Board <sup>2</sup>
Franz Hofer, MSc	Member of the Supervisory Board Authorised signatory	Kommunalkredit Austria AG	Member of the Supervisory Board
		Kommunalkredit Austria AG	Authorised signatory
Brigitte Markl	Member of the Supervisory Board	Kommunalkredit Austria AG	Member of the Supervisory Board <sup>3</sup>
Dr. Helmut Urban	Chairman of the Executive Board <sup>4</sup>	Kommunalkredit Austria AG	Member of the Executive Board
		Privatstiftung Schoeller-Preleuthner	Member of the Management Board
Mag. Bernhard Achberger	Member of the Executive Board <sup>5</sup>	-	
Mag. Alois Steinbichler	Chairman of the Executive Board <sup>6</sup>	Kommunalkredit Austria AG	Chairman of the Executive Board
		PREMIUM Fenzlgasse 50 GmbH & Co KG	Limited partner

## Art. 435.2 (b) CRR

### Strategy for the selection of members of the management body

In the course of the adjustment of the Rules of Procedure of the Supervisory Board at the Supervisory Board meeting 04/2013 on 27 September 2013, a Nomination Committee pursuant to § 29 of the Austrian Banking Act was established, effective as of 1 January 2014. In compliance with the law and the Articles of Association, the Nomination Committee held its annual meeting for 2015 on 28 September 2015; two additional meetings of the Nomination Committee were held in the autumn of 2015 in connection with the appointment of the new Executive Board.

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

<sup>1</sup> Until 12 October 2015

<sup>2</sup> Until 9 November 2015

<sup>3</sup> Since 9 November 2015

<sup>4</sup> Since 2 December 2015 (since 1 September 2013 Member of the Executive Board)

<sup>5</sup> Since 16 October 2015

<sup>6</sup> From 7 November 2008 to 16 October 2015

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; 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; aptitude for the assigned business areas; ability to share responsibility for overall strategy with the second Executive Board member; 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 required).

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 KF'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. To ensure compliance with these requirements, a special Fit & Proper Office has been set up. 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**

The Nomination Committee has defined a target ratio of 35% for the underrepresented gender on the Supervisory Board as well as of 50% on the Executive Board, qualification and occupational aptitude being crucial in the selection. The target ratio for the Supervisory Board is to be implemented by 31 December 2018, for the Executive Board by 31 December 2020.

#### **Art. 435.2 (d) CRR**

##### **Information regarding the establishment of a separate risk committee**

Pursuant to § 39d of the Austrian Banking Act, a Risk Committee of the Supervisory Board has been operational since 1 January 2014, 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 2015.

## **Art. 435.2 (e) CRR**

### **Information flow on risk to the management body**

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, management and limitation of risks.

The overall management 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.

The 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. The RMC is responsible for the establishment of guidelines for the implementation of the risk strategy and is in charge of limit setting (except country and counterparty limits, which are set by the Credit Committee) and limit monitoring by type of risk.

The weekly Credit Committee meeting is the central element of the credit approval process and the continuous portfolio and single-name review process. The tasks of the Credit Committee include, in particular, the analysis and assessment of single-name risks, the management of single-name risks and/or other risks, work-out cases, qualitative portfolio analyses, the assignment of ratings as well as country and counterparty limits.

The weekly ALCO is responsible for the operational management and monitoring of the interest rate and liquidity risk.

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

## **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 institution: KA Finanz AG (KF)

### **Art. 436 (b) CRR**

#### **Information on the scope of consolidation and entities therein**

Given the fact that KF only holds immaterial participations, it is not subject to consolidation. KF's participations are shown in detail under Art.447 (b) CRR.

As of 31 September 2015, KF does not constitute a group of financial instruments pursuant to § 30 of the Austrian Banking Act.

## Art. 436 (c) to (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 KF.

## 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)

30-09-2015

in TEUR	Eligible own fund
Capital instruments and the associated premium	389,000.0
of which subscribed capital	389,000.0
Cumulative other income (and other reserves)	22,487.2
- Net loss	-145,720.4
-Capital reserves	74,819.0
-Statutory reserve pursuant to § 57 (5) Austrian Banking Act	93,388.5
Fund for general banking risks	127,000.0
<b>Common equity tier 1 (CET1)</b>	<b>538,487.2</b>
Supplementary capital	112,132.9
Credit risk adjustments (provision pursuant to § 57 (1) Austrian Banking Act)	0.0
<b>Supplementary own funds (tier 2)</b>	<b>112,132.9</b>
<b>Total equity (TC = T1 + T2)</b>	<b>650,620.1</b>

The main features of KF's capital instruments are described in Annex 1.

### Subscribed capital

The subscribed capital as at 30 September 2015, unchanged from the previous year, amounts to EUR 389,000,000.00 and is subdivided into 3,890,000 no-par-value shares. The shares are bearer shares; each no-par-value share represents a stake of EUR 100.00 in the share capital. All no-par-value shares are held by the Republic of Austria.

There are no shares that have been issued but not fully paid in; there are no authorised shares. Neither as at 30 September 2015 nor during the business year did KF hold any treasury shares.

## Supplementary capital

The supplementary capital meets the conditions of Part 2, Title I, Chapter 4 of Regulation (EU) No 575/2013. As at 30 September 2015, it comprises the following components:

ISIN	Interest rate at reporting date in %	Maturity	Currency	Nominal in EUR	Right to call	Conversion to capital
XS0140045302	6.08	13-12-2018	EUR	19,500,000.00	Issuer	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
XS0257275098	4.9	23-06-2031	EUR	10,000,000.00	According to issuer's choice on 23-06-2016	no
XS0279423775	4.44	20-12-2030	EUR	35,000,000.00	Issuer in case of tax event	no
XS0255270380	6.721	07-06-2021	EUR	5,000,000.00	no	no
XS0286975973	0.278	28-02-2017	EUR	40,000,000.00	Issuer in case of tax event	no
AT0000441209	5	27-02-2024	EUR	19,000,000.00	Issuer	no

153,500,000.00

As announced through the ad-hoc disclosure of 25 September 2015, the compensation of the rights of special rights holders pursuant to § 226 (3) Stock Corporation Act (supplementary capital items XS0270579856, nominal EUR 19.0 million, and XS0284217709, nominal EUR 7.6 million), provided for in the merger contract and already communicated in this form through the ad-hoc disclosure of 26 June 2015, became legally effective at the time of entry of the merger in the Companies Register. Thus, following the reduction of participation capital as of 31 December 2011, KF no longer holds any profit-dependent instruments.

Pursuant to Article 63 CRR (supplementary capital items with incentive to redeem), one issue (AT0000441209, nominal EUR 19.0 million) does not meet all the conditions of eligibility as supplementary capital. Grandfathering pursuant to Article 484 CRR has reduced the eligibility of this issue as tier-2 capital pursuant to Article 486 in conjunction with § 20 of the FMA Regulation on CRR by 20% as of 1 January 2014 and by another 10% annually between 2015 and 2021. On the balance sheet, this issue is recognised under securitised liabilities.

Further details of these capital instruments are shown in Annex 1.

## Reconciliation of all regulatory capital items on the balance sheet

30-09-2015 in EUR 1,000	Book values pursuant to Austrian GAAP	Own funds pursuant to CRR
<b>Common equity tier-1 (CET1): Instruments and reserves</b>		
Capital instruments and the associated premium	389,000.0	389,000.0
- of which subscribed capital	389,000.0	389,000.0
Other comprehensive income (and other reserves)	22,487.2	22,487.2
-Net loss	-145,720.4	-145,720.4
-Capital reserves	74,819.0	74,819.0
-Statutory reserve pursuant to § 57 (5) Austrian Banking Act	93,388.5	93,388.5
Fund for general banking risks pursuant to § 57 (3) Austrian Banking Act	127,000.0	127,000.0
<b>Common equity tier-1 (CET1)</b>		<b>538,487.2</b>

<b>Core capital (T1 = CET1 + AT1)</b>		<b>538,487.2</b>
<b>Supplementary capital (T2): Instruments and reserves</b>	137,643.9	112,132.9
Capital instruments and the associated premium	137,643.9	112,132.9
- of which subordinated securitised liabilities		112,132.9
<b>Supplementary capital (T2)</b>		<b>112,132.9</b>
<b>Total equity (TC = T1 + T2)</b>		<b>650,620.1</b>
<b>Total risk-weighted assets</b>		<b>3,540,826.3</b>

	(A)	(B)	(C)
	Amount 30-09-2015 in EUR 1,000	Reference to article in Regulation (EU) No 575/2013	Amounts subject to treatment prior to Regulation (EU) No 575/2013 or specified amount of outstanding exposure pursuant to Regulation (EU) No 575/2013
<b>Common equity tier-1 (CET1): Instruments and reserves</b>			
Capital instruments and the associated premium	389,000.0	26 (1), 27, 28, 29, EBA list pursuant to Art. 26 (3)	
- of which subscribed capital	389,000.0		
Other comprehensive income (and other reserves)	22,487.2	26 (1)	
-Net loss	-145,720.4		
-Capital reserves	74,819.0		
-Statutory reserve pursuant to § 57 (5) Austrian Banking Act	93,388.5		
Fund for general banking risks pursuant to § 57 (3) Austrian Banking Act	127,000.0	26 (1) (f)	
Interim profits verified by persons independent of the institution, minus all foreseeable charges or dividends	0	26 (2)	
<b>Common equity tier-1 (CET1) before regulatory adjustments</b>	<b>538,487.2</b>		

	(A)	(B)	(C)
	Amount 30-09-2015 in EUR 1,000	Reference to article in Regulation (EU) No 575/2013	Amounts subject to treatment prior to Regulation (EU) No 575/2013 or specified amount of outstanding exposure pursuant to Regulation (EU) No 575/2013
<b>Common equity tier-1 (CET1) regulatory adjustments</b>			
<b>Regulatory adjustments of common equity tier-1 (CET1) in total</b>	<b>0</b>		
<b>Common equity tier-1 (CET1)</b>	<b>538,487.2</b>		
<b>Additional tier-1 capital (AT1)</b>	<b>0</b>		
<b>Core capital (T1 = CET1 + AT1)</b>	<b>538,487.2</b>		
<b>Supplementary capital (T2): Instruments and reserves</b>			
Capital instruments and the associated premium	112,132.9	62, 63	19,000.0
- of which subordinated securitised liabilities	112,132.9		
Credit risk adjustments (provision pursuant to § 57 (1) Austrian Banking Act)	0	62 (c) and (d)	
<b>Supplementary capital (T2) before regulatory adjustments</b>	<b>112,132.9</b>		
<b>Regulatory adjustments of supplementary capital (T2) in total</b>	<b>0</b>		
<b>Supplementary capital (T2)</b>	<b>112,132.9</b>		
<b>Total equity (TC = T1 + T2)</b>	<b>650,620.1</b>		
<b>Total risk-weighted assets</b>	<b>3,540,826.3</b>		

Equity ratios and buffers		
<b>Common equity tier-1 ratio</b> (expressed in per cent of total exposure amount)	15.2%	92 (2) (a), 465
<b>Core capital ratio</b> (expressed in per cent of total exposure amount)	15.2%	92 (2) (b), 465
<b>Total capital ratio</b> (expressed in per cent of total exposure amount)	18.4%	92 (2) (c)

	(A) Amount 30-09-2015 in EUR 1,000	(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
<b>Equity ratios and buffers</b>			
Direct, indirect and synthetic items of the institution in capital instruments of companies of the financial sector in which the institution does not hold a material stake (less than 10% and minus eligible items sold)***		36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4),	
<b>Applicable upper limits to the inclusion of impairments in supplementary capital</b>			
Upper limit for credit risk adjustments permitted to be recognised as supplementary capital within the framework of the standardised approach		0	62
<b>Equity instruments for which the transitional rules apply (applicable only from 1 January 2013 to 1 January 2022)</b>			
Current upper limit for T2 instruments for which the transitional rules apply	13,300	484 (5), 486 (4) and (5)	
Amount excluded from T2 due to upper limit (amount exceeding upper limit after redemptions and maturities)	5,700	484 (5), 486 (4) and (5)	

## Art. 437 (b) and (c) CRR

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

The main features of the common equity tier-1, additional tier-1 and tier-2 instruments are described in Annex 1. The full terms and conditions of these instruments are published on the website of KF (<https://www.kafinanz.at/DE/Investor%20Relations/Funding/Dokumentation/Dokumentation.aspx>).

## Art 437 (e) CRR

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

One issue (AT0000441209, nominal EUR 19.0 million) does not meet all the requirements to qualify as eligible supplementary capital pursuant to Article 63 CRR (supplementary capital item with incentive to redeem). Grandfathering pursuant to Article 484 CRR has reduced the eligibility of this issue as tier-2 capital pursuant to Article 486 in conjunction with § 20 of the FMA Regulation on CRR by 20% as of 1 January 2014 and by another 10% annually between 2015 and 2021.

The main features of this instrument as well as the other capital instruments issued by KF are described in Annex 1.

## **Art 437 (f) CRR**

### **Basis for the calculation of capital ratios**

The capital ratios of KF are calculated on the basis laid down in CRR. The provisions of Art.437 (f) therefore do not apply.

## **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 employed to identify, measure and manage the risks taken and to ensure an adequate level of capitalisation.

KF 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*

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 (confidence level 99.9%, holding period 1 year). The economic risk capital thus determined is compared with the aggregate risk cover, which in KF's case is equal to its regulatory own funds. As at 30 September 2015, the capital buffer from the liquidation perspective amounted to EUR 119 million or 28% of own funds (31-12-2014: EUR 226 million or 39% of own funds).

- *Going-concern perspective (operational capital monitoring)*

KF's operational capital monitoring from the going-concern perspective is aimed at maintaining a CET 1 capital ratio of at least 7%. Foreseeable losses are to be covered without the minimum core capital ratio falling below 7% within the next twelve months. A P&L oriented quantification of risk (credit, market and liquidity risk as well as operational risk) is used under different (stress) scenarios. Based on a common equity tier-1 ratio of 15.2% as at 30 September 2015, the common equity tier-1 ratio will drop to 14.0% in the base case and to 12.4% in the moderate stress case. In both scenarios, the target of a minimum core capital ratio of 7% is met.

## Art. 438 (c) CRR

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

*Capital requirements for credit risk based on the standardised approach (30-09-2015)*

Exposure classes pursuant to CRR		Minimum own funds requirement	Minimum own funds requirement
		in TEUR	in %
Standardised approach	Exposures to central banks and sovereigns	10,076.2	3.81
	Exposures to regional or local territorial authorities	33,181.5	12.54
	Exposures to public-sector bodies	19,523.8	7.38
	Exposures to multilateral development banks	0.0	0.00
	Exposures to international organisations	0.0	0.00
	Exposures to institutions	46,594.3	17.61
	Exposures to enterprises	84,369.7	31.89
	Defaulted exposures	16,597.5	6.27
	Participations	0.01	0.00
	Other items	6,604.9	2.50
	Securitisation positions	47,645.8	18.01
<b>Total – standardised approach</b>		<b>264,593.7</b>	<b>100.00</b>

## Art. 438 (d) CRR

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

KF 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 92.3**

*Own funds requirement for market risk/trading book (30-09-2015)*

Total own funds requirement for market risk (in EUR 1,000)	0.00
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*Own funds requirement for currency risk (30-09-2015)*

Total own funds requirement for currency risk (in EUR 1,000)	0.00
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## 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 (30-09-2015)*

Total own funds requirement for operational risk (in EUR 1,000)	0.00
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## **Art. 439 CRR Exposure to counterparty risk**

### **Art. 439 (a) CRR**

#### **Calculation of internal capital and upper limits for counterparty credit exposures**

KF regards the counterparty credit risk exposure from derivative, repo and securities lending transactions as a component of credit risk and applies a uniform method to determine the credit-risk-related exposure, which is taken into account in limit setting.

As at 30 September 2015, the own funds requirement for the risk of credit valuation adjustment (CVA risk) pursuant to Art.384 CRR amounts to TEUR 18,663.2.

### **Art. 439 (b) CRR**

#### **Rules for securing collateral and establishing credit reserves**

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. If other personal forms of collateral are available, the exposure can be counted toward the protection provider. Depending on the assessment of the risk, the exposure is transferred to the guarantor and taken into account in the portfolio model and the limit system.

### **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 by the institution in the event of a downgrade in its credit rating**

Given the fact that the amount of collateral to be provided by KF for derivative, repo and securities lending transaction primarily depends on the market values of the underlying transactions, with regular cash settlement performed at market values, a downgrade of KF's rating would have no material impact on the amount of collateral.

### **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**

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

30-09-2015

Product in TEUR	Nominal	Positive market values	Negative market values	Sum total of market values	Risk-weighted exposure value	Own funds requirement
<b>Interest-related transactions</b>	<b>18,152,882.9</b>	<b>912,909.0</b>	<b>-3,274,129.6</b>	<b>-2,361,220.6</b>	<b>178,244.5</b>	<b>60,280.6</b>
<i>Interest-rate swaps</i>	<i>18,152,882.9</i>	<i>912,909.0</i>	<i>-3,274,129.6</i>	<i>-2,361,220.6</i>	<i>178,244.5</i>	<i>60,280.6</i>
<b>Currency-related transactions</b>	<b>2,361,117.9</b>	<b>1,731,528.6</b>	<b>-2,193,605.2</b>	<b>-462,076.6</b>	<b>28,657.7</b>	<b>11,140.3</b>
<i>Interest-rate swaps</i>	<i>659,083.0</i>	<i>15,593.9</i>	<i>-491,752.1</i>	<i>-476,158.2</i>	<i>17,402.3</i>	<i>8,889.2</i>
<i>Currency swaps</i>	<i>1,702,035.0</i>	<i>1,715,934.7</i>	<i>-1,701,853.1</i>	<i>14,081.6</i>	<i>11,255.4</i>	<i>2,251.1</i>
<b>Options</b>	<b>0.0</b>	<b>254,383.1</b>	<b>-254,383.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<i>Options bought</i>	<i>1,000,000.0</i>	<i>254,383.1</i>	<i>0.0</i>	<i>254,383.1</i>	<i>0.0</i>	<i>0.0</i>
<i>Options sold</i>	<i>-1,000,000.0</i>	<i>0.0</i>	<i>-254,383.1</i>	<i>-254,383.1</i>	<i>0.0</i>	<i>0.0</i>
<b>Total</b>	<b>20,514,000.8</b>	<b>2,898,820.7</b>	<b>-5,722,118.0</b>	<b>-2,823,297.2</b>	<b>206,902.1</b>	<b>71,420.9</b>

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

The CDS portfolio is as follows:

*CDS portfolio as at balance sheet date (30-09-2015):*

Product in TEUR	Nominal	Market values	Risk-weighted exposure value	Own funds requirement
CDS-Sell	592,629.4	-859.9	0.00	0.00
CDS-Buy	-168,400.8	1,341.8	0.00	0.00

All CDS were made under ISDA contracts. Moreover, credit support annex agreements (CSA agreements) have been concluded with the counterparties, according to which the contracts are measured on a daily basis and collateralised by means of collateral payments.

KF exclusively concludes CDS contracts without trigger, which are treated as contingent liabilities in accordance with Austrian GAAP. The probability of future drawings has been examined and analysed in all CDS not intended for run-off. On the basis of these analyses, no provisions were required.

Based on ISDA/CSA arrangements, credit balances with banks in a nominal value of TEUR 2,769,178.2 were provided as collateral for negative market values of derivative transactions. Loans and advances to customers (non-bank financial institutions) include cash collateral provided for negative market values under ISDA/CSA arrangements in a nominal value of TEUR 262,400.0. Amounts owed to banks and amounts owed to customers include cash collateral received for positive market values in a nominal amount of TEUR 75,250.3 and TEUR 8,200.0 respectively.

The netting effect (i.e. difference between risk exposure before and after netting) amounted to TEUR 981,773 as at 30 September 2015.

## Art. 439 (i) CRR

### Estimate of $\alpha$

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

## Art. 440 CRR Capital buffers

The provisions of Art.440 CRR do not apply to KF.

## 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, KF 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”.

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 (back office); they are subject to approval by the Executive Board and reported to the Supervisory Board.

in TEUR	30-09-2015
Specific loan loss provisions	75,650.3
Portfolio loan loss provisions	1,142.5
Provisions pursuant to § 57 (1) Austrian Banking Act	-
Provisions pursuant to § 57 (3) Austrian Banking Act	127,000.0
<b>Total</b>	<b>203,792.8</b>

### 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:

- Class 0: Standard risk class for all counterparties not belonging to any of the following risk classes
- Class 1: Counterparties with slightly increased credit risk and/or a negative trend and therefore subject to close monitoring
- Class 2: Distressed exposures (payment arrears, credit impairment), except for distressed loans for which default according to Basel III has been identified
- Class 3: Default according to Basel III (amounts owed past due more than 90 days or amounts owed complete repayment of which is unlikely)

All counterparties of classes 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. Counterparties for which credit risk provisions are set up are classified on the watch list as risk class 3. As described above, the credit risk exposure in the watch list classes is shown less existing credit risk provisions.

## 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

Exposure value in TEUR (before credit risk mitigation and after value adjustment) as at 30-09-2015

Exposure value/Exposure class in TEUR	Average exposure value	Exposure value
Exposures to central banks or sovereigns	2,185,250.0	2,912,837.6
Exposures to regional or local territorial authorities	2,284,386.8	4,835,792.2
Exposures to public-sector bodies	397,755.5	604,227.0
Exposures to multilateral development banks	71,079.6	121,290.8
Exposures to international organisations	1,155.1	3,465.2
Exposures to institutions	3,133,130.5	3,767,526.9
Exposures to enterprises	1,340,433.4	1,480,359.4
Defaulted exposures	221,047.4	187,835.7
Securitisation positions	685,601.5	672,708.8
Other items	562,698.2	1,482,934.6
Participations	0.1	0.1
<b>Total</b>	<b>10,882,537.9</b>	<b>16,068,978.2</b>

KF consistently uses the standardised approach to credit risk. KF has no exposures to small and medium-sized enterprises (SMEs).

## 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 30-09-2015

Exposure value/Exposure class in TEUR	Austria	Western Europe	Central and Eastern Europe	Rest of the world	Not allocated	Total
Exposures to central banks or sovereigns	1,688,363.6	451,880.2	576,836.5	195,757.2	0.0	2,912,837.6
Exposures to regional or local territorial authorities	2,719,179.6	1,585,407.1	64,645.9	466,559.6	0.0	4,835,792.2
Exposures to public-sector bodies	226,118.3	213,433.4	2,515.4	162,159.8	0.0	604,227.0
Exposures to multilateral development banks	0.0	81,100.0	0.0	0.0	40,190.8	121,290.8
Exposures to international organisations	0.0	0.0	0.0	0.0	3,465.2	3,465.2
Exposures to institutions	603,236.4	2,996,762.9	5,296.9	162,230.8	0.0	3,767,526.9
Exposures to enterprises	137,310.0	779,952.1	57,477.3	505,619.9	0.0	1,480,359.4
Defaulted exposures	55,377.5	122,069.9	7,353.4	3,034.9	0.0	187,835.7

Exposure value/Exposure class in TEUR	Austria	Western Europe	Central and Eastern Europe	Rest of the world	Not allocated	Total
Securitisation positions	0.0	46,230.9	0.0	626,477.9	0.0	672,708.8
Other items	1,476,826.0	1,129.5	20.0	4,959.2	0.0	1,482,934.6
Participations	0.1	0.0	0.0	0.0	0.0	0.1
<b>Total</b>	<b>6,906,411.5</b>	<b>6,277,966.0</b>	<b>714,145.4</b>	<b>2,126,799.2</b>	<b>43,656.0</b>	<b>16,068,978.2</b>

## Art. 442 (e) CRR

### Distribution of the exposures by industry or counterparty type

For KF, a breakdown of exposure values by industry would result in a breakdown by exposure class, as already shown under Art. 442 (d) CRR. Therefore, a separate presentation under Art. 442 (e) CRR is not required.

## 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 30-09-2015*

Exposure value/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 banks or sovereigns	903,070.8	2,075.6	268,694.5	643,559.9	1,095,436.7	2,912,837.6
Exposures to regional or local territorial authorities	0.0	15,299.2	62,959.3	402,663.3	4,354,870.4	4,835,792.2
Exposures to public-sector bodies	50,000.0	1,032.7	0.0	119,991.7	433,202.5	604,227.0
Exposures to multilateral development banks	81,100.0	0.0	0.0	0.0	40,190.8	121,290.8
Exposures to international organisations	0.0	0.0	0.0	0.0	3,465.2	3,465.2
Exposures to institutions	2,949,881.3	15,361.3	14,869.3	90,970.9	696,444.2	3,767,526.9
Exposures to enterprises	40,910.6	0.0	41,256.3	219,626.2	1,178,566.2	1,480,359.4
Defaulted exposures	0.0	0.0	1,024.0	62,730.9	124,080.8	187,835.7
Securitisation positions	0.0	0.0	0.0	2,148.5	670,560.4	672,708.8
Other items	82,817.6	0.0	50,013.8	1,350,103.2	0.0	1,482,934.6
Participations	0.0	0.0	0.0	0.0	0.1	0.1
<b>Total</b>	<b>4,107,780.3</b>	<b>33,768.9</b>	<b>438,817.2</b>	<b>2,891,794.5</b>	<b>8,596,817.2</b>	<b>16,068,978.2</b>

## 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

Exposure value in TEUR (before credit risk mitigation and after value adjustment) as at 30-09-2015

Exposure value/Exposure class in TEUR	Exposures	Impaired <sup>[1]</sup>	Value adjustments	LLPs set up	LLPs released	Reclassification / Utilisation / Currency differences
Exposures to central banks or sovereigns	2,912,837.6	0.0	0.0	0.0	0.0	0.0
Exposures to regional or local territorial authorities	4,835,792.2	0.0	0.0	0.0	0.0	0.0
Exposures to public-sector bodies	604,227.0	0.0	0.0	0.0	0.0	0.0
Exposures to multilateral development banks	121,290.8	0.0	0.0	0.0	0.0	0.0
Exposures to international organisations	3,465.2	0.0	0.0	0.0	0.0	0.0
Exposures to institutions	3,767,526.9	0.0	0.0	0.0	0.0	0.0
Exposures to enterprises	1,480,359.4	0.0	0.0	0.0	0.0	0.0
Defaulted exposures	187,835.7	187,835.7	75,650.3	1,344.4	539.1	0.0
Securitisation positions	672,708.8	0.0	0.0	0.0	0.0	0.0
Other items	1,482,934.6	0.0	0.0	0.0	0.0	0.0
Participations	0.1	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>16,068,978.2</b>	<b>187,835.7</b>	<b>75,650.3</b>	<b>1,344.4</b>	<b>539.1</b>	<b>0.0</b>

[1] comprises exposures at risk of default in risk class 3 (classification „unlikely to pay“) and exposures past due in risk class 3 (classification 90 days +)

## Art. 442 (h) CRR

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

Exposure value in TEUR (before credit risk mitigation and after value adjustment) as at 30-09-2015

Values in TEUR	Exposures	At risk of default <sup>[1]</sup>	Past due <sup>[2]</sup>	Value adjustments	LLPs set up	LLPs released	Reclassification / Utilisation / Currency differences
Austria	6,906,411.5	55,377.5	0.0	0,0	0.0	0.0	0.00
Western Europe	6,277,966.0	121,045.9	1,024.0	63,789,9	428.1	539.1	0.00
Central and Eastern Europe	714,145.4	3,543.7	3,809,7	0,0	0.0	0.0	0.00
Rest of the world	2,126,799.2	0.0	3,034,9	11,860,4	916.3	0.0	0.00
Not allocated	43,656.0	0.0	0,0	0,0	0.0	0.0	0.00
<b>Total</b>	<b>16,068,978.2</b>	<b>179,967.1</b>	<b>7,868,6</b>	<b>75,650,3</b>	<b>1,344.4</b>	<b>539.1</b>	<b>0.00</b>

[1] Exposures at risk of default in risk class 3 (classification „unlikely to pay“).

[2] Exposures past due in risk class 3 (classification 90 days +)

## Art. 442 (i) CRR

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

30-09-2015

Values in TEUR	2015	Of which lending and securities transactions (specific loan loss provision)	Of which portfolio loan loss provisions	Of which provision § 57 (1) Austrian Banking Act
As at beginning of reporting year	124,822.6	74,845.0	1,142.5	48.835.1
+ addition	1,344.4	1,344.4	0.0	0.0
- release	49,374.2	539.1	0.0	48.835.1
- utilisation	0.0	0.0	0.0	0.0
+ change due to currency translation	0.0	0.0	0.0	0.0
As at 30-09-2015	76,792.8	75,650.3	1,142.5	0.0

## Art. 443 CRR Unencumbered assets

Assets as at 30-09-2015

Values in EUR 1,000	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
Assets	10,206,553.6	–	3,325,113.9	–
Equity instruments	0	0	0	0
Debt instruments	2,768,914.0	3,265,004.7	1,484,581.8	1,554,283.0
Other assets	0	–	357,616.9	–

Collateral received as at 30-09-2015

Values in EUR 1,000	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
Equity instruments	0	0
Debt instruments	0	0
Other collateral received	0	0
Own debt instruments issued other than <i>Pfandbriefe</i> or ABS	0	0

Encumbered assets/collateral received and associated liabilities as at 30-09-2015

Values in EUR 1,000	Coverage of liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt instruments issued other than encumbered <i>Pfandbriefe</i> and ABS
Book value	8,620,587.5	10,206,553.6

### Amount of encumbrance

The most important sources of encumbrance were repos and tender transactions with the Austrian National Bank (OeNB).

As at 30 September 2015, the asset encumbrance ratio was 75.4%.

## Art. 444 CRR Use of ECAIs

### Art. 444 (a) CRR

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

KF 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:

30-09-2015

Exposure classes	Approach
Exposures to central banks and sovereigns	Standardised approach
Exposures to regional or local territorial authorities	Standardised approach
Exposures to enterprises	Standardised approach
Exposures to multilateral development banks (MDBs)	Standardised approach
Exposures to institutions	Standardised approach
Exposures to public-sector bodies	Standardised approach
Other items	Standardised approach
Securitisation positions	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

KF 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

As at 30 September 2015, the KF portfolio under the standardised approach is broken down into the following exposure classes:

Basel III approach/Exposure class in TEUR	Rating classes	Exposure value before credit risk mitigation	Exposure value after credit risk mitigation
		in TEUR	in TEUR
Exposures to central banks or sovereigns	No rating by an ECAI	0.0	0.0
	1	1,642,859.6	1,777,547.3
	2	183,901.4	192,836.1
	3	476,722.9	604,414.5
	4	90,446.0	256,441.8
	5	78,773.2	81,597.8
	6	0.0	0.0
Exposures to regional or local territorial authorities	No rating by an ECAI	0.0	0.0
	1	2,958,537.6	3,904,469.7
	2	276,523.7	280,666.0
	3	186,487.8	186,615.8
	4	112,707.4	132,708.6
	5	318,850.2	331,332.0
	6	0.0	0.0
Exposures to public-sector bodies	No rating by an ECAI	0.0	0.0
	1	1,188,484.4	361,625.2
	2	14,568.5	14,203.2
	3	96,215.6	27,155.4
	4	304,598.6	148,527.6
	5	14,997.2	2,515.4
	6	0.0	0.0
Exposures to multilateral development banks	pursuant to Art.117 CRR	121,290.8	121,290.8
Exposures to international organisations	pursuant to Art.118 CRR	3,465.2	3,465.2
Exposures to institutions	No rating by an ECAI	0.0	0.0
	1	268,260.1	73,607.4
	2	2,147,704.6	1,319,803.6
	3	631,302.4	186,593.1
	4	600,505.7	211,637.0
	5	0.0	0.0
	6	0.0	0.0
Exposures to enterprises	No rating by an ECAI	0.0	0.0
	1	527,684.2	216,935.0
	2	405,722.2	379,288.5
	3	831,561.1	811,912.1
	4	197,219.9	14,580.5
	5	4,851.4	2,026.7
	6	41,257.3	6,757.3
Defaulted exposures	pursuant to Art.127 CRR	187,835.7	187,835.7

Securitisation positions	No rating by an ECAI	0.0	0.0
	1	395,703.6	395,703.6
	2	156,946.1	156,946.1
	3	73,490.7	73,490.7
	4	24,090.1	24,090.1
	5	22,478.2	22,478.2
	6	0.0	0.0
Other items	pursuant to Art.134 CRR	1,482,934.6	1,482,934.6
Participations	pursuant to Art.133 CRR	0.1	0.1
<b>Total – standardised approach</b>		<b>16,068,978.2</b>	<b>13,994,033.2</b>

The exposure value after credit risk mitigation corresponds to the sum total of on-balance-sheet exposures, off-balance-sheet exposures and exposure amounts from derivatives, with the nominal values 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, due to the use of credit risk mitigation techniques, an exposure can migrate from one exposure class to another. 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.

## Art. 445 CRR Market risk

KF has no trading book; therefore, the minimum own funds requirement for risk types of the trading book was TEUR 0 as at 30 September 2015. The own funds requirement for the commodities risk and the foreign-exchange risk (including gold) as well was TEUR 0 as at 30 September 2015.

The minimum own funds requirement for the specific interest rate risk of securitisation positions was TEUR 0 as at 30 September 2015.

Risk types of the trading book, commodities risk and foreign-exchange risk (incl. gold) not included in the trading book	Minimum own funds requirement	Minimum own funds requirement
	in TEUR	in %
<b>Own funds requirement for counterparty risk</b>		
Position risk in debt instruments and assets, foreign-exchange risk and commodities risk (standardised approach)	0	n. a.
of which general position risk in interest-related instruments	0	n. a.
of which foreign-exchange risk, incl. risk from gold positions	0	n. a.
Position risk in debt instruments and asset positions, foreign-exchange and commodities risk (internal model)	0	n. a.
<b>Total minimum own funds requirement for the position risk in debt instruments and asset positions, foreign-exchange and commodities risk (without counterparty default risk)</b>	<b>0</b>	<b>n. a.</b>

## Art. 446 CRR Operational risk

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

For a future-oriented consideration of operational risk within the framework of the institution's operational risk-bearing capacity, the risk is quantified – similar to an advanced measurement approach – as the sum total of a parameter derived from the default database (scaled according to VaR) and an expert estimate for scenarios not covered by historical data. The operational risk also covers the outsourcing risk under 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 part of the operational risk. External events classified as pure credit risk, market risk, liquidity risk or other types of risk with no operational background are not covered by this definition. Operational risk management (ORM) is intended to generate added value for the bank through the ORM process.

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 quarterly 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 operational 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. Alternative workplaces are made available in the event of KF's office premises being out of order. In the spring of 2015, the BCM team conducted a survey to verify the extent to which staff members were aware of BCM. The annual resource assessment to identify the resources required in the event of a crisis was performed in the summer of 2015. The annual business impact analysis (BIA), which is intended to analyse business processes and IT services for their criticality and to verify the time to full restoration of services, was also performed within the framework of the resource assessment. The annual emergency exercise was scheduled for the beginning of December.

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 in excess of EUR 10,000 in the event of gross negligence) in accordance with the SLA. The own funds requirement for operational risk was TEUR 0 as at 30 September 2015.

## 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**

As at 30 September 2015, the portfolio of other participations comprises KF's stake in Einlagensicherung der Banken und Bankiers GmbH in the amount of EUR 70.

KF's participations 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 participations held in affiliated companies as at 30-09-2015*

Name and registered office	Investment 30-09-2015 in %	Equity 30-09-2015 in TEUR	Disposals	Cumulative depreciation
<b>Participations</b>				
Einlagensicherung der Banken und Bankiers GmbH, Wien	0.1	<sup>1)</sup>	0	0

Name and registered office	Book value 30-09-2015	Book value 30-09-2014	Write-down 2014	Write-up 2014
<b>Participations</b>				
Einlagensicherung der Banken und Bankiers GmbH, Wien	0	0	0	0

<sup>1)</sup> Not shown due to immateriality

### Art. 447 (c) CRR

**Types, nature and amounts of exchange-traded exposures**

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

### 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**

SALEM zwölfte Beteiligungsverwaltung GmbH was liquidated upon entry of the deletion in the Companies Register as at 31 January 2015. No unrealised gains or losses, latent revaluation gains or losses, or other items of this type were included in common equity tier-1 capital.

## **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, 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 declining net interest income, while the latter is the risk of net present value losses due to interest rate changes.

To ensure efficient monitoring and limitation of interest rate risks, KF uses analytical tools permitting the targeted management of the NPV risk of interest rate changes and the net interest income risk 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 managed at least monthly within the framework of the Risk Management Committee (RMC).

In addition to monthly reporting at the RMC, near-time operational management of the interest rate risk and the repricing risk is performed at the weekly meetings of the Asset Liability Committee (ALCO).

KF's portfolio primarily comprises positions with clearly defined interest rate and capital commitments. KF has no private customer deposits or loans that would require modelling of replication assumptions.

Net-present-value sensitivities are calculated within the framework of the interest rate risk analysis. In particular, parallel shifts of the yield curves (+1bp, +25bp, +50bp) are analysed by currency, both with and without current credit spreads.

Equally weighted historical volatilities and correlations (observation period 150 days) are used to calculate the interest VaR (holding period 20 trading days, confidence interval 99.9%). The VaR calculated considers KF's entire portfolio of transactions, but not its equity (paid-in capital and reserves). As at 30 September 2015, the interest VaR (confidence level 99.9%, holding period 20 trading days) stood at EUR 72.0 million.

## **Art. 449 CRR Risk from securitisation positions**

### **Art. 449 (a), (d), (g) and (j) CRR**

#### **The institution's objective in relation to securitisation activity and its roles in the securitisation process**

KF itself has not performed any securitisations and, for the time being, exclusively acts as an investor in structured securitisations aimed at generating interest income. Disclosures regarding the size and structure of the portfolio are made under Art. 449 (n) (ii) CRR. Apart from that, KF has no other function in securitisation transactions.

**Art. 449 (b) CRR**

**Nature of other risks, including liquidity risk, inherent in securitised assets**

KF’s securitisation portfolio mainly comprises securitisations of US government-guaranteed student loans, US military housing transactions and European ABS. The material credit risk factors are due to the nature of the securitised assets, such as 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, the most important types of risk for the securitisation portfolio are market risks, especially interest rate risk and credit spread risk.

**Art. 449 (c) CRR**

**Type of risks in terms of seniority of underlying securitisation positions and in terms of assets underlying those latter securitisation positions assumed and retained with re-securitisation activity**

KF does not hold any re-securitisation positions.

**Art. 449 (e) CRR**

**Extent of the institution’s involvement in each of the roles referred to in point (d)**

As stated under Art. 449 (a), (d), (g), and (j) CRR, KF only acts as an investor in securitisations. The extent of KF’s securitisation involvement as an investor is described under Art. 449 (n) (ii) CRR.

**Art. 449 (f) CRR**

**Processes in place to monitor the credit and market risk of securitisation positions and to assess how the behaviour of the underlying assets impacts securitisation exposures**

Cash-flow models based on the modelling of the underlying transactions and the transaction structure are used to quantify market and credit risks. Stress tests are performed on a quarterly basis, which assess, inter alia, the real economic value per transaction for different scenarios.

**Art. 449 (h) CRR**

**Approaches to calculating risk-weighted exposure amounts in securitisation activities, broken down by types of securitisation exposure**

30-09-2015

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

#### **Art. 449 (i) CRR**

**Types of SSPE that the institution, as sponsor, uses to securitise third-party exposures, as well as a list of the entities that the institution manages or advises and that invest in either the securitisation positions that the institution has securitised or in SSPEs that the institution sponsors**

No information to be provided, as KF does not act as a sponsor or originator of securitisations.

#### **Art. 449 (j) CRR**

**Summary of the institution's accounting policies for securitisation activities, including:**

**i) information as to whether the transactions are treated as sales or financings**

No information to be provided, as KF has not performed any securitisations.

**ii) the recognition of gains on sales**

No information to be provided, as KF has not performed any securitisations.

**iii) the methods, key assumptions, inputs and changes from the previous period for valuing securitisation positions**

The market value is measured on the basis of quotes, if available, or on the basis of comparable transactions or model valuations. The major part of the securitisation portfolio is classified as non-current assets and therefore recognised at amortised cost according to the mitigated lower-of-cost-or-market principle.

**iv) the treatment of synthetic securitisations if not covered by other accounting policies**

No information to be provided, as KF does not hold any synthetic securitisations.

**v) the method of valuation of assets awaiting securitisation**

No information to be provided, as KF does not hold any assets awaiting securitisation.

**vi) policies for recognising liabilities on the balance sheet for arrangements that could require the institution to provide financial support for securitised assets**

No information to be provided, as KF has not performed any securitisations.

#### **Art. 449 (k) CRR**

**Names of the ECAs used for securitisations and types of exposure for which each agency is used**

The weighted exposure amounts for securitisation positions are calculated according to the standardised approach; ratings of the three rating agencies specified under Art. 444 (a) CRR are used.

## Art. 449 (l) CRR

### Description of the Internal Assessment Approach as set out in Part 3, Title II, Chapter 5, Section 3

No information to be provided, as KF does not use the Internal Assessment Approach for the calculation of weighted exposure amounts.

## Art. 449 (m) CRR

### Explanation of significant changes to any of the quantitative disclosures in points (n) to (q) since the last reporting period

No significant changes to the quantitative disclosures in points (n) to (q) have occurred since the last reporting date of 31 December 2014.

## Art. 449 (n) CRR

### i) Total amount of outstanding exposures securitised by the institution

No information to be provided, as KF has not performed any securitisations.

### ii) Aggregate amount of on-balance sheet securitisation positions retained or purchased and off-balance sheet securitisation exposures

The structure of KF's securitisation portfolio, broken down by types of securitisation and relevant risk weights, is shown in the table below. All securitisations are held in the investment book.

*Exposure values in TEUR (30-09-2015)*

Type of securitisation	20 %	50 %	100 %	350 %	1,250 %	Total
Residential mortgage-backed securities	4,902.5	8,063.5	0.0	0.0	0.0	12,966.1
Commercial mortgage-backed securities	0.0	1,650.7	13,616.1	0.0	15,849.6	31,116.4
Military housing	0.0	148,882.6	58,223.9	24,090.1	6,628.6	237,825.3
Student loans	388,652.6	0.0	0.0	0.0	0.0	388,652.6
Other ABS	2,148.5	0.0	0.0	0.0	0.0	2,148.5
<b>Total</b>	<b>395,703.6</b>	<b>158,596.8</b>	<b>71,840.1</b>	<b>24,090.1</b>	<b>22,478.2</b>	<b>672,708.8</b>

### iii) Aggregate amount of assets awaiting securitisation

As a run-off facility, KF does not engage in any new asset-side business; there are no new securitisations.

### iv) Details on securitised facilities subject to early amortisation treatment

No information to be provided, as KF has no securitisation facilities.

**v) Amount of securitisation positions that are deducted from own funds or risk-weighted at 1,250%**

As at 30 September 2015, the total amount of exposures weighted at 1,250% was TEUR 22,478; there are no positions to be deducted from own funds.

**vi) Summary of the securitisation activity of the current period**

KF has not engaged in any securitisation activity in the reporting period.

**Art. 449 (o) CRR**

**i) Aggregate amount of securitisation positions retained or purchased, including the associated capital requirements, broken down into risk-weight bands**

All securitisations are held in the investment book.

*Values in TEUR (30-09-2015)*

Type of securitisation	20%	50%	100%	350%	1,250%	Total
Securitisation exposures	395,703.6	158,596.8	71,840.1	24,090.1	22,478.2	672,708.8
– Risk-weighted exposure values	79,140.7	79,298.4	71,840.1	84,315.5	280,977.7	595,572.4
of which own funds requirements	6,331.3	6,343.9	5,747.2	6,745.2	22,478.2	47,645.8
<b>Total own funds requirement for securitisations</b>	<b>6,331.3</b>	<b>6,343.9</b>	<b>5,747.2</b>	<b>6,745.2</b>	<b>22,478.2</b>	<b>47,645.8</b>

**ii) Aggregate amount of re-securitisation exposures retained or purchased**

No information to be provided, as KF has no re-securitisation exposures.

**Art. 449 (p) CRR**

**Amount of impaired/past due assets securitised and the losses recognised by the institution during the current period, broken down by exposure type**

*30-09-2015*

Type of securitisation	Exposures
Residential mortgage-backed securities	12,966.1
Commercial mortgage-backed securities	31,116.4
Military housing	237,825.3
Student loans	388,652.6
Other ABS	2,148.5
<b>Total</b>	<b>672,708.8</b>

#### **Art. 449 (q) CRR**

##### **For the trading book, the total outstanding exposures securitised by the institution and subject to a capital requirement for market risk**

No information to be provided, as KF has not issued any securitisations.

#### **Art. 449 (r) CRR**

##### **Disclosure as to whether the institution has provided support within the terms of Art. 248 (1)**

No information to be provided, as KF has not issued any securitisations.

### **Art. 450 CRR    Remuneration policy**

#### **Art. 450 (a)**

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

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 and Human Resources) as well as a representative of Deloitte Consulting GmbH as an external advisor, and subsequently laid down by the Executive Board. The remuneration policy is adopted and monitored by the Supervisory Board. The Remuneration Committee set up by KF regularly monitors implementation of the remuneration policy and reports 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 as capital representatives, and Franz Hofer, Marc Schimpel (until 12-10-2015) and Brigitte Markl (from 16-10-2015) as labour representatives. The Remuneration Committee met once in 2015.

#### **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 on which the variable components of remuneration are based 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 amount of the individual performance premium. Risk adjustment of the financial result is ensured through a linkage to the nominal run-off targets of KF. Through the introduction of lower and upper limits (ceiling) depending on 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.

KF 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 5 years and paid out on a pro-rata basis. Given KF’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**

Given the purpose of the company, KF has only one business area. A breakdown of remuneration by business area is therefore not required.

**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**

KF does not employ staff of its own. Instead, certain employees of KA are delegated to KF and work exclusively for KF. The amounts of senior management remuneration shown below concern these delegated employees. However, in KF’s annual financial statements these amounts are recognised not as personnel expenses, but as other administrative expenses.

Prior to the partial privatisation of KA on 28 September 2015, the two Executive Board members of KA also served as Executive Board members of KF. After the partial privatisation of KA, the regime of identical Executive Board membership was terminated step by step as of 28 September 2015 and 15 October 2015. Since 29 September 2015, the new Chairman of the Executive Board has exercised his function exclusively for KF. A second Executive Board member was appointed on 16 October 2015. Under the regime of identical Executive Board membership, the remuneration of the Executive Board members was re-invoiced by KA to KF on a pro-rata basis and recognised under other administrative expenses of KF. The total remuneration paid out in 2015 to the Executive Board members (after the partial privatisation of KA) and to delegated members of staff at senior management level is shown in the following table. Apart from these individuals, KF has no other delegated members of staff whose action have a material impact on the risk profile of the institution. There is no individual in KF receiving remuneration in excess of EUR 1 million.

in EUR	Top management	Senior management
Number of beneficiaries	2	6
Sum total of remuneration	124,883.7	655,476.2
<i>of which fixed</i>	<i>124,883.7</i>	<i>655,476.2</i>
<i>of which variable [1]</i>	-	-

[1] Variable remuneration in the form of bonus payments for the business year 2015 is not included in this Disclosure Report, as the final decision has not yet been taken. The corresponding figures will be disclosed as soon as the decision on bonus payments for the business year 2015 has been taken.

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

No information to be provided, as KF 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**

KF 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). KF 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 KF 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.

For derivatives, KF usually concludes credit support agreements and/or collateral annexes to framework contracts providing for periodic (usually daily) collateral margining. As at 30 September 2015, all derivatives were including in the banking book. Collateral margining is also agreed upon for repo transactions. KF 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 KF, ISDA and/or ICMA for the jurisdiction of the counterparty.

Compliance with the requirements set out in Art. 296.2 (b) and Art. 297.2 CRR as at 31 December 2014 was confirmed in the annex to the audit report of 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 potential future credit exposure, i.e. the exposure value after netting, is calculated pursuant to Art. 298.1 (c) CRR for all contracts with netting arrangements. As at 30 September 2015, the netting effect (i.e. difference between exposure value before and after netting) amounted to TEUR 981,773.

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 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 with netting arrangements. As at 30 September 2015, the netting effect (i.e. difference between exposure value before and after netting) amounted to EUR 1,370.35 million.

## Art. 453 (b) CRR

### Policies and processes for collateral valuation and management

For the purposes of credit risk mitigation, KF exclusively uses personal collateral, cash deposits with the institution and netting framework arrangements. Cash deposits are measured at their nominal value, with currency or maturity mismatches taken into consideration with a corresponding discount. In the case of personal collateral, collateral providers are subject to the same credit approval and rating process as primary obligors; the credit standing and/or creditworthiness is assessed on a case-by-case basis.

## Art. 453 (c) CRR

### Main types of collateral taken

KF primarily 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

The personal forms of collateral available to KF are CDS-buy as well as guarantees of sovereigns and other guarantors.

The breakdown of personal forms of collateral by types of guarantor and rating is as follows:

*in TEUR (30-09-2015)*

Regulatory rating grades	Sovereigns and central banks	Regional territorial authorities	Public-sector bodies	Institutions	Enterprises	Total
1	0.0	238,500.1	122,422.5	10,036.6	0.0	370,959.1
2	182,630.3	744,142.6	0.0	0.0	0.0	926,772.9
3	22,183.7	0.0	0.0	5,762.7	56,474.4	84,420.9
4	66,500.0	128.0	0.0	168,629.4	21,043.0	256,300.3
5	165,995.8	12,481.7	0.0	0.0	0.0	178,477.5
6	2,824.7	0.0	0.0	0.0	0.0	2,824.7
<b>Total</b>	<b>440,134.5</b>	<b>995,252.4</b>	<b>122,422.5</b>	<b>184,428.7</b>	<b>77,517.4</b>	<b>1,819,755.4</b>

## Art. 453 (e) CRR

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

Within the credit risk mitigation taken, there are no material risk concentrations relating to countries, sectors or single names.

## 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

in TEUR (30-09-2015)

Basel III approach/Exposure class	Financial collateral	Personal collateral	Total
Exposures to central banks or sovereigns	50,200.0	440,134.5	490,334.5
Exposures to regional territorial authorities and legally recognised religious communities	0.0	995,252.4	995,252.4
Exposures to public-sector bodies, administrative authorities and enterprises	0.0	122,422.5	122,422.5
Exposures to multilateral development banks	0.0	0.0	0.0
Exposures to institutions	4,228,743.7	184,428.7	4,413,172.4
Exposures to enterprises	48,900.0	77,517.4	126,417.4
Exposures past due	0.0	0.0	0.0
Securitisation positions	0.0	0.0	0.0
Other items	0.0	0.0	0.0
Participations	0.0	0.0	0.0
<b>Total – standardised approach</b>	<b>4,327,843.7</b>	<b>1,819,755.4</b>	<b>6,147,599.1</b>

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 to be provided, as KF 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 to be provided, as KF does not use an internal model for the calculation of the minimum own funds requirement for market risks; an internal model is used exclusively for risk management purposes.

## Publication concerning the deposit business of KF

The deposit business of KF is limited to those institutional investors which, between the State Aid Decision of 31 March 2011 and the time of the merger of the non-sold portfolio of Kommunalkredit Austria AG into KF as of 26 September 2015, already had business relationships with either one of the financial institutions. KF does not accept client deposits in excess of the upper limits shown in the following table:

Client deposits	2016-2020	2021-2025	2026-2030	2031-2035	2036-2040
In EUR million	1,200	800	600	400	200