ALWAYS FIRST – WITH SPEED AND PRECISION.

Annual Financial Report 2018
Kommunalkredit Group

KOMMUNAL
KREDIT

HIGHLIGHTS

Boost in profitability

RoE after tax
up to

13.1%

from 8.4%

Product range extended

Asset Management:

Fidelio KA

Dynamic transformation

52%

of total revenues
from infrastructure and
energy business

Strong growth in origination

+ 89%

Financing volume new business
EUR 1.2bn

Funding base strengthened

+ 56%

Customer deposits increased to EUR 1bn

High-quality loan portfolio

Average rating

"A-"

Earnings power strengthened

+ 65%

Operating result
EUR 22m

Stringent cost management

CIR down to

68.4%

from 78.7%

Solid capitalisation

19.9%

CET 1 ratio

24.3%

Total capital ratio

Focus on distribution

+ 53%

Placement volume
EUR 570m

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Governing Bodies of the Bank

Executive Board

Karl-Bernd Fislage
Chief Executive Officer

Alois Steinbichler
Chief Executive Officer
until 31 August 2018

Jochen Lucht
since 1 July 2018

Jörn Engelmann

Wolfgang Meister
until 6 March 2018

Supervisory Board

Patrick Bettscheider
Chairman; delegated by Gesona Beteiligungsverwaltung GmbH;
Managing Director Gesona Beteiligungsverwaltung GmbH
and Satere Beteiligungsverwaltungs GmbH

Christopher Guth
Deputy Chairman; delegated by Gesona Beteiligungsverwaltung GmbH

Friedrich Andreae
Managing Director Gesona Beteiligungsverwaltung GmbH and Satere Beteiligungsverwaltungs GmbH

Katharina Gehra
Managing Director Gesona Beteiligungsverwaltung GmbH and Satere Beteiligungsverwaltungs GmbH
until 5 September 2018

Jürgen Meisch
Managing Director Achalm Capital GmbH

Martin Rey
Managing Director Maroban GmbH

Alois Steinbichler
since 20 September 2018

Patrick Höller
Delegated by the Staff Council

Paul Matousek
Delegated by the Staff Council
until 14 December 2018

Renate Schneider
Delegated by the Staff Council

State Commissioner

Philip Schweizer
State Commissioner;
Federal Ministry of Finance
since 1 July 2018

Edeltraud Lachmayer
State Commissioner;
Federal Ministry of Finance
until 31 May 2018

Bettina Horvath
Deputy State Commissioner;
Federal Ministry of Finance

Government Commissioner for the Cover Pool for Covered Bank Bonds

Karin Fischer
Government Commissioner;
Federal Ministry of Finance

Sandra Kaiser
Deputy Government Commissioner;
Federal Ministry of Finance

The Executive Committee (from left): John Philip Weiland (Head of Banking), Mariella Huber (Head of Corporate Office), Reinhard Fuchs (Head of Markets), Bernd Fislage (CEO), Claudia Wieser (Head of Business Development), Thomas Grießler (Head of Finance), Jochen Lucht (CFO, CRO, COO).

LETTER BY THE
CHIEF EXECUTIVE OFFICER

Dear stakeholders,

Kommunalkredit delivered a strong performance in 2018. We continued on the trajectory established in 2017, substantially strengthening our operating earnings power and making significant progress in the execution of our strategic programme 50 I 50 I 10. By 2022, we aim to increase our operating result under Austrian GAAP to EUR 50m, reduce our cost/income ratio to 50% and generate an RoE of 10%.

Our success in 2018 was thanks to the dedication of our employees. We have a first-class team of local and international experts with an extensive track record in both the public finance business as well as the infrastructure and energy financing business. This is reflected in our achievements. Our success is their success!

Our underlying financial results were much better than they may seem at first glance. Kommunalkredit reported an after-tax IFRS result of EUR 14.3m in 2018, compared to EUR 18.0m in 2017. However, 2018 after-tax profit was impacted by a large year-on-year change in tax expenses arising mainly from the reduction in value of capitalised tax loss carry-forwards under IFRS. Our pre-tax result rose strongly from EUR 7.1m to EUR 32.6m, reflecting the excellent performance of the bank.

That said, at Kommunalkredit performance is not only judged by financial results. One of our key principles, along with client centricity and operational efficiency, is sustainable performance which we define as focusing on consistently providing value for our employees, our clients, the community and shareholders as our primary stakeholders. Our role as a bank is to finance economic growth by facilitating investment in essential infrastructure that improves the quality of people's lives.

In our efforts to provide our customers with outstanding services, we benefit from the strengths of a smaller bank. We are agile and nimble, we have no silo mentality and our team is eager to succeed. We aim to be always first when it comes to delivering outstanding results with speed and precision. We are ambitious. We take this as an obligation to get better every day.

In 2018, we have vigorously implemented our growth strategy, based on the two pillars of selective origination of new business transactions and disciplined placement with investors. In our origination activities we put a strong focus on deal selection criteria, considering structure, pricing and placeability with investors. Consistently applying these criteria, we expanded our presence in key international markets.

We increased new business volume by 89% to EUR 1.2bn in 2018 and established Kommunalkredit as a Top 30 lender in infrastructure and energy financing in the EMEA region (Europe, Middle East and Africa). The volume placed with investors rose by 53% to EUR 570m. Equally, we invested into our public financing business. The combination of our two businesses led to significant growth in earnings and outpaced the reduction in earnings from our historic, amortizing public sector asset book. At the same time, we successfully maintained our 0% NPL ratio.

Moreover, we set up a reliable stream of funding sources for the bank with 54% of our funding stemming from sources not available to us at the time of Kommunalkredit's privatisation in autumn 2015. We have a combination of long-term funding that we are gradually rolling out with lengthening tenors and deposit term funding resting on three pillars: public sector, corporate and online retail.

We are particularly proud of our achievement in setting up our new Fidelio KA Infrastructure Debt Fund platform in 2018, with the first close for our debut fund requiring a total time to market of less than 10 months. Through this platform we are able to offer customers access to infrastructure and energy financing via an asset management solution. The Fidelio KA platform is expected to become a major generator of capital-efficient revenues in the coming years.

The ending of provision of services to KA Finanz AG under a Service Level Agreement (SLA) on 31 March 2019 presents us with a challenge. The loss of revenue from this SLA may have an impact on our KPIs. Accordingly, in 2019, we have adjusted our operational capacities, similarly to our reduction program FiT2020, the costs of which amortized within one year following its implementation in 2017. By 2020, we will have fully digested the effect from these changes and adoptions.

These are tough measures, but they are necessary to facilitate essential future investments. We are no longer in restricting mode, efficiency has moved from being a program to how we run the bank day to day. We will further invest in talent, the modernization of our IT and the digitalization of our business. In 2018, we outsourced part of our IT hardware and streamlined processes as part of our FiT2020 program. Our workforce is prepared for technology investments which will automate many current tasks. However, this is an essential issue all companies face - automation will be necessary, but it is not just about technology, it is about how we will work in the future.

We start 2019 from a position of strength, and we are well-positioned to capitalise on the opportunities offered by the market. Although the world economy seems to have peaked in 2018, the level of activity in both the European market for infrastructure and energy financing and public financing is expected to remain high in 2019.

We aim to further reduce our cost/income ratio and deliver an attractive RoE by maintaining tight cost discipline and growing our businesses. In doing so, we will focus on revenues and profitability without making any compromises in our risk management. Capital strength continues to be fundamental to our strategy with the fully applied CET 1 ratio well above requirements. The 2018 profit will be retained to further strengthen our capital basis and a capital increase is planned for the second quarter of 2019.

We continue to broaden our product range by launching additional infrastructure debt funds under the Fidelio KA umbrella and by targeting the market for export credit financing. We place strong emphasis on financial advisory services and, selectively, may take co-sponsor roles in partnership with specialist developers for projects in which we have a specific and proven sector expertise. We will expand our market footprint across Europe with a special focus on our Austrian home market and Germany.

Dear stakeholders,

At the management board we want to send a clear signal. After the privatisation in autumn 2015, we said that the transformation of Kommunalkredit would not take 2 or 3 years but longer. In the meantime, we have laid the foundation to realize the bank's potential. After a transitional 2017, we gained growth in our core business in 2018. And we will continue to do so in 2019. Our strategy will be unchanged, but we will continuously adjust and improve in a changing environment. There is still much to do.

Best regards,

Vienna, March 2019

Kommunalkredit Austria AG

Bernd Fislage

CEO

MANAGEMENT REPORT

KOMMUNALKREDIT GROUP

ALWAYS FOCUSSED

KOMMUNALKREDIT – THE INFRASTRUCTURE SPECIALIST

Kommunalkredit is a specialised bank for infrastructure and energy financing. We are agile and nimble with short decision-making processes, and we have a clear objective: We aim to establish ourselves as a leading name in the European infrastructure market. Working in partnership with our customers, we create value that sustainably improves people's lives. In 2018 we have made significant progress in strengthening our market position. This has been recognized by strong positive feedback from our business partners and customers as well as competitors and the industry media. In 2018, Kommunalkredit ranked among the Top 30 Initial Mandated Lead Arrangers of credit financing in the EMEA region (Europe, Middle East and Africa) recorded by the leading industry magazine PFI (Thomson Reuters).

Top 30

Well established in the European infrastructure market

Our vision

We will become the most agile and nimble infrastructure bank in Europe, helping to create a better world.

Our mission

We are always first when it comes to delivering outstanding results with speed and precision. We never stand still. We take “always first” as an obligation to get better every day.

We provide benefit to the community

- We help to create a better world by enabling the development of sustainable infrastructure that improve the quality of people’s lives
- Infrastructure investments serve as a powerful tool for answering social needs and fundamentally increasing the general well-being of communities
- We provide tangible benefits to the community:
  - Economic dynamism
  - Urban development and renewal
  - Job creation
  - Measures to combat climate change
  - Social cohesion
- We focus on providing a secure, stable and sustainable yield to our investors
- Kommunalkredit is the partner of choice for a long-term commitment

ALWAYS SUCCESS-DRIVEN

OUR BUSINESS MODEL

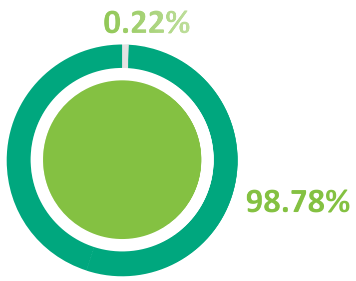
Kommunalkredit is the banking partner of choice for both corporate and financial sponsors active in the construction, acquisition and/or operation of infrastructure and energy projects as well as the public sector in the financing of its infrastructure investments and beyond. Our work focuses on delivering tangible benefits to smaller and larger communities by impacting key issues including economic growth, job creation, social cohesion and climate improvement.

We combine in-depth industry expertise and structuring know-how to provide tailor-made solutions for our clients with speed, precision and enthusiasm. Our strong relationships with both local communities on the one hand and international clients and investors on the other hand are firmly rooted in our ability to create sustainable value by providing flexible financing solutions across all layers of the capital structure. We provide an extensive range of

Shareholder structure

Gesona Beteiligungsverwaltung GmbH[1]

Österreichischer Gemeindebund (Austrian Association of Municipalities)



[1] Gesona Beteiligungsverwaltung GmbH is a holding company through which Interritus Limited and Trinity Investments Designated Activity Company – via Satere Beteiligungsverwaltungs GmbH – hold their participations in Kommunalkredit. Interritus and Trinity, respectively, hold 55% and 45% of Satere, which in turn holds 100% of Gesona.

products, from financial advisory services to arranging and underwriting of senior and junior debt as well as asset management through the Fidelio KA Infrastructure Debt Fund platform.

We are an enabler in the implementation and operation of infrastructure assets by matching the financing needs of project sponsors and developers with the growing number of investors searching sustainable investment opportunities such as insurance companies, pension funds and asset managers.

What sets us apart

- Our unique combination of in-depth industry expertise and structuring know-how with the financing capabilities of a bank
- Our access to a captive asset base and large investors
- Our strong track record of a senior team in managing risk and growing business; investment in talent and management development
- Our expertise in pricing risk and consistent delivery on our commitment to sponsors
- The benefits of an agile bank: nimble, flexible, no silo mentality and commitment to success

Our investment segments

Energy & Environment

Energy supply & distribution
Renewable energy
Water supply & treatment
Waste management & disposal

Communication & Digitalisation

Broadband
Fibre optic
Data centres

Transport

Roads, bridges, tunnels
Airports, ports, waterways
Rail/light rail, rolling stock

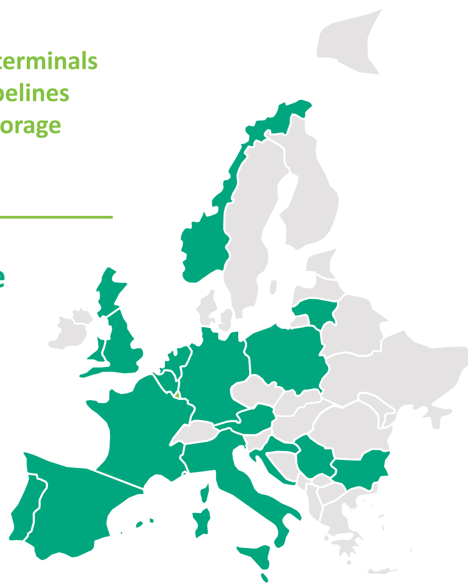
Natural Resources

LNG terminals
Pipelines
Storage

Social Infrastructure

Nurseries, schools, universities
Hospitals, nursing homes
Court buildings and correction facilities
Administrative buildings

Focus on Europe and selected OECD countries



Transactions in 2018

ALWAYS AMBITIOUS

50 I 50 I 10

In 2018, Kommunalkredit launched its strategic programme setting out clear and ambitious targets for 2022 : 50 I 50 I 10. We aim to increase the operating result to EUR 50m, reduce the cost/income ratio to 50% and generate a return on equity of 10% (all under local GAAP).

1 What is our goal?

We aim to establish Kommunalkredit as partner of choice for infrastructure investments and, as a result, a leading player in the European infrastructure market.

What did we achieve in 2018?

We completed transactions across Europe with a total volume of EUR 1.2bn., thereby increasing new business volume by 89% compared to the prior year. The volume placed with investors rose by 53% to EUR 570m.

2 How will we achieve this goal?

We focus on our core business. We live customer centricity and concentrate on operational efficiency and clearly-defined placement criteria.

What did we achieve in 2018?

We broadened our client network, ensured repeat business with key clients, and achieved a high implementation ratio in the acquisition and execution of projects. The successful placement activities confirm our ability to structure, price and manage credit risk to the market.

3 Where do we aim to improve in our core business?

We broaden the product range, grow the fee business, and improve productivity and profitability. We focus strongly on risk-adjusted returns.

What did we achieve in 2018?

We extended the range of products on offer adding asset management services through our Fidelio KA Infrastructure Debt Fund platform and we expanded our financial advisory services. Net fee and commission income rose by 67%. The strong risk-return focus is reflected in the significant increase in net interest income by 15%, with an average loan portfolio rating of “A-”.

4 What do we need to achieve this?

We aim to strengthen our capital basis. This will allow us to increase our underwriting capacity and to benefit from economies of scale. We invest in talent and the digitalisation of our processes. And we are comitted to improve our rating.

What did we achieve in 2018?

In order to support the growth of the bank, the 2018 profit will be fully retained to strenghten our capital basis. We further expanded our team of international infrastructure experts and invested in the digitalisation of our management information systems (MIS). The outlook for the DBRS long-term rating for Kommunalkredit (BBB low) was lifted from “negative” to „stable“.

5 Why is this attractive to our shareholders?

We aim to increase the operating result to EUR 50m by 2022, reduce the cost/income ratio to 50% and generate RoE of 10%. All these achievements will result into an attractive RoI through improvement of the P/B ratio.

What did we achieve in 2018?

We increased the operating result by 65% to EUR 22m, we reduced the cost/income ratio from 78.7% to 68.4% and improved the return on equity from 8.4% to 13.1% on a CET 1 ratio of 19.9% (all under local GAAP).

ALWAYS RELEVANT

WHY DO WE FOCUS ON INFRASTRUCTURE?

Infrastructure will always be relevant

1

Infrastructure by its very nature is essential to the efficient functioning of society. Improvements in infrastructure quality have a positive effect on economic growth, at local, regional and global levels. By giving populations improved access to essential services such as water, electricity, roads, schools and hospitals, the standard of living of the public will be improved. Infrastructure remains an essential backbone for the growth of developed and emerging economies alike.

Developed countries need to maintain and upgrade their existing utility, transport and social infrastructure assets, while coping with the demographic shift towards an aging population and the need to support them. In emerging countries with high demographic growth rates, infrastructure is crucial to sustained and balanced development. Climate change and scarcity of fossil fuel resources create the need to find sustainable energy production means and carbon footprint reduction is a key priority for regulators. Technological change plays both a positive and a negative role, putting the long-term relevance of certain infrastructure assets into question while enabling efficiency gains through digitalisation for a wide range of others.

High demand for investments in Europe

2

Demand for investment in infrastructure is enormous. The European Investment Bank (EIB) forecasts spending requirement of EUR 150bn to EUR 200bn per annum to reach the targets of the Europe 2020 strategy.[1] Investment demand is particularly high in the energy sector, with a special focus on renewable energy, and in the transport, social infrastructure and communication technology sectors.

Increasingly recognised as an asset class

3

The way in which infrastructure projects are financed has changed significantly in recent years. As the financial latitude of the public sector is decreasing on account of the high level of government debt and budget caps, a shift from classic budget finance to project finance continues to occur thanks to private funding.

Commercial banks continue to be a main source of debt financing for infrastructure projects. However, a host of other funding providers and products have appeared, given the increasing recognition of infrastructure as an asset class in its own right. Private placements, public bonds, direct institutional debt, multilaterals and export credit agencies are also heavily contributing to the sector. For investors seeking stable and predictable long-term cash flows from a relatively low-risk asset class, this offers an opportunity for real return enhancement in the current low yield environment.

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

Resilient, low default rates and high recovery rates

4

Infrastructure debt has consistently generated default rates lower than equivalently rated non-financial corporate bonds. According to Moody's the 10-year cumulative default rate for BBB-rated infrastructure debt is ca. 1.4%, compared with 3.4% for equivalently rated corporate issuers.[2] Among project finance bank loans the lowest default rates were recorded in infrastructure (3.3%) as well as power (5.0%), followed by oil & gas (5.7%).[3]

Infrastructure debt has demonstrated on average higher recovery rates compared with non-financial corporates, for both senior secured and unsecured debt. Senior secured infrastructure debt shows recovery rates of 74%, compared to 54% for non-financial corporate debt of an equivalent rating.[2] The ultimate global recovery rate for project finance bank loans averaged 79%. Among Kommunalkredit's focus industries recovery rates were between 60–80% (for infrastructure, media & telecoms, oil & gas) and 80–100% (power).[3]

Due to the fully or partly contracted or regulated nature of their revenue stream, infrastructure assets are less sensitive to economic cycles and therefore less correlated to traditional asset classes, such as corporate bonds and equities. Indeed, the majority of infrastructure debt investments exhibit very low cyclicality. This distinguishes infrastructure investments from many other asset classes such as commercial and residential real estate.

Furthermore, infrastructure investments may also offer a wide range of political and social benefits, as certain infrastructure assets will meet the sustainability investment criteria with which institutional investors are increasingly obliged to comply.

[2] Moody's: Infrastructure default and recovery rates, 1983-2016.

[3] Moody's: Default and recovery rates for project finance bank loans, 1983-2016.


+6.5%
Trends
More info
78%
Shares
CTMX
FTR
CSCO
CHK
AAPL
PRTO
AMZN
TSLA
AVGO
SIRI
0.45
-0.23
-1.01
0.02
-0.65
-2.34%
-1.89%

ALWAYS SUSTAINABLE

BENEFIT TO THE COMMUNITY

As a specialist bank for infrastructure and energy financing Kommunalkredit provides benefit to the community. We help to create a better world by enabling the development of sustainable infrastructure that improve the quality of people's lives. Investments in infrastructure serve as a powerful tool for answering social needs and fundamentally increasing the general well-being of communities. Efficient infrastructure strengthens the dynamism of the economy, encourages urban development, creates jobs, is essential in the fight against climate change and promotes social cohesion. It meets the needs of today's generation and creates opportunities for the next one.

Kommunalkredit contributed towards the education of 1,100 children, helped 10.5 million people to stay connected by advanced communication networks, supported the construction of 400 kilometres of road, helped to create care facilities for around 1,500 patients as well as accommodation for 8,300 elderly and disabled people. Kommunalkredit helped to provide renewable energy to one million households and to supply potable water to seven million people.

Sustainability as a business model

The concept of sustainability is firmly embedded in Kommunalkredit's business model and processes. In 1997, Kommunalkredit established an EMAS environmental management system and since then has further developed it into an overall sustainability management system. The significance of sustainability for Kommunalkredit is also highlighted by it becoming the first Austrian issuer of a Social Covered Bond.

Kommunalkredit Public Consulting GmbH (KPC), a subsidiary of Kommunalkredit, contributes towards the implementation of national and international environmental and climate protection projects. It develops and manages environmental as well as energy support programmes, and also established the Initiative „Climate Austria" for the voluntary offsetting of CO_2 emissions as part of the fight against climate change. In addition, KPC contributes towards the development and spread of advanced environmental and technological standards through a wide variety of international consulting projects in the areas of water, energy and climate finance.

Sustainability ratings

Kommunalkredit has a number of sustainability ratings from well recognised agencies. oekom research rates Kommunalkredit as a „Prime" company. The consultancy firm imug (Beratungsgesellschaft für sozial-ökologische Innovationen, Investment Research) assigns a rating of „very positive" to Kommunalkredit's covered bonds. Sustainalytics ranks Kommunalkredit's sustainability practices as „above average". The firm rfu (Reinhard Friesenbichler Unternehmensberatung/Business Consulting), a specialist in sustainable investments and sustainability analysis, assigns a status of „Qualified" to Kommunalkredit in its sustainability rating.

Detailed information on sustainability issues can be found in the Kommunalkredit Sustainability Report, which is available via **www.kommunalkredit.at**.

Creating a better everyday life

We contributed to the education of approx. 1,100 pupils

Schools

We equipped over 10.5m people with high speed communication

Telecoms

We support infrastructure development. We financed over 400 km of roads

Roads

We got over 8.3m passengers home faster

Airports

We provided environmentally friendly traf-fic solutions for **27m passengers** annually

Light rail

We created care facilities for almost **1,500 patients**

Hospitals

We provided accommodation for **8,300 elderly and disabled people**

Care homes

We provide renewable power to about **1.4m homes** annually

Wind and solar energy

We contribute to the avoidance of **2m tonnes** of waste to landfill annually

Waste to energy

We provide **7m people** with clean water

Water

Economic Environment

GLOBAL GDP GROWTH PEAKED IN 2018

Macroeconomic environment in 2018

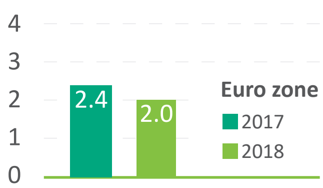
Global GDP growth is expected to have peaked at 3.7% in 2018, with the OECD countries having grown at a rate of 2.5%. However, macroeconomic policies have become less accommodative over time, and headwinds from trade tensions and tighter financial conditions have set the stage for 2019. Against this backdrop, global trade has started to deteriorate. Trade restrictions have adverse effects on confidence and investment plans. On average, global trade grew in 2018 by just 4.0% per annum. Further retaliatory measures from the United States and China to raise barriers on bilateral trade would hit output in these economies, with resulting adverse effects on global growth and trade.[1]

Strong growth in 2018

GDP growth continued throughout the year, although below projections

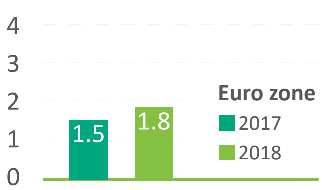
In 2018, the phase of strong growth continued throughout the year, driven by positive developments in both the industrialised world and emerging markets. However, the performance fell short of projections.

GDP growth in %



In 2018, the US economy grew by 2.9% (2017: 2.2%) based on solid private consumption, fiscal relief for corporates and a historically unprecedented low unemployment rate. The euro zone also maintained its positive momentum. Based on developments in the year, 2.0% GDP growth was recorded in the euro zone for 2018 (2017: 2.4%). Austria's GDP exceeded the euro zone average at a rate of 2.7%, the same as in 2017. A growth rate of 2.0% is recorded for Germany compared to 2.2% for the previous year and 2.0% for France (2017: 1.8%). GPD growth in the UK slowed down to 3.2% (2017: 3.8%) following the planned exit from the European Union.

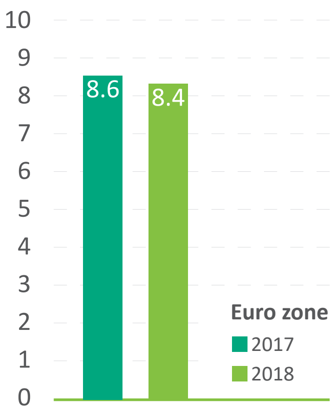
Rate of inflation in %



During 2018, the rate of inflation in the euro zone countries ranged between 0.8% and 2.7%. For the euro zone as a whole, it reached 1.8% (2017: 1.5%) due to the significant increase in crude oil prices. The majority of the world's central banks are aiming for an inflation rate of 2.0% as their monetary policy target. The po-

[1] OECD Economic Outlook, Volume 2018 Issue 2.

Unemployment rate in %



sitive labour market development experienced in 2017 continued throughout 2018: The unemployment rate in the euro zone dropped from 8.6% at the beginning of the year to 8.4% at the end of 2018.

The European Central Bank (ECB) kept the interest rates on its marginal lending facility and its main financing operations unchanged at 0.25% and 0% respectively; the interest rate on its deposit facility remained at -0.40%. During the year, the euro system continued on the path of quantitative easing within the framework of the Asset Purchase Programme (APP), with ongoing purchases of public sector securities, covered bonds, asset-backed securities and corporate bonds, though at a reduced average volume of EUR 30bn per month until September 2018 and EUR 15bn per month for the remainder of the year. In December 2018, the Governing Council of the ECB decided to end the net purchases under the APP.[2]

The Federal Reserve System (Fed) aims at reducing its bond investments by USD 50bn each month. The Fed raised its benchmark interest rate four times in 2018. By end of December Fed's interest rate on the marginal lending facility was in a range of 2.25% to 2.50%, the interest rate on the term deposit facility stood at 3.0%. The development of interest rates on US government bonds towards the end of 2018 has given rise to concerns over an inverted yield curve, which is an indicator of an imminent slowdown of the economy. The spread differential between the 10 year and the 2 year bond, however, continues to be stable and positively signalling a flat curve for the time being.

The European infrastructure market in 2018

The European infrastructure market rallied in 2018, demonstrated, inter alia by the significant increase of 30% in deal volume compared to the previous year. At EUR 211bn, this is the largest value ever recorded in Europe.[3]

For European infrastructure investments, 2018 was the year of "big-ticket" deals. The ten largest deals represented 26% of the overall deal value. While the value of brownfield projects grew by 33% to EUR 105bn, the refinancing volume rose by only 6% to EUR 55bn. The value of greenfield projects grew by 65% to EUR 51bn. This reflects the domination of refinancings and acquisition financings, as opposed to single asset greenfield project finance. A novelty of the market was the regular involvement of institutional lenders in short-dated, bank-style, acquisition financing lending structures, showing those players have developed increasingly flexible investment guidelines and adapted to the market.

Boom in 2018

Deal value rose to EUR 211bn – the largest value ever recorded in Europe

Energy & environment (environment, power, renewables) accounted for 50% of total deal value, transport for 32%, telecommunications for 15% and social infrastructure for 3%.

[2] Minutes of the Meetings of the Governing Council and the General Council (ECB).

[3] All figures in the section „The European infrastructure market in 2018" according to Inframation – An Acuris Company.

With a financing volume of EUR 41.0bn, up by 169% from the previous year, **Spain** was by far the market with the highest demand for infrastructure finance in the euro zone during the course of 2018. To this position the 16.8bn Abertis acquisition by a consortium comprising Italian infrastructure giant Atlantia and Spanish developer ACS jointly with its German subsidiary HOCHTIEF made a strong contribution, followed by the acquisition of OHL Concesiones by IFM Investors, the Radexis gas sale, the Gas Natural Fenosa refinancing and the Ufinet sale.

Spain #1 in the euro zone

With a financing volume of EUR 41.0bn by far the biggest market in the euro zone

Even stronger growth was recorded in **Italy**, the second biggest market of the euro zone, where the financing volume increased by 200% to EUR 28.2bn. The Open Fibre Italian broadband project played a strong part, involving all of Europe's major infrastructure lenders including the EIB and a multi-billion euro debt package to finance the roll-out of a broadband network across over 270 Italian cities. Second largest contributor to the Italian deal volume in 2018 was the EUR 5.5bn Trans Adriatic Pipeline (TAP) project involving the construction of an 878 km-long pipeline linking Turkey and Italy and running through Greece and Albania.

France ranked third with EUR 17.6bn (-17% from 2017) seeing volumes dominated by the acquisition financings of the water utility group SAUR, the IDEX district heating and the SFR telecommunications towers, all EUR 1bn plus deals. The EUR2.2bn refinancing of high speed line between Tours and Bordeaux also kept lenders busy in the second half of the year and saw a number of institutional lenders stepping to EUR 100m a piece or above. It signed in December 2018 but reached financial close early January 2019.

Germany followed with EUR 13.8bn (-31%), featuring the EUR 4bn plus sale of MIRA-owned Techem, the Merkur and Veja Mate off-shore wind refinancings, acquisition financing activity in the rolling stock space, the 2018 vintage of the A-model programme, the A10/A24 and the borrowing activity of KKR- owned Deutsche Glasfaser.

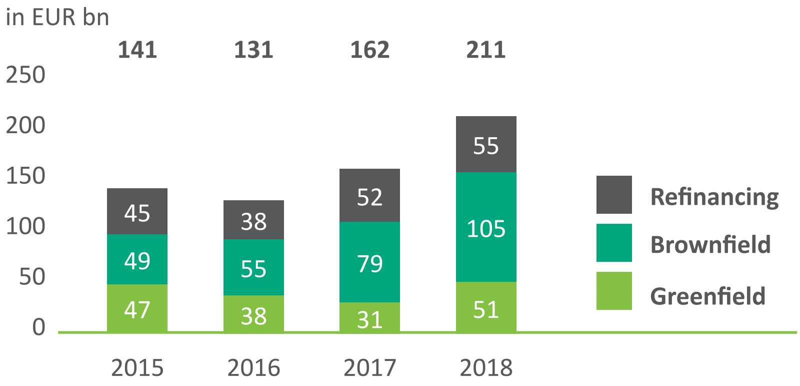
Netherlands with EUR 9.9bn (+29%) is one of the Western European countries which saw deal volume continue to be sustained by PPPs, with the exception of the Borseele III and IV off shore wind farms. The Blankenburg tunnel, the A16 highway, the Afsuildijk dam and the Amsterdam court PPP all reached financial close in 2018, a testimony to the importance of active public procurement in the project finance deal flow.

Despite the abolition of the PF2 model and deal value remaining flat in 2018 at EUR 48.9bn compared with EUR 49.9bn in 2017, **the UK** remained the most active infrastructure market in Europe throughout 2018. The leading transactions were all renewable energy deals.

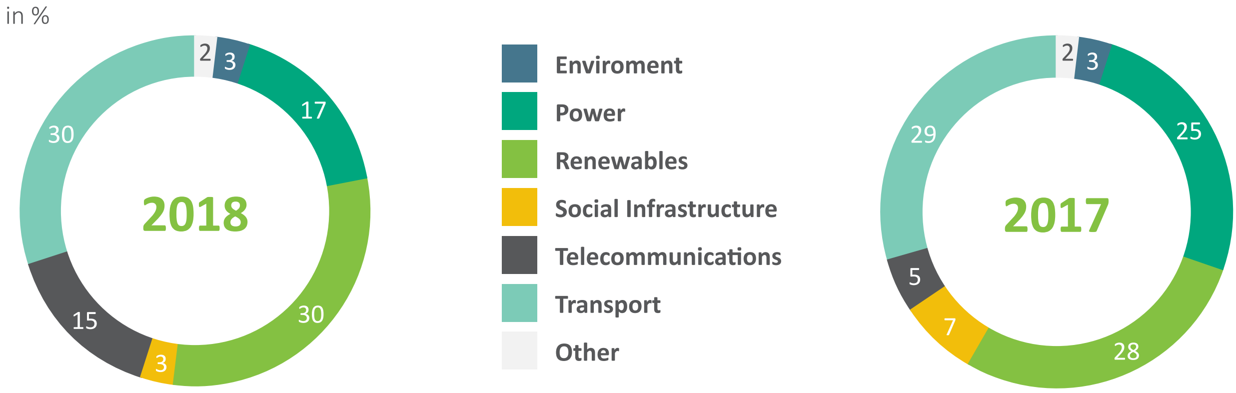
Central and Eastern Europe mirrored Western Europe to a certain extent with large deal activity focusing on refinancings (e.g. A2 motorway in Poland) and acquisitions (e.g. Belgrade airport in Serbia).

The European Infrastructure Market in 2018[4]

Transaction volume by type



Sector breakdown by value



Top-5 infrastructure markets in the euro zone by transaction volume

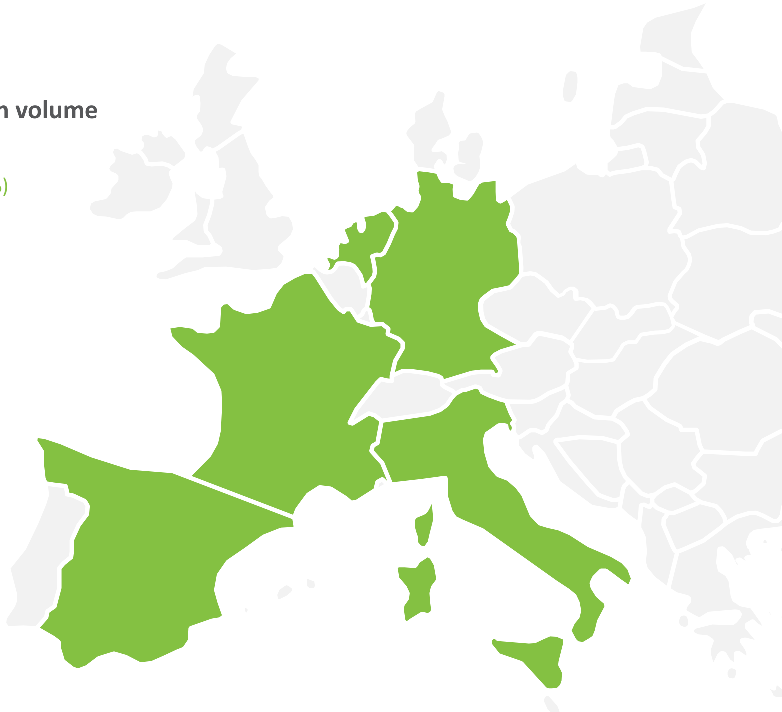
EUR **41**bn (+169%)
Spain 103 transactions (+41%)

EUR **28.2**bn (+200%)
Italy 89 transactions (+3%)

EUR **17.5**bn (-17%)
France 94 transactions (-19%)

EUR **13.8**bn (-31%)
Germany 37 transactions (-42%)

EUR **9.9**bn (+29%)
Netherlands 43 transactions (+34%)



[4] All figures according to Inframation – An Acuris Company.

Business review 2018

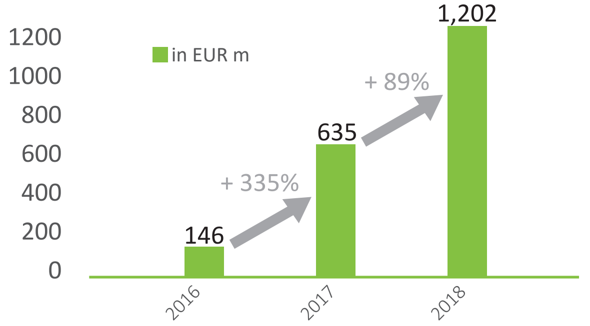
STRONG NEW BUSINESS PERFORMANCE

1. New Business expansion with focus on placement and balanced portfolio

In 2018, Kommunalkredit continued on the trajectory established during 2017 and significantly strengthened its operating earnings power. The bank's infrastructure and energy financing business contributed substantially to net fee and commission income and net interest income, generating 42.3% of the total revenues of the banking business. Whilst public finance lending continues to be an important part of the bank's business, new loans were provided on a selective basis only. In combination with scheduled repayments in the portfolio the revenue contribution from the public finance business decreased to 57.7%.

Overall, the bank increased the volume of new business by 89.2% to EUR 1,201.8m in 2018 (2017: EUR 635.2m) and positioned itself firmly in the European infrastructure financing market. Kommunalkredit ranked among the Top 30 Initial Mandated Lead Arrangers of credit financing in the EMEA region (Europe, Middle East and Africa), reported by the leading industry magazine PFI (Thomson Reuters).

New business volume
in EUR m



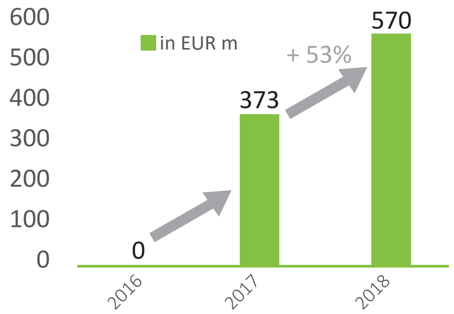
In its origination activities the bank put a strong focus on deal selection criteria considering structure, pricing and placeability with investors. New business was well-diversified in terms of asset classes, regions, products and maturities delivering attractive risk-adjusted returns. Total new commitments were widely spread across different asset classes: The Transport segment (public transport, roads, airports) accounted for 40%, Communications & Digitalisation (telecoms, broadband, data centres) for 24%, Energy & Environment (renewables, water) for 22% and Social Infrastructure (health care, care homes) for 14 %. 2% related to public finance transactions.

Kommunalkredit's regional footprint was well diversified across the EU and EU associated countries with Poland, Spain, France, the UK and Germany being the Top 5 markets.

Leveraging its successful track record in traditional project finance and its in-depth sector expertise, Kommunalkredit has stepped up its activities in acquisition finance and hybrid/corporate finance situations as well as its financial advisory services.

Kommunalkredit runs an originate-to-distribute model and therefore places strong emphasis on its distribution capabilities. In 2018 Kommunalkredit placed EUR 569.7m of own commitments with a wide range of investors, including insurance companies, asset managers and banks, a 52.7% increase compared to the prior year (2017: EUR 373.2m). Furthermore, the bank successfully launched its own infrastructure debt platform with the first close for the first fund, Fidelio KA Infrastructure Debt Fund Europe 1, in the third quarter of 2018. Through this platform Kommunalkredit is able to offer business partners access to infrastructure financing via an asset management solution. These placement results confirm to the market the bank's ability to structure, price and manage credit risk.

Placement volume
in EUR m



Kommunalkredit was involved in financing a number of high-profile transactions in 2018. In half of the transactions, the bank took a lead role as mandated lead arranger or co-arranger. In the Transport segment the bank acted as mandated lead arranger for the EUR 540m refinancing of a section of the A2 motorway in Poland as well as for the EUR 165m financing of a tram line in Zaragoza, Spain. Further, Kommunalkredit acted as Sole Junior Underwriter of a mezzanine facility in the EUR 279m refinancing of the AP-46, Spain and acted as mandated lead arranger in the financing for the acquisition of the Nikola Tesla Airport concession in Belgrade, Serbia, by VINCI Airports.

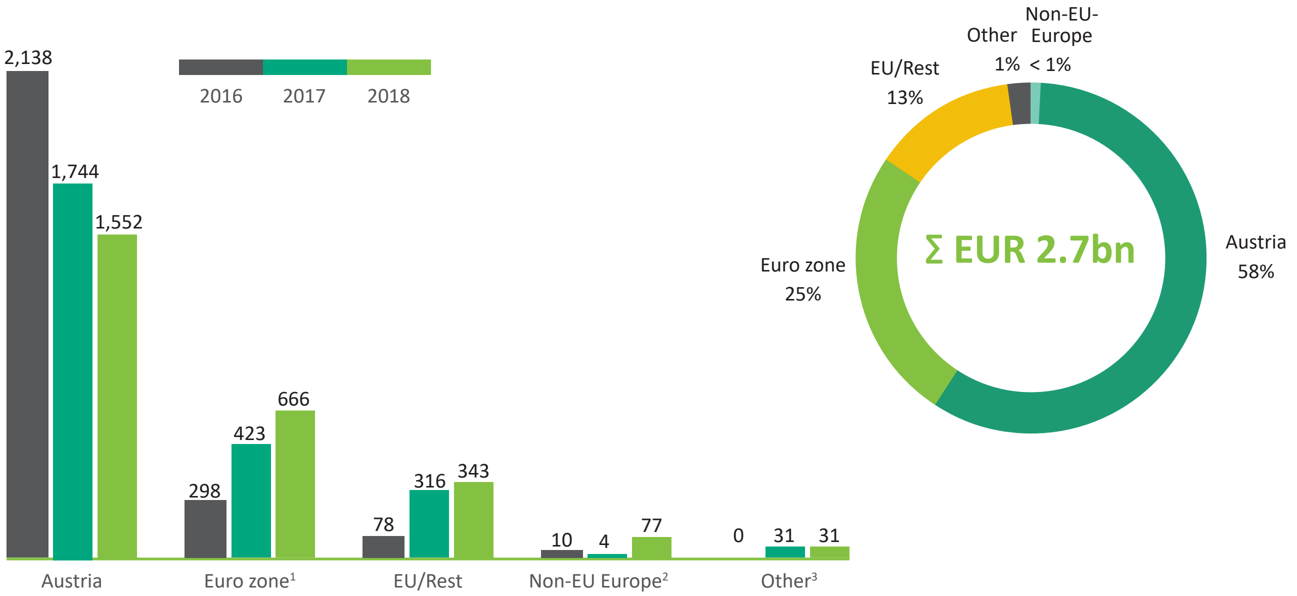
In the Communication & Digitalisation segment, the bank played a pathfinding role as mandated lead arranger and sole lender in the EUR 46.5m financing for the Lower Austria Fibre Optic Infrastructure Company (nöGIG) for the roll-out of ultra-high-speed broadband in selected rural areas. This pilot scheme represented phase 1 of the complete roll-out of glass fiber networks in Lower Austria. Kommunalkredit intends to remain on the forefront of financing glass fiber networks capacity in its Austrian home market.

Kommunalkredit was also mandated lead arranger in the EUR 650m refinancing for the German fibre optics network broadband expansion and co-arranger in the EUR 940m financing raised for the merger of the Scandinavian telecommunications firms GlobalConnect and Broadnet.

In the Energy & Environment segment, Kommunalkredit acted as mandated lead arranger in the EUR 1bn financing for the acquisition of SAUR by EQT Infrastructure. In the Social Infrastructure segment the bank was mandated lead arranger for the financing of an acquisition in the UK healthcare sector.

Total loan portfolio by region

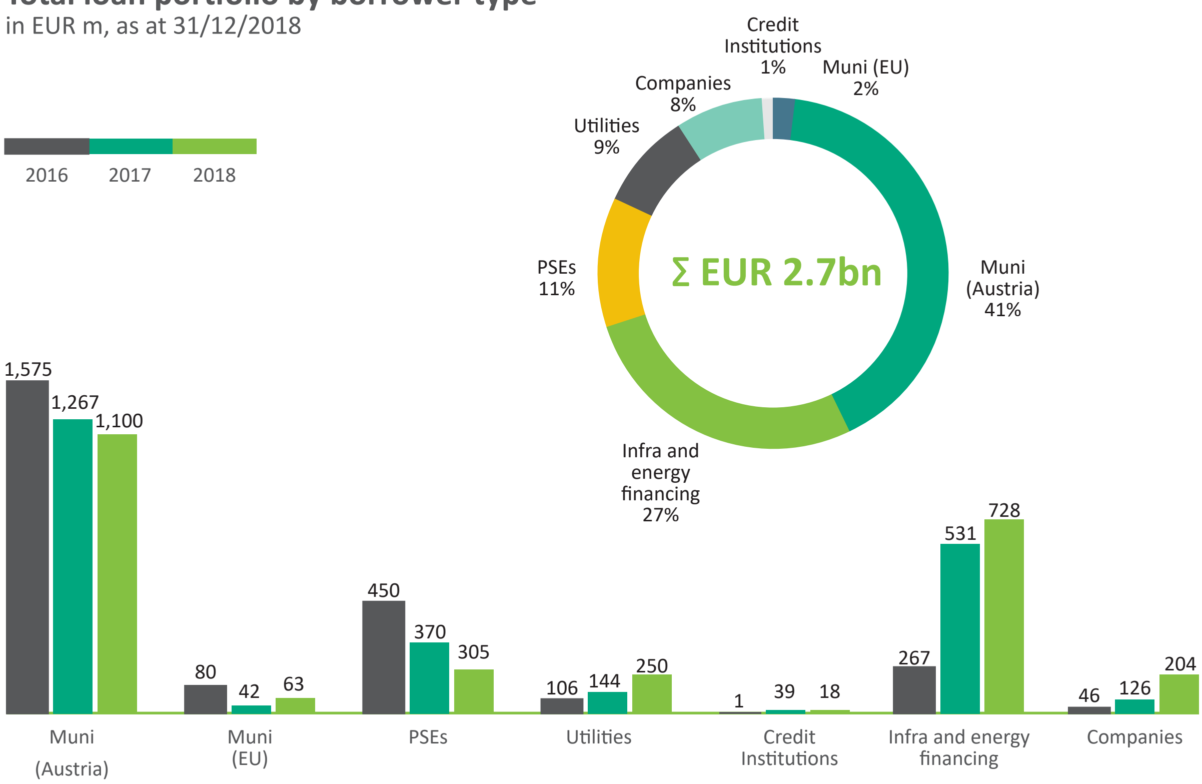
in EUR m, as at 31/12/2018



[1]Euro zone without Austria
[2]Switzerland
[3]Turkey

Total loan portfolio by borrower type

in EUR m, as at 31/12/2018



Muni: Municipalities
PSEs: Public Sector Entities

2. High quality of the loan portfolio

The bank holds a loan portfolio of high asset quality without a single loan loss in the reporting year. As of 31 December 2018, the bank's portfolio had an average rating of "A-" with 81.8% of the loans being investment grade.

The non-performing-loan ratio (NPL) was maintained at 0.0% throughout 2018. The weighted average probability of default was 0.26% as of 31 December 2018. Kommunalkredit's loan portfolio is well-balanced comprising an increasing proportion of infrastructure and energy and finance transactions and a significant public sector loan book. As of 31 December 2018, loans to municipalities accounted for 43% of the portfolio (with Austrian municipalities making up 41pp), infrastructure and energy financings accounted for 27%, and loans to public sector enterprises had a share of 11%.

Geographically, Austria contributed 58% to the loan portfolio, followed by the rest of the euro zone with 25% and other EU countries with 13%.

3. Funding position strengthened

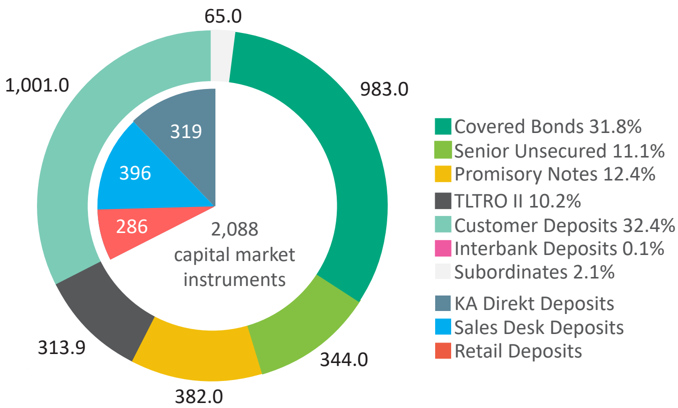
As of 31 December 2018, Kommunalkredit reported a strong liquidity position with a free liquidity reserve of EUR 278.9m (31/12/2017: EUR 283.1m). This included high-quality liquid assets (HQLA) in the amount of EUR 249.0m (31/12/2017: EUR 133.1m). In addition, Kommunalkredit had cash and balances with central banks of EUR 314.4m (31/12/2017: EUR 318.1m).

Liquidity reserve strongly contributed to a liquidity coverage ratio in excess of 450% at the end of 2018. The net stable funding ratio (NSFR) was at 104.7%.

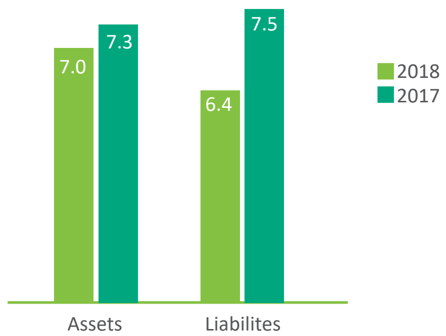
During 2018, the bank succeeded in further strengthening its funding structure and broadening its investor base. 54.0% of the bank's funding stems from sources not available at the time of Kommunalkredit's privatisation in autumn 2015 including retail deposits (KOMMUNALKREDIT INVEST), wholesale deposits (KOMMUNALKREDIT DIREKT and direct business with corporate customers) as well as new capital market funding via senior unsecured and covered bonds.

Funding structure
in EUR m, as at 31/12/2018

Σ EUR 3.1bn



Weighted average term in years

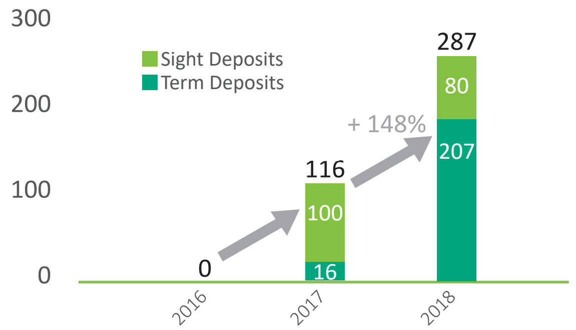


Amounts owed to customers increased to a total of EUR 1,456.5m (31/12/2017: EUR 1,038.9m). This positive development was primarily driven by the increase in customer deposits by 55.6% to EUR 1,002.5m (31/12/2017: EUR 644.4m). Amounts owed to customers also included long-term private placements of EUR 280.1m (31/12/2017: EUR 326.5m) and liabilities from collateral received in connection with derivatives of EUR 60.0m (31/12/2017: EUR 63.7m).

Customer deposits up by 55.6%

- Retail deposits (KOMMUNALKREDIT INVEST): The bank conducts its retail business via its online retail platform KOMMUNALKREDIT INVEST. After its market launch in Austria in September 2017, KOMMUNALKREDIT INVEST entered in the German retail market in January 2018. KOMMUNALKREDIT

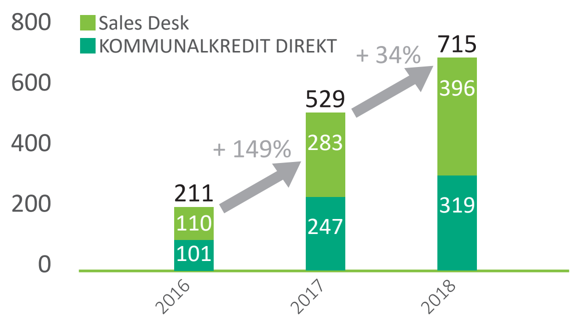
Retail deposits (KOMMUNALKREDIT INVEST)
in EUR m



INVEST focuses on attaining term deposits for terms of up to ten years. As of 31 December 2018, the bank had 5,063 retail customers (31/12/2017: 1,900). Compared to the end of 2017, the volume of deposits increased by 147.8% to EUR 286.7m (31/12/2017: EUR 115.7m). The proportion of term deposits increased significantly to 72.1% (31/12/2017: 13.1%), with term deposits with maturities of up to 12 months accounting for 48.8 percentage points and term deposits with maturities of more than 12 months for 23.3 percentage points.

- Wholesale deposits (KOMMUNALKREDIT DIREKT and direct business with corporate customers/ Sales Desk): With its online platform KOMMUNAL-

Wholesale deposits
in EUR m



KREDIT DIREKT, the bank offers an efficient investment and cash management tool for municipalities and corporates. The continued strong growth of the platform confirms Kommunalkredit's close connection with its traditional municipal customer base in Austria. This is also reflected by the notable number of KOMMUNALKREDIT DIREKT depositors which are customers on the lending side as well (38%). Deposits by corporates equally showed continued growth. In total, wholesale deposits increased by 34.1% to EUR 714.7m during 2018 (31/12/2017: EUR 528.8m). The steady growth was accompanied by a trend towards longer maturities throughout 2018. With an average volume of about EUR 2.6m, wholesale deposits were highly granular.

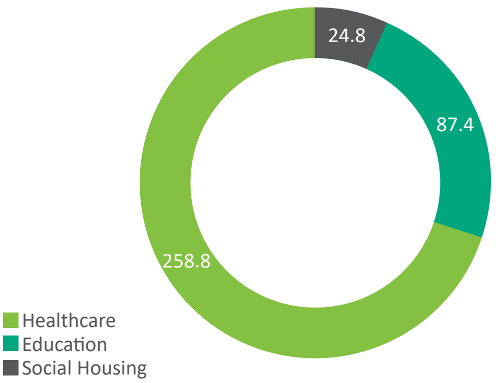
Capital market funding

Kommunalkredit's capital market activities were focused, in particular, on a series of small private placements of senior unsecured bonds with international investors and increasing duration. Within the framework of its Debt Issuance Programme launched in 2017, the volume of bonds issued by Kommunalkredit as of 31 December 2018 stood at EUR 61m, issued in 5 independent tranches. In July 2018, Kommunalkredit bought back a EUR 100m senior note.

Social covered bond – Social asset reporting as of 31/12/2018

As of 31 December 2018, Kommunalkredit's social asset portfolio had a total volume of EUR 371.1m originated in the areas of education, healthcare and social housing. Kommunalkredit reports annually the use of proceeds from the issuance of its social covered bond (per 30 June).

Social covered bond –
Social asset reporting as at 31/12/2018
in EUR m



Strong liquidity ratios

The liquidity coverage ratio (LCR), which measures the short-term resilience of a bank's liquidity risk profile over a 30-day scenario, is closely monitored as part of the bank's early warning system. With a ratio of 453.7% as of 31 December 2018 (31/12/2017: 449.9%), Kommunalkredit significantly exceeded the regulatory minimum ratio of 100%, effective since 1 January 2018.

The net stable funding ratio (NSFR), which shall require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities under future Basel III, was at 104.7% as of 31 December 2018 (31/12/2017: 101.5%).

4. Rating

Kommunalkredit's unsecured debt issues have a long-term rating of "BBB (low)" and a short-term rating of "R-2 (mid)" from DBRS. The ratings were confirmed on 8 October 2018 with the outlook being lifted to stable. On 1 August 2018, Standard & Poor's confirmed its "A" rating of Kommunalkredit's covered bonds, which reflects the high quality of the underlying cover pool.

Widely diversified transaction activity

SELECTED REFERENCE PROJECTS 2018

nöGIG Broadband
(Austria)

Kommunalkredit played a pathfinding role as mandated lead arranger and sole lender for nöGIG in the EUR 46.5m senior debt financing for the roll-out of the ultra-high speed broadband in selected rural areas. nöGIG is a fully owned subsidiary of the province of Lower Austria founded in 2014. This pilot scheme represented phase 1 of the complete roll-out of glass fiber networks in Lower Austria. Kommunalkredit intends to remain on the forefront of financing glass fiber networks capacity in its Austrian home market. Therefore, the bank is also participating in phase 2 of the roll-out in Lower Austria which is currently being tendered by nöGIG.

Takeover of SAUR by EQT
(France)

Kommunalkredit acted as mandated lead arranger in the EUR 1bn financing of the acquisition of SAUR by EQT Infrastructure. SAUR is the third-largest water supplier in the French market, with 9,000 employees serving 13m consumers. Its customers include municipalities and industrial companies, which it supports primarily in the areas of water and waste water management. In addition to its home market in France, SAUR is active in Scotland, Spain, Poland and Saudi Arabia.

Merger of GlobalConnect and Broadnet
(Norway/Denmark)

Kommunalkredit provided a significant underwriting in the EUR 940m financing raised for the merger of GlobalConnect A/S and Broadnet Holding AS. The combination of the two telecommunication companies creates one of the leading providers for fibre optics-based communications in Northern Europe. GlobalConnect has a 15,300 km fibre optic network in Denmark and Northern Germany. Broadnet adds more than 24,000 km of fibre optics in Norway to this infrastructure. The newly merged telecommunication provider will serve corporate customers in Scandinavia and Germany and expand in key markets.

Toll road AP-46 in Andalusia
(Spain)

Kommunalkredit participated as sole mezzanine arranger and underwriter in the EUR 279m refinancing of the Autopista del Guadalmedina (AP-46) in Spain. The overall project comprises the planning, construction, financing, operation and maintenance of the 28km toll road. The road augments the Andalusian motorway network as a main route between central Spain and the Costa del Sol/Malaga. As an alternative to the toll-free A-45, it provides a highly reliable, comfortable and faster link to the Southern part of the country, reduces congestion and brings a lasting improvement to the local infrastructure. The AP-46 was opened in 2011.

Concession for Nikola Tesla Airport

(Serbia)

Kommunalkredit acted as mandated lead arranger in the EUR 420m financing raised for the Nikola Tesla Airport concession in Belgrade. The concession has been awarded to the French giant VINCI Airports under a 25-year tenor to operate the Serbian airport. In the coming years under the concession, the investor targets to expand Belgrade Airport into one of the major hubs in Southeast Europe, contributing to economic growth and increase in tourism. VINCI Airports ranks among the top 5 players globally and operates 45 airports worldwide.

Deutsche Glasfaser

(Germany)

Kommunalkredit acted as mandated lead arranger for Deutsche Glasfaser in the refinancing of a debt package worth EUR 650m for the broadband-expansion in rural Germany. Deutsche Glasfaser is Germany's leading FttH-player (Fibre-to-the-Home), providing retail customers in rural areas with ultra-high-speed broadband connectivity. The company intends to spend EUR 1.5bn on the expansion of its rural broadband network to reach 1m households and companies over the next few years.

Tram Line 1 in Zaragoza

(Spain)

Kommunalkredit acted as mandated lead arranger for Sociedad de Economia Mixta Los Tranvias de Zaragoza S.A. in the EUR 165m refinancing of a 12.8 km tram line in Zaragoza, Spain's fifth largest city with 661,000 inhabitants. The project covers the refinancing of the operation and maintenance of the tram line 1 with 33 stations, crossing the City of Zaragoza from North to South. Since the project got fully operational in March 2013, passenger demand has continuously grown. In 2015, the tram carried around 23% of the total users of public transportation in Zaragoza.

A2 Section Toll Road

(Poland)

Kommunalkredit acted as joint structuring bank and mandated lead arranger for Autostrada Wielkopolska S.A. in the EUR 540m refinancing of the A2 Section I toll road in Poland.The A2 forms part of Poland's strategic Berlin-Warsaw corridor providing one of the most important transportation links between Western and Central Europe (part of the Trans-European Transport Network). The traffic showed resilience during the economic downturn and the past performance shows sustained demand for traffic on the A2 corridor.

Credentials

SELECTED PROJECTS 2018 AND 2017

Belgrade Airport **EUR 1bn** Project Finance Senior Lender 2018 Serbia	**SAUR/HIME Water** **EUR 1bn*** Aquisition Finance MLA, Senior Lender 2018 France	**Indigo Telecom** **NOK 5.4bn*** **DKK 2.8bn*** Aquisition Finance Senior Lender 2018 Norway	**Mirror Solar CSP** **EUR 650m*** Project Finance Senior Lender 2018 Spain
Autopista Guadalmedina **EUR 385m** Project Finance Sole Junior Underwriter 2018 Spain	**Axion Telecom** **EUR 68m*** Aquisition Finance Senior Lender 2018 Spain	**NÖGIG Telecom** **EUR 111m** Project Finance MLA, Sole Lender 2018 Austria	**A2 - Autostrada Wielkopolska** **EUR 540m** Project Finance MLA, Senior Lender 2018 Poland
Dt. Glasfaser Telecom **EUR 650m*** Project Finance MLA, Senior Lender 2018 Germany	**Tranvia Zaragoza Light Rail** **EUR 165m*** Project Finance MLA, Senior Lender 2018 Spain	**Dt. Glasfaser Business** **EUR 78m** Project Finance Senior Lender 2017 Germany	**Pedemontana Veneta Road** **EUR 1.2bn** Project Finance Joint Bookrunner, Underwriter 2017 Italy

Berresgasse School Campus
EUR 46m
PPP
Advisor of the winning consortium
2017
Austria

Invitel Telecom
EUR 217m
Acquisition Finance
MLA, Senior Lender
2017
Hungary

A 21 Motorway
EUR 182m
Project Finance
MLA, Senior Lender
2017
Spain

Zagreb Airport
EUR 195m
Project Finance
Senior Lender
2017
Croatia

A2 - Autostrada Wielkopolska II
EUR 400m
Project Finance
MLA, Senior Lender
2017
Poland

ELCH - East Lothian Hospital
GBP 78m
Project Finance
Senior Lender
2017
Great Britain

Gipuzkoa Waste to Energy
EUR 240m
Project Finance
MLA, Senior Lender
2017
Spain

Bursa Healthcare Campus
EUR 503m
Project Finance
MLA, EBRD B-Loan Participant
2017
Turkey

BNRG Solar PV Portfolio
GBP 19.8m
Project Finance
MLA, Sole Mezzanine Lender
2017
Great Britain

Parc Adfer Limited Waste to Energy
GBP 179m
Project Finance
Senior Lender
2017
Great Britain

K3 CHP Limited Waste to Energy
GBP 468.5m
Project Finance
Senior Lender
2017
Great Britain

A15 Road
EUR 883m
Project Finance
Senior Lender
2017
Netherlands

* Total debt

Assets, Financial Position and Income

KOMMUNALKREDIT GROUP IFRS FINANCIAL PERFORMANCE INDICATORS

Selected balance sheet figures under IFRS in EUR m	IFRS 9 31/12/2018	IAS 39 31/12/2017
Total assets	3,941.8	3,663.2
Equity	294.8	283.1
Loans and advances to customers	1,969.6	2,091.9
Assets at fair value recognised in equity	1,178.9	211.6
Amounts owed to banks	495.6	532.8
Amounts owed to customers	1,456.5	1,038.0
Securitised liabilities	1,396.1	1,468.6

Selected P&L figures under IFRS in EUR m	IFRS 9 1/1-31/12/2018	IAS 39 1/1-31/12/2017
Net interest income	52.7	36.1
Net fee and commission income	18.5	17.3
Net provisioning for impairment losses	-0.7	-0.3
General administrative expenses	-54.1	-55.9
Contributions to the Bank Resolution Fund	-1.6	-0.9
Income from services provided to KA Finanz AG	8.6	12.1
Operating result[1]	23.2	7.6
Restructuring expenditure	-2.5	-2.7
Net result of asset valuation and realised gains and losses	11.9	2.1
Pre-tax annual result	32.6	7.1
Taxes on income[2]	-18.3	11.0
After-tax annual result	14.3	18.0
Comprehensive income (incl. changes in equity)	9.8	18.4
Cost/income ratio (excl. restructuring expense/asset valuation result)	71.0%	88.4%

[1] Pre-tax annual result adjusted for net result of valuations and realised gains and losses.
[2] Taxes on income of EUR 18.3m for 2018 mainly resulted from EUR 7.6m non utilized loss carryforward under local GAAP, and EUR 9.5m represents a depreciation of capitalised tax loss carryforward under IFRS in the past. In 2017, a positive tax effect of EUR 11.0m was reported under taxes on income.

Regulatory indicators in EUR m or %	31/12/2018	31/12/2017
Risk-weighted assets	1,334.7	992.4
Total capital	323.7	297.2
Total capital ratio	24.3%	29.9%
Common equity tier 1	265.5	233.0
CET 1 ratio	19.9%	23.5%

Rating	31/12/2018	31/12/2017
Long-term DBRS	BBB (low)- stable outook	BBB (low)- negative outlook
Short-term DBRS	R-2 (mid)	R-2 (mid)
Covered bonds S&P	A	A

First-time adoption of IFRS 9

As of 1 January 2018, IAS 39, the standard previously applied in accounting for financial instruments, was replaced by IFRS 9. The first-time adoption of IFRS 9 as of 1 January 2018 resulted in the following material effects:

- Increase in equity of EUR 13.4m
- Recognition of EUR 1.0m provision for expected credit losses

A detailed breakdown of the material adjustments is contained in the Selected Explanatory Notes to the Consolidated Financial Statements.

Balance sheet structure

Kommunalkredit's total assets according to IFRS amounted to EUR 3.942bn as of 31 December 2018 (31/12/2017: EUR 3.663bn). Loans and advances to customers and assets at fair value through other comprehensive income included loans of EUR 2.448bn (31/12/2017: EUR 2.304bn) and securities of EUR 595.2m (31/12/2017: EUR 584.8m). The securities portfolio contained EUR 249.0m of high-quality liquid assets (HQLA) (31/12/2017: EUR 133.1m).

The structure of Kommunalkredit's liabilities based on IFRS book value breaks down as follows:

Liabilities structure 31/12/2018 and 31/12/2017 in EUR bn	31/12/2018	31/12/2017
Securitised liabilities	1.4	1.5
Amounts owed to customers	1.5	1.0
Amounts owed to banks, including ECB	0.5	0.5

The bank's main funding sources were senior and covered bonds of EUR 344.4m and EUR 982.9m, respectively (31/12/2017: EUR 416.7m and EUR 965.3m), which are reported under securitised liabilities.

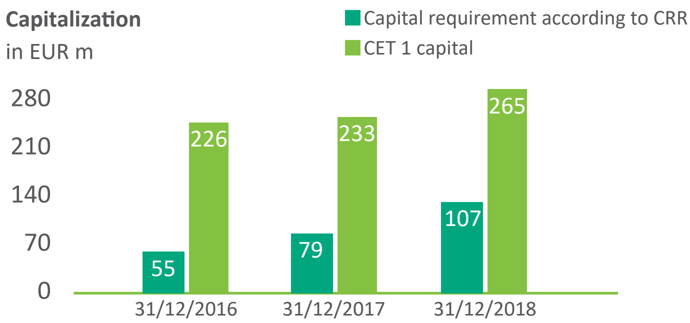
Amounts owed to customers increased during 2018 to a total of EUR 1,456.5m (31/12/2017: EUR 1,038.0m) and include customer deposits at EUR 1,002.5m (31/12/2017: EUR 644.4m), private placements at EUR 277.4m (31/12/2017: EUR 329.9m), liabilities from collateral received in connection with derivatives at EUR 60.0m (31/12/2017: EUR 63.7m) and other long-term amounts to customers at EUR 116.6m (31/12/2017: EUR 0.0m). Amounts owed to banks primarily comprised funds drawn by Kommunalkredit under the European Central Bank's (ECB) long-term refinancing operations (TLTRO II) in the amount of EUR 313.9m (31/12/2017: EUR 313.9m), deposits from banks of EUR 3.0m (31/12/2017: EUR 43.0m) and liabilities from collateral received for derivatives in an amount of EUR 104.6m (31/12/2017: EUR 96.2m).

Risk-weighted assets and regulatory capital

As of 31 December 2018, Kommunalkredit reported a total capital of EUR 323.7m (31/12/2017: EUR 297.2m) and common equity tier 1 capital (CET 1) of EUR 265.5m (31/12/2017: EUR 233.0 m). Risk-weighted assets rose by 34.5% in 2018 to EUR 1,334.7m (31/12/2017: EUR 992.4m) due to the higher risk-weighting of Kommunalkredit's infrastructure and energy financing new business compared to the decreasing existing portfolio that predominantly comprises business with Austrian regional authorities.

Kommunalkredit reported a total capital ratio of 24.3% as of 31 December 2018 (31/12/2017: 29.9%) and a CET 1 ratio of 19.9% (31/12/2017: 23.5%). The reduction in the capital ratios is a result of Kommunalkredit's efficient employment of capital for new business growth, which is reflected in its earnings. The leverage ratio as of 31 December 2018 amounted to 7.6% (31/12/2017: 7.3%).

Risk-weighted assets and regulatory capital



Kommunalkredit is subject to the capital requirements set out in Article 92 CRR and the related Supervisory Review and Evaluation Process (SREP). On the basis of these parameters, as of 31 December 2018 Kommunalkredit was required to maintain a minimum CET 1 ratio of 6.87%, a minimum core capital ratio of 8.47% and a minimum total capital ratio of 10.67%. The bank significantly exceeded these requirements. Kommunalkredit's capital amounts are based on the non-consolidated financial statements of Kommunalkredit pursuant to the Austrian Commercial Code/Austrian Banking Act.

Kommunalkredit is part of a group of credit institutions whose ultimate parent is Satere Beteiligungsverwaltungs GmbH (Satere). As of 31 December 2018, the consolidated total capital ratio accounted for 23.8% (31/12/2017: 29.2%) and the consolidated CET 1 ratio for 19.5% (31/12/2017: 22.8%).

Public sector covered bonds / Cover pool

As of 31 December 2018, Kommunalkredit had a well-diversified cover pool with a value of EUR 1.1bn, while EUR and CHF denominated public sector covered bonds in an amount of approximately EUR 982.9m were outstanding. The cover pool as of 31 December 2018 consisted of assets from Austria (98.1%) and Germany (1.9 %). 91.0% of the pool had a rating of "AAA" or "AA" and 9.0% had a rating of "A".

Kommunalkredit has made a voluntary commitment to maintain a level of nominal over-collateralisation equal to approximately 10% of the redemption amount of its outstanding covered bonds. The level of over-collateralisation as of 31 December 2018 was 16.2%.

Kommunalkredit Group Profit & Loss Account according to IFRS

Kommunalkredit significantly increased its operating result in 2018 to EUR 23.2m (2017: EUR 7.6m). Through the emphasis on its advisory and structuring activities, the bank increased its risk-free net fee and commission income, thereby significantly improving its earnings quality. The infrastructure and energy financing business generated an increasing contribution to net interest income due to strong growth in volumes. Overall, 42.3% of the bank's total revenues in 2018 were generated by the infrastructure and energy financing business. Additionally, there was a positive effect on the operating result of EUR 9.5m compared to the prior year from the first-time adoption of IFRS 9.

The cost efficiency programme initiated by Kommunalkredit in 2017 led to a reduction in its cost base and generated savings in 2018 that covered the cost of the programme. The bank will further adjust its capacity in connection with the discontinuation of services provided to KA Finanz AG at the end of the first quarter of 2019 and has recognised a EUR 2.5m restructuring provision for this purpose. The significant improvement in the operating result was reflected in a marked reduction in Kommunalkredit's cost/income ratio (excluding restructuring expenditure and net valuation result) to 71.0% (2017: 88.4%). The pre-tax annual result rose to EUR 32.6m (2017: EUR 7.1m). Taxes on income totalled EUR 18.3m. In 2017, a positive tax effect of EUR 11.0m was reported. The after-tax annual result decreased to EUR 14.3m (2017: EUR 18.0m).

The main income and expense items in 2018 under IFRS are shown below:

- **Operating result:**
  The operating result (profit for the year before tax, excluding net valuation result and restructuring costs) of EUR 23.2m (2017: EUR 7.6m) consisted of the following:

  – *Net interest income*
  Net interest income rose 45.9% to EUR 52.7m (2017: EUR 36.1m), of which EUR 22.7m was generated by new business (2017: EUR 8.4m) and EUR 20.4m by Kommunalkredit's existing, predominately public sector portfolio (2017: EUR 27.8m). Additionally, the first-time adoption of IFRS 9 had a positive impact of EUR 9.5m on net interest income.

– *Net fee and commission income*

As a result of the emphasis on its advisory and structuring activities, Kommunalkredit increased its risk-free net fee and commission income by 6.9% to EUR 18.5m (2017: EUR 17.3m), thereby further improving its earnings quality. Fee and commission income from the bank's lending business and services came to EUR 4.7m (2017: EUR 2.2m) and management services for public support programmes and consulting services provided by the subsidiary KPC generated EUR 15.2m (2017: 16.0m), while fee and commission expenses were EUR 1.4m (2017: EUR 0.9m).

– *Net provisioning for impairment losses*

The non-performing loan ratio remained at 0.0% in 2018. There were no credit defaults in 2018. The EUR -0.7m loan impairment charge reported (2017: EUR -0.3m) reflected the change in the statistically calculated provision for expected credit losses under IFRS 9. This provision amounted to EUR 2.1m as of 31 December 2018 (31/12/2017 according to IAS 39: EUR 0.4m).

– *General administrative expenses*

General administrative expenses decreased by 3.2% to EUR 54.1m (2017: EUR 55.9m) due to disciplined cost management. The cost efficiency programme implemented by the bank in 2017 paid for itself in 2018. General administrative expenses comprised personnel expenses of EUR 35.0m (2017: EUR 36.1m) and other administrative expenses of EUR 19.1m (2017: EUR 19.9m).

– *Contribution to the Bank Resolution Fund*

In 2018 the bank paid a contribution of EUR 1.6m to the Bank Resolution Fund (2017: expense of EUR 0.9m following release of a EUR 0.8m provision).

– *Other operating result*

The other operating result accounted for EUR 8.3m (2017: EUR 11.2m), primarily comprising income of EUR 8.6m from the provision of operational services to KA Finanz AG (2017: EUR 12.1m). It also included a EUR 0.6m expense for the stability contribution payable by Austrian banks (2017: EUR 0.7m).

- **Restructuring expenditure**

The service agreement with KA Finanz AG will be transferred to new providers with effect from 1 April 2019. This will result in the discontinuation of the services previously provided to KA Finanz AG and the associated reimbursement of costs. It has been consequently necessary to adjust capacity in the bank's middle and back office areas, for which a provision of EUR 2.5m has been recognised.

- **Net result of asset valuation and realised gains and losses**

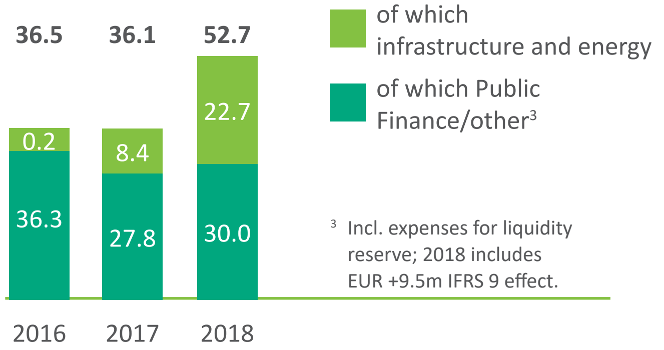
The net result of asset valuation and realised gains and losses amounted to EUR 11.9m (2017: EUR 2.1m). It contained a positive EUR 11.3m one-off effect from the buyback of own bonds.

- **Taxes on income**

Taxes on income of EUR 18.3m for 2018 mainly resulted from EUR 7.6m non utilized loss carryforward under local GAAP, and EUR 9.5m represents a depreciation of capitalised tax loss carryforward under IFRS in the past. In 2017, a positive tax effect of EUR 11.0m was reported under taxes on income.

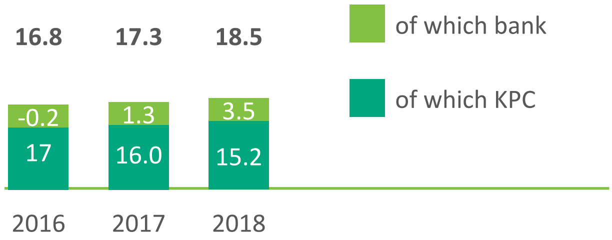
IFRS key figures

Net interest income
in EUR m

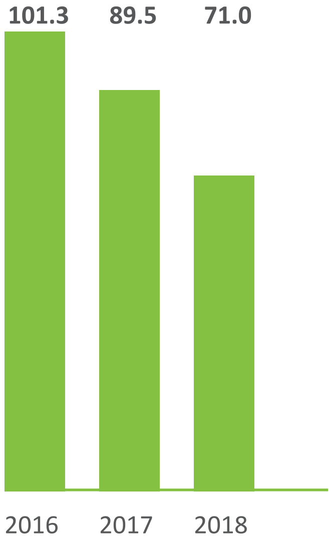


[3] Incl. expenses for liquidity reserve; 2018 includes EUR +9.5m IFRS 9 effect.

Net fee and comission income
in EUR m

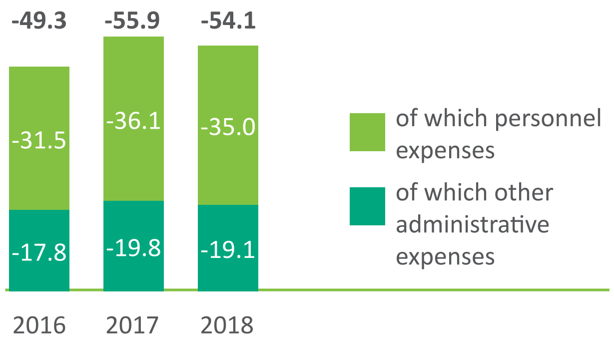


Cost/income ratio
in %

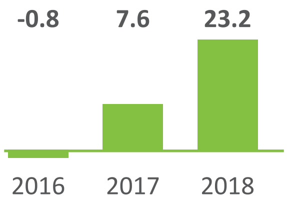


Adjusted for net result of valuations and realised gains & losses and restructuring expenses

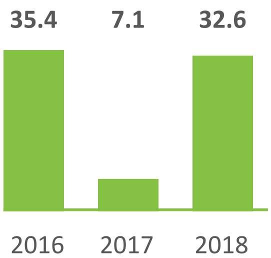
General administrative expenses
in EUR m



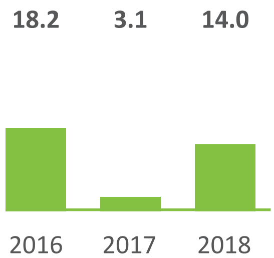
Operating result
in EUR m



Pre-tax annual result
in EUR m



Return on equity before tax
in %



Relative to regulatory capital

Kommunalkredit Austria AG Profit & Loss Account under local GAAP

Kommunalkredit Austria AG reported an operating result of EUR 16.8m for 2018 under local GAAP (2017: EUR 18.6m). The bank significantly strengthened its operational earnings power in 2018. This is highlighted by the adjusted operating result, which is calculated as operating result adjusted for restructuring costs, the stability contribution, resolution fund contribution and income from equity participations. The adjusted operating result rose by 65.1% to EUR 22.2m (2017: EUR 13.5m). The loan impairment, valuation and sales result accounted for EUR 12.9m (2017: EUR -0.2m), primarily due to a positive impact from the buyback of own bonds. Profit on ordinary activities increased by 62.4% to EUR 29.7m (2017: EUR 18.3m). After-tax annual profit rose by 61.2% to EUR 30.4m (2017: EUR 18.9m).

Total assets according to local GAAP amounted to EUR 3.5bn as of 31 December 2018 (31/12/2017: EUR 3.3bn). The main balance sheet items were loans and advances to customers of EUR 2.5bn (31/12/2017: EUR 2.4bn) and bonds and debt securities of EUR 0.4bn (31/12/2017: EUR 0.3bn).

Dividend policy

Kommunalkredit has a solid capital base. It is planned to strengthen Kommunalkredit's capital base to support further growth. The Executive Board will propose to the Annual General Meeting that the profit for the year in the amount of EUR 30.4m will be retained. In December 2018 the Supervisory Board of Kommunalkredit decided to call up EUR 20m of the EUR 79.7m capital approved by the March 2017 Annual General Meeting and raise the level of approved

Selected income statement under local GAAP in EUR m	**1/1-31/12/2018**	**1/1-31/12/2017**
Net interest income	37.7	32.8
Net fee and commission income	14.1	8.5
General administrative expenses	-45.4	-45.7
Other operating results	11.1	23.7
of which income from services provided for KA Finanz AG & Kommunalkredit Public Consulting	*10.5*	*14.1*
of which income from the transfer of real estate assets	*0.0*	*8.6*
Other operating expenses	-0.8	-0.7
of which stability tax	*-0.6*	*-0.7*
Operating result (adjusted)[4]	**22.2**	**13.5**
Operating result	**16.8**	**18.6**
Loan impairment, valuation and sales result[5]	12.9	-0.2
Net allocation to provision (§ 57 (1) Austrian Banking Act))	0.9	-3.8
Profit on ordinary activities	**29.7**	**18.3**
Taxes on income	0.7	-0.1
Profit for the year after tax	**30.4**	**18.9**

[4] Operating result adjusted for restructuring costs, the stability contribution, resolution fund contribution and income from equity participations.
[5] The improvement in the loan impairment, valuation and sales result is mainly due to income from the buy-back of own issues and the sale of asset positions in 2018 as well as the change in provisions pursuant to section 57 (1) Austrian Banking Act.

capital back to EUR 79.7m. It is planned to undertake such a capital increase in the second quarter of 2019. Together with retention of the annual profit, this results in an overall strengthening of the bank's capital by an amount of EUR 50.4m.

Equity Participations

FOCUS ON CORE BUSINESS

Kommunalkredit Austria AG has holdings in a number of affiliated companies. Kommunalkredit Public Consulting GmbH (KPC), the companies of the Fidelio KA Infrastructure Debt Fund platform and Kommunalnet E-Government Solutions GmbH (Kommunalnet) are strategic investments while the holding in TrendMind IT Dienstleistung GmbH (TrendMind) and affiliated companies relating to the property of the bank (serving as head office) are primarily to support the core business.

Participations of Kommunalkredit Group	Financial statement disclosures (IFRS)						
	Investment		Extent of investments in %	Most recent financial statements	Total assets in EUR 1,000	Equity in EUR 1,000	Profit/loss for the year in EUR 1,000
Name and registered office	direct	indirect					
1. Affiliated companies							
1.1 Fully consolidated affiliated companies							
Kommunalkredit Public Consulting GmbH, Vienna	x		90.00%	31/12/2018	7,099.1	1,599.0	412.3
Kommunalkredit KBI Immobilien GmbH, Vienna	x		100.00%	31/12/2018	49.9	49.9	15.0
Kommunalkredit KBI Immobilien GmbH & Co KG, Vienna	x		100.00%	31/12/2018	32,068.5	32,068.5	-12.8
Kommunalkredit TLI Immobilien GmbH & Co KG, Vienna		x	100.00%	31/12/2018	32,992.5	32,967.6	948.6
Fidelio KA Beteiligung GmbH, Germany	x		85.00%	31/12/2018	62.8	61.0	-4.5
Fidelio KA Infrastructure Opportunities Fund GP S. à r. l., Luxembourg		x	85,00%	31/12/2018	17.4	12.0	0.0
Fidelio KA Investment Advisory GmbH, Germany		x	85.00%	31/12/2018	24.9	22.7	-2.3
Fidelio KA Infrastructure Opportunities Fund SICAF-RAIF SCA, Luxembourg		x	85.00%	31/12/2018[2]	138,736.4	30.0	99.1
1.2 Other investments of the FVOCI category							
TrendMind IT Dienstleistung GmbH, Vienna[1]	x		100.00%	31/12/2018	675.8	466.5	215.5
2. Associates							
2.1 Associates included at equity							
Kommunalleasing GmbH, Vienna	x		50.00%	31/12/2018[2]	72,194.0	5,716.9	567.6
2.2 Other investments of the FVOCI category							
Kommunalnet E-Government Solutions GmbH, Vienna[1]	x		45.00%	31/12/2018[2]	1,298.6	1,012.3	94.1

[1] Under local GAAP. [2] Preliminary unaudited figures.

Kommunalkredit Public Consulting GmbH (KPC)

Consulting - Funding - Protecting

Kommunalkredit Public Consulting GmbH (KPC) is a specialist provider of management services for public support programmes and consulting services for national and international organisations.

Funding programme management

In 2018, KPC endorsed funding from support programmes of EUR 436.6m, primarily on behalf of the Federal Ministry for Sustainability and Tourism (BMNT) and the Climate and Energy Fund. This public funding resulted an investment volume of EUR 2,331.8m. KPC endorsed a wide range of funding initiatives in the energy supply, energy efficiency,

Funding programme management KPC in 2018					
Amounts in EUR m	Projects assessed	Total capital expenditure	Support granted	Projects cleared	Disbursement
Federal environmental support schemes	**16,270**	**1,848.2**	**374.5**	**17,432**	**561.0**
Water management	1,413	502.9	90.7	1,477	334.4
Environmental support in Austria	5,934	650.2	68.0	5,729	57.8
Consultancy services	2,066	1.2	1.2	2,066	1.2
Renovation support for businesses	180	55.9	10.4	221	9.4
Renovation support for private households	5,782	227,0	25,8	7,235	24.4
Remediation of contaminated sites	16	32.6	29.0	9	38.3
Protective water management	608	203.1	111.2	574	93.8
klimaaktiv mobil	2	0.8	0.2	4	0.0
Funding for international climate projects	4	1.7	1.7	5	1.6
EU con-financing (Environmental Support Act)	265	172.9	36.2	112	0.0
Climate and Energy Fund	**12,678**	**233.3**	**32.7**	**13,997**	**40.8**
Photovoltaics	5,462	60.1	7.1	6,160	8.0
Wood-fired heating and solar installations	3,783	59.4	5.1	4,129	5.5
Mobility management	2,888	84.7	7.5	2,972	9.6
Employment programmes	183	11.6	9.9	290	17.7
EU co-financing	362	17.5	3.1	446	0.0
Other programmes	**1,271**	**250.2**	**29.4**	**966**	**1.2**
Green electricity – hydro power plants	27	201.9	27.2	20	0.0
e-mobile Lower Austria	493	15.1	0.6	493	0.6
Salzburg Climate and Energy Pact	18	1.4	0,1	34	0.2
E-mobility Styria	216	6.4	0.2	216	0.2
Cool businesses in Styria	4	0.6	0.3	0	0.0
Add-on funding Tyrol	314	17.1	0.6	63	0.0
Add-on funding Vorarlberg	91	6.0	0.2	86	0.2
Photovoltaics Vienna	108	1.7	0.2	54	0.0
Total	**30,219**	**2,331.8**	**436.6**	**32,395**	**603.0**

Rounding differences may result from presentation in EUR m.

water, contaminated land remediation, transportation and e-mobility sectors. In 2018, a total of 30,219 projects were approved and 32,395 projects were settled across all of these sectors.[3] KPC acts as an interface between the authorities providing the financial resources and the applicants. It monitors projects throughout the entire term of the support process. Its scope of activity also includes the development and implementation of funding programmes.

Consulting

In the area of consulting, KPC works for national and international organisations and financial institutions. Its range of services includes technical and business consulting services, the undertaking of studies, capacity development and policy advice, particularly in Central Europe, Southeast Europe and Eastern Europe. Its customers include the European Commission, the European Bank for Reconstruction and Development (EBRD), the World Bank, the Organisation for Economic Cooperation and Development (OECD), the German Kreditanstalt für Wiederaufbau (KfW), the German Federal Ministry for the Environment and the Austrian Development Agency (ADA).

EUR 2.3 bn

investment volume managed in 2018

In 2018, KPC was awarded some attractive new contracts: It was engaged by KfW for the project Energy Efficiency in Public Buildings in the East Ukranian cities Saparoshie and in Zhytomyr. This project involves the identification of measures for the energy-efficient modernisation of public buildings in both of the cities, which can subsequently be financed by KfW. KPC was awarded new contracts by the EBRD in the water sector (Visoko Water System Supply Project – Financial and Operational Performance Improvement and Public Service Contracting in Bosnia and Herzegovina) and in the energy sector (e.g. continuation of the Western Balkans Green Economy Financing Facility – "WBGEFF").

A key focus of KPC is on activities in the area of climate finance/sustainable finance. From 2003 to 2013, KPC managed the purchase of CO_2 emissions certificates from international climate protection projects for the Republic of Austria for meeting the Kyoto targets. KPC draws on its expertise in international climate protection in the provision of consulting services to clients, including the World Bank (the Pilot Auction Facility for Methane and Climate Change Mitigation) and KfW (administration of the Future of the Carbon Market foundation). KPC is also commissioned by the BMNT as a member of the Austrian negotiating team at global climate conferences. In 2018, it was awarded consulting mandates with the German Federal Ministry for the Environment in the area of Sustainable Finance and the EBRD's project for EU Effort Sharing with a Green Investment Scheme (ESR-GIS), which involves the establishment of EU member state guidelines for sharing the burden related to EU climate targets.

Additionally, since 2008 KPC has provided the Climate Austria platform for the voluntary offsetting of CO_2 emissions, for example in relation to tourist traffic, in cooperation with numerous companies. The ISO certification for KPC's consulting activities was re-confirmed in 2018.

[3] Payments are not made following approval, but following implementation of the project; the number of payments therefore includes projects from prior years.

Fidelio KA Debt Fund Platform

In the first half of 2018, Kommunalkredit set up the companies Fidelio KA Beteiligung GmbH, Fidelio KA Advisory GmbH and Fidelio KA Infrastructure Opportunities Fund GP S. à r. l. to establish the structures and prerequisites for launching funds for third-party investment in infrastructure and energy projects. The first close for the first sub-fund (the "Fidelio KA Infrastructure Debt Fund Europe 1") took place in the third quarter of 2018.

Kommunalnet E-Government Solutions GmbH

Kommunalkredit has a 45% holding in Kommunalnet E-Government Solutions GmbH (Kommunalnet). A further 45% is held by the Austrian Association of Municipalities and 10% is held by three of its regional organisations. Kommunalnet is the digital work and information portal for the Austrian municipalities, mayors and municipal employees. It provides current local news, access to relevant official databases and serves as a hub for information and communication between the federal government, the states and the municipalities. Kommunalnet is an official element of the Austrian e-government roadmap.

In 2018, Kommunalnet implemented numerous projects to further improve the support provided to the municipalities in carrying out their day-to-day work, broaden the scope of its business activities and thereby utilise growth potential. The main projects were the expansion of the Municipal Deals digital purchasing platform, the implementation of the e-academy and the launch of e-procurement.

At the end of 2018, Kommunalnet had 14,624 registered users from 2,055 Austrian municipalities and municipal associations. This gives Kommunalnet an exceptionally high market share of 95.99% in the municipality sector and consequently a unique position in the Austrian market. Since April 2018, Kommunalnet has cooperated with Loanboox, a fin-tech company operating an online platform for municipal loans, in the field of municipal financing. With just a few clicks, local authorities can submit financing enquiries to numerous potential providers of capital via this platform. In Switzerland and Germany, Loanboox has already received financing enquiries for a total volume of CHF 10bn from over 1,000 users. Kommunalnet cooperates with Loanboox as its distribution partner in Austria. Since September 2018, Loanboox has also been available for Austrian municipalities. Within the framework of the cooperation, Kommunalnet is taking over the distribution of Loanboox in Austria. By the end of 2018, 30 municipalities and 12 financial institutions were registered.

TrendMind IT Dienstleistung GmbH

TrendMind IT Dienstleistung GmbH (TrendMind) is an expert IT provider in the areas of financial products, SAP and software for the management of support programmes. Alongside classic software development activities, its range of services includes consultancy and technical project management services. In these areas, TrendMind primarily supports clients from Austria and Germany in their operations and maintenance. TrendMind played a significant role in the success of the online investment platform project KOMMUNALKREDIT INVEST.

Kommunalkredit TLI Immobilien GmbH & Co KG

Kommunalkredit TLI Immobilien GmbH & Co KG owns and manages the properties at Tuerkenstrasse 9 and Liechtensteinstrasse 13. The office premises at the properties were let primarily to Group companies and to KA Finanz AG.

Kommunalleasing GmbH

Kommunalleasing GmbH is a 50% joint venture with BAWAG P.S.K. The company finances a portfolio of EUR 71.6m in the municipal leasing sector, comprising around 70 projects. It has not conducted any new business since August 2008 following changes to taxation legislation in relation to municipalities.

Employees

WE ARE KOMMUNALKREDIT

We made significant progress in the execution of our 50 I 50 I 10 strategic programme. This was thanks to the dedication of our employees. This success is their success!

The good performance of the bank is dependent upon the commitment and achievements of each individual. It also depends, however, on us pulling together and pursuing our goals collectively as a team.

We are a Team

Our success depends on us pulling together and pursuing our goals collectively as a team

And it depends upon each of us possessing the necessary skills to carry out our work to the best degree possible.

Training and professional development therefore play a strategic role in ensuring the success of Kommunalkredit. We support both the professional and personal development of our employees. We have a first-class team with extensive international know-how and a strong track record in the infrastructure business, and we are investing with the purpose of strengthening this competitive advantage.

Employee development, as one of the most important management responsibilities, for us means supporting employees with targeted measures to enable them to optimally perform their functions. We view employee development as a link between corporate strategy and the workforce. It is intended to foster the commitment and development of employees and management and makes an important contribution to us jointly realising our vision, executing our strategy and achieving our goals.

In 2018, we set the following priorities for **training and professional development:**

- We developed a coaching programme for managers, to support them in furthering their ability to carry out their strategic responsibilities.
- We implemented a Learning Management System with extensive e-learning modules, in order to be able to better meet statutory and regulatory requirements.

- We revised the employee performance review process as the basis for the agreement of objectives and development.
- We place great value on the involvement of all employees, so that we can benefit from our collective strength in the execution of our growth strategy.

The figures:

The headcount of the Kommunalkredit Group was 253 full-time equivalents (FTE) as of 31 December 2018 (31/12/2017: 284); thereof 162 in Kommunalkredit Austria AG (31/12/2017: 182), 88 in Kommunalkredit Public Consulting (31/12/2017: 88). 3 staff members were working exclusively for KA Finanz AG (KF), according to a staff leasing agreement. Kommunalkredit in addition provided operational services for KF under a service agreement (SA).

As of 31 December 2018, 44% of the employees of the Kommunalkredit Group were female, who also held 39% of executive positions. The average age of employees was 42. The percentage of university graduates remained high at 61%. As of 31 December 2018, 11 female employees and 6 male employees were on parental leave. In 2018, 7 male employees took paternity leave and another 3 took advantage of the so-called "Papamonat" provision included in the collective labour agreement for banks as of 1 July 2011, which allows new fathers to stay at home for one month after the baby's birth, or the so-called "family time" provision for children born as of 1 March 2017 respectively.

The remuneration policy and practice of the Kommunalkredit Group is fully in line with the legal requirements for variable remuneration in banks pursuant to § 39b of the Austrian Banking Act and Art. 455 CRR (published in the Disclosure Report), including the implementation of a "Remuneration Committee" of the Supervisory Board.

Other Material Disclosures

CHANGES ON BOARD AND SERVICE AGREEMENT

Changes on the Executive Board and the Supervisory Board

On 1 September 2018, at the age of 66 and following 40 successful years in the banking industry, Alois Steinbichler handed over the chair of the Executive Board to Bernd Fislage, thus achieving management continuity. Bernd Fislage has been a member of the Executive Board since February 2017 and Co-Chief Executive Officer since March 2018.

Elected to the bank's Supervisory Board on 20 September 2018, Alois Steinbichler continues to contribute his wealth of experience to the benefit of the bank.

Jochen Lucht was appointed to the Executive Board on 1 July 2018. Since 1 September 2018, the Executive Board of Kommunalkredit Austria AG has consisted of Bernd Fislage (Chief Executive Officer), Jochen Lucht (Chief Financial Officer and Chief Operating Officer) and Jörn Engelmann (Chief Risk Officer).

Wolfgang Meister stepped down from the Executive Board on 6 March 2018. Katharina Gehra resigned from the Supervisory Board on 5 September 2018.

Service Agreement between Kommunalkredit and KA Finanz AG

Under the service level agreement (SA), which has been in place since 2009, Kommunalkredit provides operational services for the banking operations of KA Finanz AG (KF). As of 31 December 2018, 3 staff members were delegated to KF on a full-time basis under a staff services agreement. Kommunalkredit's expenses under the SA are charged to KF.

Within the framework of a public tender in the second quarter of 2018, KF decided to award the contract for the provision of services to another group of bidders. Therefore, the existing SA will expire as of 31 March 2019. Kommunalkredit will adjust its operational capacities accordingly.

Significant Events after the Balance Sheet Date

Changes on the Executive Board

Jörn Engelmann left the Executive Board on 31 January 2019 after the expiration of his contract. Since 1 February 2019, the Executive Board has consisted of Bernd Fislage (Chief Executive Officer) and Jochen Lucht (Chief Finance Officer, Chief Risk Officer and Chief Operating Officer).

Branch Offices

As of 31 December 2018, Kommunalkredit had a branch office in Frankfurt am Main, Germany.

Research and Development

Given the sector in which the company operates, statements on research and development do not apply.

Internal Control System (ICS)

TIGHT CONTROL OF KEY IN ACCOUNTING AND FINANCIAL REPORTING

The objective of the internal control system (ICS) is to support the management in the implementation of effective and continuously improving internal controls, especially in terms of compliance with the relevant legal provisions, the regularity of accounting practices, the reliability of financial reporting and the effectiveness and efficiency of operational processes. The ICS is intended to ensure compliance with guidelines and regulations as well as to establish the prerequisites for specific control measures applied in key accounting and financial reporting processes. Its primary goals include the correct and transparent disclosure of the assets, the financial position and the income of the company, as well as ensuring compliance with regulatory requirements.

The Kommunalkredit ICS comprises five interrelated components: control environment, risk assessment, control measures, information and communication, and supervision.

Control environment

The corporate culture within which management and staff operate forms the basis of the control environment. Central organisational principles include the avoidance of conflicts of interest through a strict segregation of front-office and back-office operations, the transparent documentation of core processes and control measures, and consistent adherence to the four-eyes principle. Furthermore, areas of responsibility and the scope of activity at top management level are defined and/or limited by the Supervisory Board committees in their various functions and the rules of procedure for the Executive Board.

The internal audit unit independently audits all departments to assess compliance with the internal rules on a regular basis. The head of the internal audit unit and the compliance officer report directly to the Executive Board and the Supervisory Board.

Risk assessment

The objective of Kommunalkredit's risk management activities is to record all identifiable risks and take mitigative and preventive measures where necessary through optimised processes. The risk management system comprises all processes serving to identify, analyse and assess risks. Risks are assessed and monitored by the management, with a focus on those risks viewed as material. The internal control measures taken by the responsible units are evaluated on a regular basis.

Control measures

Kommunalkredit has a control system which defines the structures, processes, functions and roles within the company as well as the related control activities. It provides explicit instructions on how to deal with and/or enforce standard operating procedures or guidelines. This also applies to information processing, the documentation of information sent and received, and the avoidance of transaction errors.

All control measures are implemented to ensure that potential errors or deviations are prevented and/or identified and corrected.

IT security control measures are an essential component of the internal control system. The separation of sensitive activities is supported through a restrictive policy of granting IT user authorisations; compliance with the four-eyes principle is strictly observed.

Information and communication

The individual units at Kommunalkredit – in particular the risk controlling and accounting units – submit regular reports, primarily monthly and quarterly results, to the Executive Board. The Executive Board in turn reports regularly to the Supervisory Board. The head of the internal audit unit and the compliance officer also report directly to the Supervisory Board. Furthermore, the risk managers in the credit risk management and risk controlling units report to the Risk Committee of the Supervisory Board.

Comprehensive reports are submitted to the Supervisory Board and its committees on a regular basis. The information provided comprises company accounting data (balance sheet and income statement, budget and capital budget, comparison of actual figures to target figures and comments on significant developments), quarterly risk reports, liquidity risk analyses in relation to the markets department and analyses of banking activities. The shareholders, investors and market partners as well as the public are informed through the half-year financial report and the annual financial report. Information is also communicated in the form of ad-hoc disclosures, as required by law.

Supervision

Financial statements to be published are subject to a final review, coordinated with the external auditor, and explicitly released by senior accounting staff and the Executive Board prior to their submission to the Audit Committee of the Supervisory Board. By monitoring compliance with all rules, Kommunalkredit aims to achieve a maximum level of security for all operational procedures and processes and ensure conformity with all group-wide and legal standards. If risks and weaknesses in the control system are detected, remedial and mitigative measures are immediately established and implementation of the follow-up steps is monitored. To ensure compliance with rules and guidelines throughout the bank, regular audits are performed in accordance with the annual audit plan drawn up by the internal audit unit.

Compliance and Anti-Money Laundering

MAINTENANCE OF HIGHEST COMPLIANCE STANDARDS

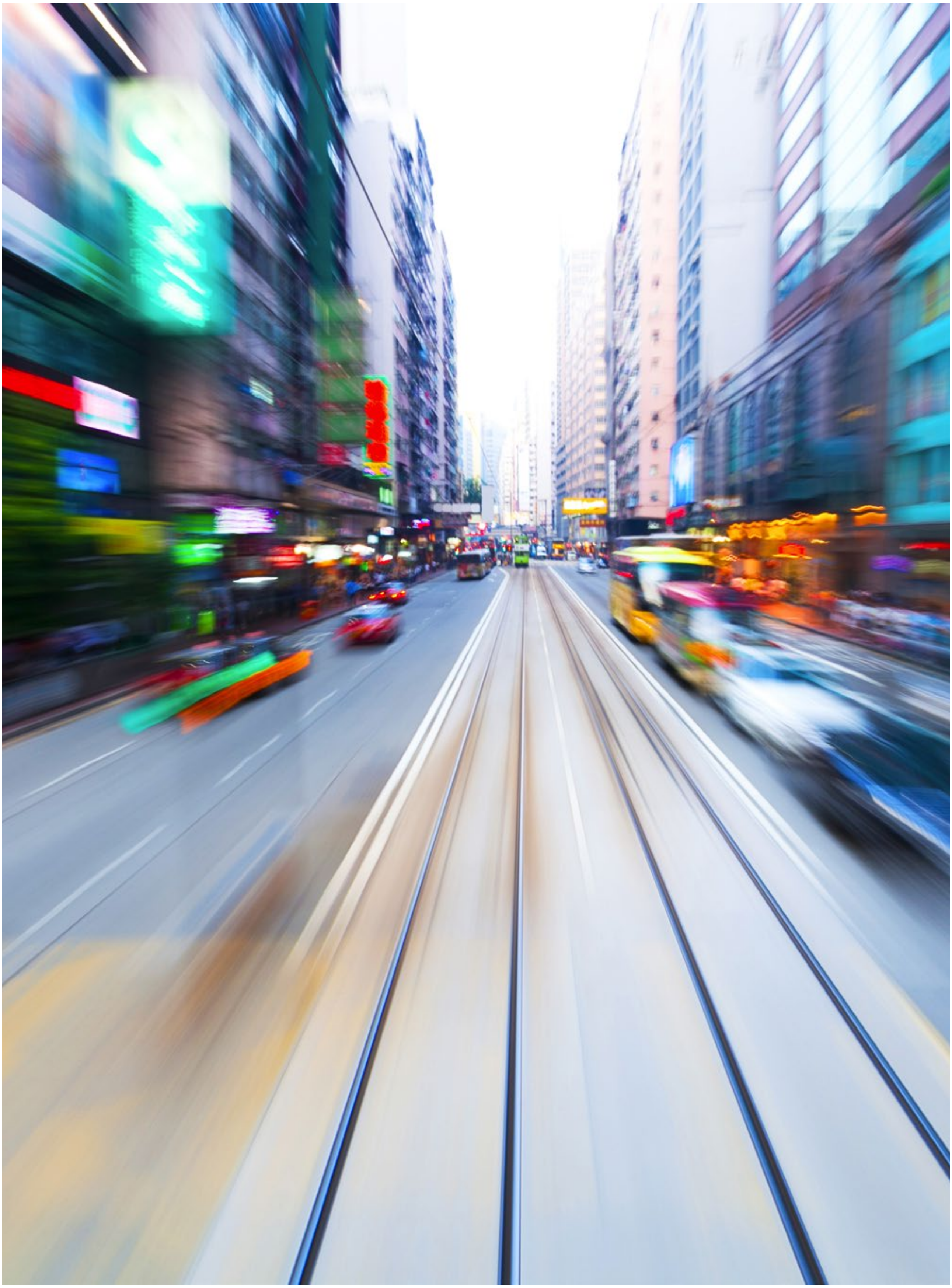
Kommunalkredit is committed to maintaining the highest compliance standards. The internal compliance code implements the stipulations set out in the relevant statutory provisions, such as the Stock Exchange Act 2018, the Securities Supervision Act 2018, the Commission Delegated Regulation (EU) 2017/565 and the EU Market Abuse Regulation. The key areas addressed by the compliance code, in alignment with the statutory requirements, are prevention of insider trading and market abuse, adherence to the code of conduct and the identification and avoidance of conflicts of interest.

The compliance function at Kommunalkredit is organised in accordance with the statutory provisions, headed by a compliance officer who reports to the Executive Board. A key responsibility of the compliance function is ensuring adherence to the legal requirements and code of conduct. In addition, Kommunalkredit has set the objective that the compliance function should take pre-emptive measures to identify and prevent any potential violation of legal requirements or internal policies, in order to avoid jeopardising the reputation of the company. Compliance is also responsible for updating the compliance code on an ongoing basis to account for legislative changes or new regulations, as well as for communication of these changes to employees. The compliance officer at Kommunalkredit is the point of contact for all employees in relation to these matters. He is also responsible for the mandatory compliance training for new employees as well as compliance training for employees in specified business areas on a regular basis.

The anti-money laundering officer is responsible for ensuring compliance with the provisions of the Financial Markets Anti-Money Laundering Act and the Beneficial Owners Register Act. He also reports to the Executive Board in this function. The regular training on anti-money laundering and terrorism financing issues enables the employees of Kommunalkredit to identify questionable transactions and business dealings at an early stage and inform the anti-money laundering officer.

Prevention

Key responsibility is ensuring adherence to the legal requirements



Corporate Governance

CLEAR STRUCTURES

Supervisory Board

In 2018, the Supervisory Board performed its duties, as set out in the Articles of Association and rules of procedure, in various ordinary and extraordinary meetings. Four ordinary Supervisory Board meetings, two extraordinary Supervisory Board meetings, two Audit Committee meetings, two Nomination Committee meetings, one Risk Committee meeting and one Remuneration Committee meeting were held during the year.

Executive Board

The Executive Board of Kommunalkredit consisted as at 31 December 2018 in the context of the management transition process of four, respectively three members. The allocation of tasks and the working procedures within the Executive Board are set out in the rules of procedure for the Executive Board. The members of the Executive Board also maintain a regular exchange of information with one another and with the respective responsible managers. The Executive Board informs the Supervisory Board regularly, promptly and comprehensively about all relevant developments in the business, including the risk position and risk management within the company and its material subsidiaries.

Additionally, in accordance with good corporate governance, regular exchanges of information take place between the Chairman of the Supervisory Board and the Executive Board. These address in particular the determination of strategy as well as information relating to the company's business performance and risk management. The Chairman of the Risk Committee is also kept regularly informed about risk management topics. Executive Board meetings are held weekly, with an agenda comprising items requiring resolution and to be reported along with corresponding minutes; follow-up points are agreed, recorded and closely monitored.

Internal Audit / Compliance and money laundering

Internal Audit reports monthly to the Executive Board and submits quarterly reports directly to the Supervisory Board. As well as ongoing contact in the day-to-day business, Compliance submits semi-annual written reports to the Executive Board. The compliance officer also acts as anti-money-laundering officer pursuant to § 23(3) of the Financial Markets Anti-Money Laundering Act (FM-GwG – Finanzmarkt-Geldwäschegesetz) and, as such, is responsible for measures to ensure compliance with the provisions of the Financial Markets Anti-Money Laundering Act, in particular the duties of diligence vis-à-vis customers as laid down in §§ 5ff. The semi-annual anti-money laundering and compliance reports are also submitted to the Supervisory Board.

Outlook

Economic environment in 2019

Global GDP growth is expected to have peaked in 2018, however, the outlook for 2019 remains positive for the global economy as a whole. This is supported by prevailing monetary policy and strong job growth which is expected to continue to underpin domestic demand. Global GDP growth is projected to ease gradually to around 3.5% in 2019 and 2020. Growth for the euro zone is forecast to decrease to 1.9% in 2019 with expectations of a further decrease to slightly over 1.5% by 2020. Wage and price inflation are projected to rise moderately.[1]

Overall, the world economy is exposed to notably higher risks in the medium term. This is mainly due to uncertainty surrounding the future outcome of US-Chinese negotiations to avoid escalation of the trade disputes as well as address the existing trade restrictions. In addition to the punitive import tariffs in a magnitude of USD 50bn on Chinese goods initially imposed, the US could impose further tariffs on another USD 200bn of imports. With 1 March although, the scheduled tariff increase was suspended until further notice for the time being. Corporate profits are exptected to experience massive pressure in case of a tariff increase, especially those of US companies directly involved in bilateral trade with China. Consequently, the affected regions in Asia, which have been the most important driver of the global economy over the past ten years, would be subject to greater economic and market volatility. Also, the European Union and many other economies integrated in regional and global supply chains, including commodity exporters, will remain affected by these bilateral tariffs and the associated trade diversion effects, especially if additional tariffs are to affect imports in the automotive industry. The outlook for Europe is also exposed to specific additional risks, such as uncertainties about the future political orientation after the European elections and the materialization and real impact of the implementation of Brexit. In the event of a no-deal Brexit, Kommunalkredit has received temporary approval from the Bank of England to continue its business activities temporarily for up to three years after 29 March 2019. The bank does not expect a substantial impact from Brexit on its business.

On 13 December 2018, the ECB announced that it intends to continue reinvesting the principal payments from maturing securities purchased under the Asset Purchase Programme (APP) for an extended period of time past the date when it starts raising the key ECB interest rates. The APP will be continued as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. Also, the ECB will aim to maintain throughout 2019 the size of its cumulative net purchases under each constituent programme of the APP at their respective levels as at the end of December 2018. For

[1] OECD Economic Outlook, Volume 2018 Issue 2.

the time being, an increase in key lending rates is not foreseeable.[2]

The Fed, however, is expected to increase interest rates further during 2019. The prospect of a curve inversion should give the Fed leeway for scheduling future rate hikes on its anticipated path to further normalisation of US monetary policy.[3]

The European infrastructure market – trends in 2019

European deal activity is expected to remain high in 2019, with new opportunities continuing to arise from maturing eastern European markets. Like in 2018, brownfield and M&A activity is expected to fuel the bulk of the deal flow.

The majority interest in French airport operator AdP valued at EUR 10bn, along with the privatisation of regional airports such as Bordeaux, Montpellier and Marseille are expected to fuel some of the acquisition financing activity in France. After Belgrade airport in 2018, the privatisation of Sofia airport in Bulgaria is expected to attract large investment appetite. One of the largest European utilities deals next year is anticipated to be the sale of a minority stake in Germany's EWE.

Digital infrastructure featuring data centres, towers and broadband networks has seen sustained M&A activity in 2018, with some 40 transactions closing, a trend that is expected to continue in 2019. While the French broadband programme is reaching completion, Austria is rolling out its own rural fibre coverage. Equity investors' appetite for demographic infrastructure such as social housing and care homes was strong in 2018, with a fragmented UK market being the most active for M&A. This trend can be expected to continue and to manifest itself also in continental Europe.

In the market for greenfield projects, Scandinavia is picking up the momentum created by the Netherlands with several large road schemes in Norway. For the past few years, large scale PPPs in Western Europe have been the remit of state-supported banks and institutionals and there are no signs of this changing. An ongoing need for funding for off shore wind greenfield is expected in 2019. The French programme is reaching funding stage and Poland's off shore wind potential is said to be the largest in Europe. Green energy has firmly established itself on the agenda of commercial and institutional lenders alike.

Business Outlook

Kommunalkredit is well-positioned to capitalise on the opportunities available in 2019 in the European infrastructure market. The bank established itself very strongly in the market in 2018 and made good progress in the execution of its 50 I 50 I 10 strategy. It will continue on this path in 2019. Kommunalkredit has a healthy project pipeline and aims to further increase new business volumes. It will extend its network of project sponsors and investors and further broaden its product range.

In the third quarter of 2018, with the first close for the "Fidelio KA Infrastructure Debt Fund Europe 1", Kommunalkredit expanded the product range with the addition of asset management. The final close is scheduled for the first half of 2019 and two more

[2] Minutes of the Meetings of the Governing Council and the General Council (ECB).

[3] Federal Reserve Board of Governors - Minutes.

funds are planned for this year. The bank will place strong emphasis on financial advisory services. Further it will target the market for export credit financings given the attractive risk-adjusted returns for this kind of transactions. The bank will also seek to assume sponsor roles in partnership with specialist developers or infrastructure funds for projects in which it has specific sector expertise. In this capacity, Kommunalkredit may take minority equity positions and/or provide shareholder loans. Public sector financing will continue to be an integral part of the bank's business. However, the contribution from the infrastructure and energy financing to the bank's total revenues, which under local GAAP was 52% in 2018, will grow further. In conjunction with a high level of discipline in placing new business volumes with investors and in the area of cost management, it is expected that this will lead to a further improvement in operational earnings power in 2019.

The Board of
Kommunalkredit Austria AG

Bernd Fislage
CEO

Jochen Lucht
CFO, CRO, COO

REPORT OF THE SUPERVISORY BOARD TO THE SHAREHOLDERS‘ MEETING

The Supervisory Board of Kommunalkredit Austria AG (Kommunalkredit) submits its report on the business year 2018 to the Shareholders’ Meeting.

As in the previous year, Patrick Bettscheider, Managing Director of Gesona Beteiligungsverwaltung GmbH as well as of Satere Beteiligungsverwaltungs GmbH, delegated by Gesona Beteiligungsverwaltung GmbH, holds the position of Chairman of the Supervisory Board. Further capital representatives are Christopher Guth, Deputy Chairman of the Supervisory Board, delegated by Gesona Beteiligungsverwaltung GmbH and Friedrich Andreae, Managing Director of Gesona Beteiligungsverwaltungs GmbH as well as of Satere Beteiligungs GmbH. Katharina Gehra resigned her mandate on 5 September 2018. Alois Steinbichler was newly elected to the Supervisory Board on 20 September 2018. Jürgen Meisch, Managing Director of Achalm Capital GmbH, and Martin Rey, Managing Director of Maroban GmbH, continue to exercise their mandates as independent members of the Supervisory Board. The Supervisory Board members delegated by the Staff Council are Patrick Höller and Renate Schneider, as well as Paul Matousek, who resigned from the Supervisory Board on 14 December 2018. At the time of reporting, the Supervisory Board comprises four capital representatives, two independent representatives and two employee representatives. The Supervisory Board wishes to thank all former members who resigned in the course of 2018 for their trust and cooperation.

Karl-Bernd Fislage was appointed Chairman of the Management Board with effect from 1 September 2018. He succeeded Alois Steinbichler, who resigned from his position as Chairman of the Management Board effective from 31 August 2018. Wolfgang Meister also resigned his mandate on 6 March 2018. As a result, Jochen Lucht was appointed to the Management Board with functions as Chief Financial Officer (CFO) and Chief Operating Officer (COO) with effect from 1 July 2018. The mandate of Jörn Engelmann Chief Risk Officer (CRO) expired on 31 January 2019. At the time of reporting, the Executive Board consists of Chairman Karl-Bernd Fislage (Chief Executive Officer) and Jochen Lucht (Chief Financial Officer, Chief Risk Officer and Chief Operating Officer).

In 2018, Kommunalkredit continued on the trajectory established in 2017, substantially strengthening its operating earnings power. This improvement reflects the successful expansion of the infrastructure and energy financing business, which made a significantly higher contribution to net interest income and net fee and commission income. Leveraging its successful track record in traditional project finance and its in-depth sector expertise, Kommunalkredit has stepped up its activities in acquisition finance and hybrid/corporate finance situations as well as its financial advisory services. On the distribution side, Kommunalkredit placed own commitments with a wide range of investors, including insurance companies, asset managers and banks across Europe. Kommunalkredit established its own Infrastructure Debt Fund platform in 2018. Through this platform the bank is able to offer business partners access to infrastructure financing via an asset management solution.

The Supervisory Board performed its tasks, as defined in the Articles of Association and the Rules of Procedure, within the framework of four ordinary meetings and two extraordinary meetings. Moreover, the statutory committees (Nomination Committee, Audit Committee, Risk Committee, Remuneration Committee and Credit Committee) held their meetings and performed their tasks. The Articles of Association and the Rules of Procedure of the Supervisory Board were amended (i.e. the Presiding Committee and the Nomination Committee were abolished without replacement) with a view to optimising the organisation of the Supervisory Board in connection with the change in the Austrian Banking Act (in Section 29 with effect from 3 January 2018). Furthermore, due to the changes in the Management Board, the allocation of responsibilities for the Management Board was redefined and resolved.

In the course of the meetings of the Supervisory Board and its committees, as well as through direct information, the Supervisory Board was continuously updated on the development of business, the position and performance of the company and its business policy plans. In exercising its tasks conferred upon it by law, the Articles of Association and the Rules of Procedure, the Supervisory Board advised and supervised the Executive Board in the management of the company. In accordance with the fit-and-proper guideline (based on the EBA Guideline for the Assessment of the Suitability of Members of the Service Body and Holders of Key Functions, version 2017/12, and the FMA fit & proper circular of August 2018), the members of the Boards of the bank underwent comprehensive fit-and-proper training covering regulatory changes and/or innovations in December 2018.

These Financial Statements and the Management Report were audited by PwC Wirtschaftsprüfung GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna. The audit did not result in any findings. Given that all legal requirements were complied with by the bank and the annual financial statements present a true and fair view of the assets and the financial position of the company as at 31 December 2018, the auditors issued an unqualified audit opinion. Having examined the financial statements, the Supervisory Board endorsed the result of the audit and approved the 2018 Financial Statements at its meeting on 13 March 2019, which were thus formally adopted. Moreover, the Consolidated Financial Statements as at 31 December 2018, including the Management Report, were examined and taken note of by the Supervisory Board.

Vienna, 13 March 2019

The Supervisory Board

Dr. Patrick Bettscheider

CHAIRMAN

CONSOLIDATED FINANCIAL STATEMENTS OF THE KOMMUNALKREDIT GROUP, VIENNA FOR THE BUSINESS YEAR 2018

I. Consolidated Balance Sheet

Assets in EUR 1,000	Note	31/12/2018	31/12/2017
Cash and balances with central banks	(22)	314,408.9	318,109.1
Loans and advances to banks	(23)	218,561.5	140,197.5
Loans and advances to customers	(24)	1,969,637.9	2,091,879.7
Assets at fair value		0.0	605,731.1
Assets at fair value through other comprehensive income	(26)	1,178,939.7	0.0
Assets available for sale		0.0	211,564.2
Derivatives	(27)	220,886.0	232,616.8
Portfolio hedge		808.0	0.0
Property, plant and equipment	(29)	24,831.8	25,850.3
Intangible assets	(30)	203.9	191.4
Current tax assets	(32)	258.6	476.5
Deferred tax assets	(32)	6,183.3	27,243.6
Other assets	(33)	7,040.8	9,370.4
Assets		**3,941,760.3**	**3,663,230.7**

Liabilities and equity in EUR 1,000	**Note**	**31/12/2018**	**31/12/2017**
Amounts owed to banks	(34)	495,569.2	532,838.2
Amounts owed to customers	(35)	1,456,472.9	1,038,002.0
Derivatives	(36)	200,976.4	244,709.4
Securitised liabilities	(37)	1,396,053.7	1,468,582.1
Subordinated liabilities	(38)	69,074.4	68,922.1
Provisions	(39)	8,917.0	7,594.2
Current tax liabilities	(40)	1,135.8	599.8
Other liabilities	(41)	18,798.9	18,857.9
Equity	(42)	294,762.0	283,125.0
of which subscribed capital		*159,491.3*	*159,491.3*
of which statutory reserves		*17,868.2*	*14,241.5*
of which reserves for assets at fair value through other comprehensive income		*110,364.1*	*0.0*
of which available for sale reserve		*0.0*	*892.4*
of which other reserves (incl. consolidated net profit)		*6,873.4*	*108,339.7*
of which non-controlling interests		*164.9*	*160.1*
Liabilities and equity		**3,941,760.3**	**3,663,230.7**

II. Consolidated Income Statement

Income Statement in EUR 1,000	Note	1/1-31/12/2018	1/1-31/12/2017
Net interest income	(43)	52,716.1	36,139.4
Interest income		*173,381.0*	*128,949.8*
Income similar to interest income		*0.0*	*29,106.7*
Interest expenses		*-117,726.7*	*-95,996.9*
Expenses similar to interest expenses		*-2,938.1*	*-25,920.2*
Net fee and commission income	(44)	18,467.1	17,258.3
Fee and commission income		*19,857.3*	*18,135.7*
Fee and commission expenses		*-1,390.3*	*-877.4*
Net provisioning for impairment losses	(45)	-699.3	-300.4
General administrative expenses	(46)	-54,124.0	-55,948.3
Personnel expenses		*-34,989.7*	*-36,064.3*
Other administrative expenses		*-19,134.3*	*-19,883.9*
Contributions to the Bank Resolution Fund	(47)	-1,571.0	-949.5
Income from investments		192.0	158.1
Other operating result	(48)	8,263.1	11,248.7
Other operating income		*9,289.8*	*12,531.6*
of which services invoided to KA Finanz AG		*8,601.5*	*12,105.8*
Other operating expenses		*-1,026.7*	*-1,282.8*
of which bank stability tax		*-575.6*	*-675.6*
Restructuring expense	(49)	-2,500.0	-2,700.0
Net result of valuations and realised gains	(50)	11,863.2	2,144.9
Result from the elimination of financial assets measured at amortised cost		-21.5	0.0
Consolidated profit for the year before tax		**32,585.7**	**7,051.3**
Taxes on income	(51)	-18,263.3	11,003.4
Consolidated net profit		**14,322.4**	**18,054.7**
of which attributable to owners		*14,282.2*	*18,012.7*
of which attributable to non-controlling interests		*40.2*	*42.0*

III. Consolidated Statement of Compehensive Income

Comprehensive Income in EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Consolidated profit for the year	**14,322.4**	**18,054.7**
Items to be recycled to the Income Statement	**-5,772.2**	**-398.5**
Change in assets at fair value through other comprehensive income	**-5,772.2**	**0.0**
Assets at fair value through other comprehensive income	*-10,718.6*	*0.0*
Change in credit risk provision	*563.2*	*0.0*
Recycled to the Income Statement	*2,459.1*	*0.0*
Deferred tax on assets at fair value through other comprehensive income	*1,924.1*	*0.0*
Change in available-for-sale reserve	**0.0**	**-398.5**
Valuation of available-for sale reserve	*0.0*	*-531.3*
Deferred tax on available-for-sale reserve	*0.0*	*132.8*
Items not to be recycled to the Income Statement	**1,217.2**	**744.6**
Change in actuarial gains/losses	**593.0**	**744.6**
Actuarial result from pension provisions	*790.7*	*992.8*
Deferred tax on actuarial result from pension provisions	*-197.7*	*-248.2*
Changes in equity instruments at fair value through other comprehensive income	**624.2**	**0.0**
Valuation of equity instruments at fair value through other comprehensive income	*832.3*	*0.0*
Deferred tax on changes in equity instruments at fair value through other comprehensive income	*-208.1*	*0.0*
Total	**9,767.4**	**18,400.9**
of which attributable to owners	*9,716.3*	*18,340.3*
of which attributable to non-controlling interests	*51.1*	*60.6*

IV. Consolidated Statement of Changes in Equity

Equity according to IFRS developed as follows in 2018 and 2017:

Statement of Changes in Equity 2018 in EUR 1,000	**Subscribed capital**	**Statutory reserves[1]**	**Retained earnings and other reserves (incl. consolidated net profit)**	**Reserve for assets at fair value through other comprehensive income[1]**	**Available-for-sale reserve**	**Actuarial gains/losses IAS 19**	**Equity excl. non-controlling interests**	**Non-controlling interests**	**Equity**
as at 1/1/2018	**159,491.3**	**14,241.5**	**107,416.0**	**0.0**	**892.4**	**923.7**	**282,964.8**	**160.1**	**283,125.0**
Changes resulting from first-time adoption of IFRS 9	0.0	0.0	-101,203.9	115,512.1	-892.4	0.0	13,415.8	0.0	13,415.8
restated as at 1/1/2018	**159,491.3**	**14,241.5**	**6,212.1**	**115,512.1**	**0.0**	**923.7**	**296,380.7**	**160.1**	**296,540.8**
Consolidated profit for the year	0.0	0.0	14,282.2	0.0	0.0	0.0	14,282.2	40.2	14,322.4
Changes in assets at fair value through other comprehensive income	0.0	0.0	0.0	-5,772.2	0.0	0.0	-5,772.2	0.0	-5,772.2
Valuation of assets at fair value through other comprehensive income	*0.0*	*0.0*	*0.0*	*-8,039.0*	*0.0*	*0.0*	*-8,039.0*	*0.0*	*-8,039.0*
Recycling of assets at fair value through other comprehensive income	*0.0*	*0.0*	*0.0*	*1,844.3*	*0.0*	*0.0*	*1,844.3*	*0.0*	*1,844.3*
Changes in credit risk provisions	*0.0*	*0.0*	*0.0*	*422.4*	*0.0*	*0.0*	*422.4*	*0.0*	*422.4*
Changes in actuarial gains/losses	0.0	0.0	0.0	0.0	0.0	582.1	582.1	10.9	593.0
Changes in equity instruments at fair value through other comprehensive income	0.0	0.0	0.0	624.2	0.0	0.0	624.2	0.0	624.2
Comprehensive income	**0.0**	**0.0**	**14,282.2**	**-5,148.0**	**0.0**	**582.1**	**9,716.3**	**51.1**	**9,767.4**
Profit distribution	0.0	0.0	-11,500.0	0.0	0.0	0.0	-11,500.0	-61.7	-11,561.7
Changes in the scope of consolidation through first-time consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.3	15.3
Appropriation to statutory reserves	0.0	3,626.7	-3,626.7	0.0	0.0	0.0	0.0	0.0	0.0
as at 31/12/2018	**159,491.3**	**17,868.2**	**5,367.6**	**110,364.1**	**0.0**	**1,505.8**	**294,597.2**	**164.9**	**294,762.0**

[1] As at 31 December 2018, the reserve for assets at fair value through other comprehensive income contains deferred taxes of TEUR -36,880.1.

Statement of Changes in Equity 2017 in EUR 1,000	**Subscribed capital**	**Statutory reserves[1]**	**Retained earnings and other reserves (incl. consolidated net profit)**	**Available-for-sale-reserve[2]**	**Actuarial gains/losses IAS 19**	**Equity excl. non-controlling interests**	**Non-controlling interests**	**Equity**
as at 1/1/2017	**159,491.3**	**13,298.2**	**122,346.6**	**1,290.9**	**197.6**	**296,624.6**	**154.5**	**296,779.0**
Profit for the year	0.0	0.0	18,012.7	0.0	0.0	18,012.7	42.0	18,054.7
Change in AFS reserve	0.0	0.0	0.0	-398.5	0.0	-398.5	0.0	-398.5
Valuation of AFS portfolio	*0.0*	*0.0*	*0.0*	*-398.5*	*0.0*	*-398.5*	*0.0*	*-398.5*
Recycling of AFS reserve	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Change in actuarial gains/losses	0.0	0.0	0.0	0.0	726.1	726.1	18.6	744.6
Comprehensive income	**0.0**	**0.0**	**18,012.7**	**-398.5**	**726.1**	**18,340.3**	**60.6**	**18,400.9**
Distributions	0.0	0.0	-32,000.0	0.0	0.0	-32,000.0	-54.9	-32,054.9
Transfers	0.0	943.3	-943.3	0.0	0.0	0.0	0.0	0.0
as at 31/12/2017	**159,491.3**	**14,241.5**	**107,416.0**	**892.4**	**923.7**	**282,964.8**	**160.1**	**283,125.0**

[1] Statutory reserves include statutory retained earnings of TEUR 5,761.9 (31/12/2017: TEUR 4,241.5) and liability reserves of the parent pursuant to § 57 (5) of the Austrian Banking Act of TEUR 12,106.2 (31/12/2017: TEUR 10,000.0).

[2] The available-for-sale reserve comprises deferred taxes of TEUR -297.5 as at 31 December 2017.

For details on equity, see Note 42.

V. Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows shows the current state and the development of the Kommunalkredit Group's cash and cash equivalents. Strictly interpreted, cash and cash flow equivalents include cash in hand and balance with central banks.

Consolidated statement of cash flows in EUR 1,000	1/1-31/12/2018	1/1- 31/12/2017
Consolidated profit for the year after tax	**14,322.4**	**18,054.7**
Non-cash items included in the profit for the year and reconciliation to cash flow from operating activities		
Depreciation and amortisation of property, plant and equipment and intangible assets	1,317.0	1,780.1
Appropriation to/release of provisions	2,380.4	341.5
Non-realised gains/losses from exchange rate fluctuations	11.0	-9.4
Gains/losses from the valuation of financial assets and gains from the buyback of own issues	-11,830.6	-3,057.0
Income tax deferrals	17,345.2	-9,840.7
Profit participations in companies valued according to the equity method	0.0	0.0
Non-cash deferrals/accruals and other adjustments	172.4	-1,831.1
Sub-total	**23,717.8**	**5,438.0**
Change in assets and liabilities from operating activities after correction for non-cash items		
Loans and advances to banks	-107,568.6	-38,323.7
Loans and advances to customers	72,372.8	47,444.0
Assets at fair value through other comprehensive income	-278,983.7	0.0
Assets available for sale and fair value option	0.0	-12,542.1
Derivatives	-41,693.1	155,800.9
Other assets from operating activities	892.6	8,140.1
Amounts owed to banks	-35,918.4	-260,752.2
Amounts owed to customers	422,932.0	484,294.3
Securitised liabilities	-46,970.7	-342,313.1
Other liabilities from operating activities	-59.0	-6,046.9
Cash flow from operating activities	**8,721.7**	**41,139.3**
Proceeds from the sale / redemption of		
Property, plant and equipment and intangible assets	0.6	0.0
Payments for the acquisition of		
Property, plant and equipment and intangible assets	-311.6	-592.1

Consolidated statement of cash flows in EUR 1,000	1/1-31/12/2018	1/1- 31/12/2017
Cash flow from investing activities	**-311.0**	**-592.1**
Cash inflow from capital increases / cash outflow from capital reductions	0.0	0.0
Dividend payments attributable to the owners of the parent	-11,500.0	-32,000.0
Dividend payments attributable to non-controlling interests	-61.7	-54.9
Change in funds from other financing activities (subordinated capital)	-549.3	-840.6
Cash flow from financing activities	**-12,111.0**	**-32,895.5**
Cash and cash equivalents at the of the previous period	**318,109.1**	**310,457.4**
Cash flow from operating activities	8,721.7	41,139.3
Cash flow from investing activities	-311.0	-592.1
Cash flow from financing activities	-12,111.0	-32,895.5
Cash and cash equivalents at the end of the period	**314,408.9**	**318,109.1**
of which cash flows contained in cash flow from operating activities:		
Interest received	*170,771.7*	*148,522.5*
Interest paid	*-117,599.4*	*-111,464.2*
Taxes on income paid	*136.9*	*1,376.2*
Dividends received	*192.0*	*161.0*
Development of subordinated liabilities carried on the balance sheet	**2018**	**2017**
as at 1/1	68,922.1	69,846.8
Changes in cash items	-549.3	-840.6
Changes in non-cash items (primarily from hedge accounting)	701.6	-84.1
as at 31/12	69,074.4	68,922.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE KOMMUNALKREDIT GROUP, VIENNA, FOR THE BUSINESS YEAR 2018

GENERAL PRINCIPLES

1. General Information

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

Kommunalkredit was established on 26 September 2015 through the demerger for new incorporation of the former Kommunalkredit. The entire business operation of the former Kommunalkredit (including all its subsidiaries) was transferred to a newly incorporated company (Kommunalkredit) by way of a proportionate demerger for new incorporation. The part of the former Kommunalkredit remaining after the demerger was merged into KA Finanz AG (KF).

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

The consolidated financial statements of Kommunalkredit, based on the International Financial Reporting Standards (IFRS) applicable in the European Union, are prepared pursuant to § 59a of the Austrian Banking Act (Bankwesengesetz – BWG) in conjunction with § 245a of the Austrian Company Code (Unternehmensgesetzbuch – UGB). These financial statements meet the requirements of § 59a of the Austrian Banking Act.

As an issuer of exchange-listed securities, Kommunalkredit publishes a Group Management Report pursuant to § 124 (1) of the Austrian Stock Exchange Act as part of this Annual Financial Report.

2. Standards and Interpretations Applied

The consolidated financial statements of Kommunalkredit were prepared on the basis of the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) and to be applied on a mandatory basis as of 31 December 2018, as adopted by the European Union (EU), as well as the interpretations by the IFRS Interpretations Committee (IFRIC and SIC).

Overview of new standards / interpretations to be applied for the first time in the business year 2018:

The new and/or amended IFRS, IFRIC and improvements of IFRS applicable on a mandatory basis to annual periods beginning on or after 1 January 2018 are presented in the following:

Standard	Title of the standard/interpretation	First-time adoption
IFRS 9	Financial Instruments	1/1/2018
IFRS 15	Revenue from Contracts with Customers	1/1/2018
Amendments to IFRS 2	Classification and Measurement of Share-based Payment	1/1/2018
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1/1/2018
Amendments to IAS 40	Transfer of Property to or from Investment Property	1/1/2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1/1/2018
Annual Improvements IFRS 2014-2016	Amendments to IFRS 1 and IAS 28	1/1/2018
The standards are applied to annual periods beginning on or after the date shown under “First-time Adoption”.		

IFRS 9 (Financial Instruments)

IFRS 9 “Financial Instruments”, published in July 2014, replaces IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 comprises three parts:

1. Classification and measurement of financial instruments

2. Risk provisioning on the basis of the expected-credit-loss model

3. Hedge accounting

The new provisions have been applied by Kommunalkredit since 1 January 2018 with the practical expedients permitted under the standard. All portfolios were reclassified at the time of first adoption of IFRS 9, i.e. 1 January 2018. The effect of first-time adoption of IFRS 9 is reflected in equity. Comparative values for the year 2017 are not restated. The accounting and measurement principles presented take the adjustments required under IFRS 9 into account.

First adoption of IFRS 9 as of 1 January 2018, compared to IAS 39 rules, results in an increase in equity by approx. TEUR +13,415.8, which comprises

- EUR +14,143.8 resulting from the adjustment of the book values within the framework of the reclassification of financial assets and the related deferred taxes;

- EUR -728.0 resulting from the increase in risk provisions based on the application of the expected-credit-loss model in accordance with IFRS 9 rules, including TEUR -234.8 set up as a provision for loan commitments.

The following table provides an aggregated overview of the changes resulting from reclassification and re-measurement and the expected losses under IAS 39 as of 1 January 2018 compared to IFRS 9 as of 31 December 2017:

Financial assets in EUR 1,000	**31/12/2017 IAS 39**	**Reclassifications**	**Re-measurement**	**1/1/2018 IFRS 9**
Amortised cost	2,232,525.5	-14,059.4	-50,549.8	2,167,916.3
At fair value through other comprehensive income	*211,564.2*	*619,790.6*	*70,599.8*	*901,954.6*
of which IAS 39: Assets available for sale	*211,564.2*	*-211,564.2*	*0.0*	*0.0*
of which IFRS 9: Assets at fair value through other comprehensive income	*0.0*	*831,354.8*	*70,599.8*	*901,954.6*
At fair value through profit or loss	605,731.1	-605,731.1	0.0	0.0
Deferred tax assets	27,243.6	0.0	-4,469.0	22,774.6
Other assets	9,370.4	0.0	-1,437.0	7,933.4
Expected losses	-448.4	0.0	-493.2	-941.6

Liabilities and equity in EUR 1,000	31/12/2017 IAS 39	Reclassifications	Re-measurement	1/1/2018 IFRS 9
Amortised cost	3,108,344.4	0.0	0.0	3,108,344.4
Provisions – Expected losses	0.0	0.0	234.8	234.8
Equity[1]	283,125.0		13,415.8	296,540.8
of which re-measurement of financial assets			*18,612.9*	
of which expected losses			*-728.0*	
of which deferred taxes			*-4,469.0*	
Increase in equity through first adoption of IFRS 9 as of 1/1/2018:			13,415.8	

[1] The expected losses in financial assets at fair value through other comprehensive income amounted to TEUR -240.2 as at 1 January 2018.

The analyses performed by Kommunalkredit within the framework of its implementation of IFRS 9 led to the conclusion that the financial assets held as of 1 January 2018 (mainly loans and securities) meet the SPPI criterion and therefore have to be classified on the basis of the relevant business model. This classification resulted in the following changes in the accounting and measurement category, as compared to IAS 39:

- Financial assets in an IAS 39 book value of TEUR 250,070.1, which were recognised at fair value through profit or loss according to IAS 39, have been allocated to the **“hold to collect portfolio”** according to IFRS 9, as these positions are to be held in the long term. This reclassification resulted in a re-measurement effect of TEUR -50,032.2.

- Securities portfolios which, according to IAS 39, were allocated to the available-for-sale category are to be allocated in their entirety to the **“hold to collect”** business model according to IFRS 9. As at 31 December 2017, the book value of the portfolio was TEUR 208,733.8. The corresponding IFRS 9 book value as of 1 January 2018 was, on the one hand, TEUR 201,218.4 recognised under loans and advances to customers and, on the other hand, TEUR 6,997.8 recognised under loans and advances to banks. This reclassification resulted in a cumulative re-measurement effect of TEUR -517.6.

- Financial assets in an IAS 39 book value of TEUR 828,524.4 as at 31 December 2017, for which the possibility of placement with institutional investors or sale is taken into consideration in accordance with the business model, are allocated to the **“hold to collect and sell portfolio”**. Such assets are expected to be either sold or held partly or completely to maturity. According to IAS 39, this portfolio was recognised partly at amortised cost (book value 31/12/2017: TEUR 472,863.4) and partly at fair value through profit or loss (book value 31/12/2017: TEUR 355,661.0). The corresponding IFRS 9 book value as at 1 January 2018 for financial assets previously recognized at amortised cost was TEUR 543,463.1. For financial assets previously recognized at fair value through profit or loss, the IFRS 9 book value remained unchanged at TEUR 355,661.0. This reclassification resulted in a re-measurement effect of TEUR +70,599.8.

The following table shows a detailed reconciliation of the book values and the risk provisions for expected losses from IAS 39 as at 31 December 2017 to IFTS 9 as at 1 January 2018:

Assets in EUR 1,000	31/12/2017	Reconciliation Book values		Reconciliation Expected losses		1/1/2018	Effect of
	IAS 39	Reclassification	Re-measurement	IAS 39	Re-measure-ment	IFRS 9	first adoption IFRS 9
Cash and cash equivalents	318,109.1					318,109.1	0.0
Loans and advances to banks (IFRS 9; IAS 39: amortised cost)	140,197.5	-31,395.9	6.0	0.0	-3.5	108,804.1	-31,393.5
from assets available for sale (IAS 39: at fair value through other comprehensive income)		6,991.8	6.0			6,997.8	
to financial assets at fair value through other comprehensive income (IFRS 9: at fair value through OCI)		-38,387.7				-38,387.7	
Loans and advances to customers (IFRS 9; IAS 39: amortised cost)	2,092,328.0	17,336.5	-50,555.8	-448.4	-489.7	2,058,170.7	-33,709.0
from assets at fair value through profit or loss (IAS 39: fair value through profit or loss)		250,070.1	-50,032.2			200,037.8	
from assets available for sale (IAS 39: at fair value through other comprehensive income)		201,742.0	-523.6			201,218.4	
to financial assets at fair value through other comprehensive income (IFRS 9: at fair value through OCI)		-434,475.6				-434,475.6	
Assets at fair value through profit or loss (IAS 39: at fair value through profit or loss)	605,731.1	-605,731.1	0.0	0.0	0.0	0.0	-605,731.1
to loans and advances to customers (IFRS 9: at amortised cost)		-250,070.1				-250,070.1	
to financial assets at fair value through other comprehensive income (IFRS 9: at fair value through OCI)		-355,661.0				-355,661.0	
Financial assets are fair value through other comprehensive income (IFRS 9: at fair value through OCI)	0.0	831,354.8	70,599.8	0.0	0.0	901,954.6	901,954.6
from loans and advances to banks (IAS 39: at amortised cost)		38,387.7	-434.8			37,952.9	
from loans and advances to customers (IAS 39: at amortised cost)		434,475.6	71,034.6			505,510.2	
from assets at fair value through profit or loss (IAS 39: at fair value through profit or loss)		355,661.0				355,661.0	
from assets available for sale (IAS 39: at fair value through other comprehensive income)		2,830.4				2,830.4	
Assets available for sale (IAS 39: at fair value through OCI)	211,564.2	-211,564.2	0.0	0.0	0.0	0.0	-211,564.2
to loans and advances to banks (IFRS 9: at amortised cost)		-6,991.8				-6,991.8	
to loans and advances to customers (IFRS 9: at amortised cost)		-201,742.0				-201,742.0	
to financial assets at fair value through other comprehensive income (IFRS 9: at fair value through OCI)		-2,830.4				-2,830.4	
Derivatives	232,616.8	0.0	0.0	0.0	0.0	232,616.8	0.0
Property, plant and equipment	25,850.3	0.0	0.0	0.0	0.0	25,850.3	0.0
Intangible assets	191.4	0.0	0.0	0.0	0.0	191.4	0.0
Current tax assets	476.5	0.0	0.0	0.0	0.0	476.5	0.0
Deferred tax assets	27,243.6	0.0	-4,469.0	0.0	0.0	22,774.6	-4,469.0
Other assets	9,370.4	0.0	-1,437.0	0.0	0.0	7,933.4	-1,437.0
Assets	**3,663,679.0**	**0.0**	**14,143.9**	**-448.4**	**-493.2**	**3,676,881.4**	**13,650.7**

Liabilities and equity in EUR 1,000	31/12/2017	Reconciliation Book values		Reconciliation Expected losses		1/1/2018	
	IAS 39	Reclassification	Re-measurement	IAS 39	Re-measure-ment	IFRS 9	Delta
Amounts owed to banks (IFRS 9; IAS 39: at amortised cost)	532,838.2	0.0	0.0	0.0	0.0	532,838.2	0.0
Amounts owed to customers (IFRS 9; IAS 39: at amortised cost)	1,038,002.0	0.0	0.0	0.0	0.0	1,038,002.1	0.0
Derivatives	244,709.4	0.0	0.0	0.0	0.0	244,709.4	0.0
Securitised liabilities (IFRS 9; IAS 39: at amortised cost)	1,468,582.1	0.0	0.0	0.0	0.0	1,468,582.1	0.0
Subordinated liabilities (IFRS 9; IAS 39: at amortised cost)	68,922.1	0.0	0.0	0.0	0.0	68,922.1	0.0
Provisions	7,594.1	0.0	0.0	0.0	234.8	7,828.9	234.8
Current tax liabilities	599.8	0.0	0.0	0.0	0.0	599.8	0.0
Other liabilities	18,857.9	0.0	0.0	0.0	0.0	18,857.9	0.0
Equity	283,125.0	0.0	13,415.8	0.0	0.0	296,540.8	13,415.8
Liabilities and equity	**3,663,230.7**	**0.0**	**13,415.8**	**0.0**	**234.8**	**3,676,881.4**	**13,650.7**

The following table shows the book values and measurement categories according to IFRS 9 as at 1 January 2018, as compared to IAS 39 as at 31 December 2017, broken down by class for each balance sheet item (see also Note 13 Classes of Financial Instruments):

1/1/2018		IFRS 9	
Balance sheet item	**Class IFRS 9**	**Measurement category**	**Book values**
Cash and cash equivalents	Cash and cash equivalents	Amortised cost	318,109.1
Loans and advances to banks	Assets at amortised cost	Amortised cost	108,804.1
Loans and advances to customers	Assets at amortised cost	Amortised cost	2,058,170.7
Assets at fair value through profit or loss	At fair value through profit or loss: fair-value option	At fair value through profit or loss	0.0
	At fair value through profit or loss: mandatory	At fair value through profit or loss	0.0
Assets at fair value through OCI	At fair value through OCI	At fair value through OCI	901,954.6
Assets available for sale (IAS 39)	None	None	0.0
Derivatives	Derivatives designated as hedging instruments	At fair value through profit or loss	225,225.3
	At fair value through profit or loss: held for trading	At fair value through profit or loss	7,391.5
Amounts owed to banks	Liabilities at amortised cost	Amortised cost	532,838.2
Amounts owed to customers	Liabilities at amortised cost	Amortised cost	1,038,002.1
Derivatives	Derivatives designated as hedging instruments	At fair value through profit or loss	87,265.4
	At fair value through profit or loss held for trading	At fair value through profit or loss	157,444.0
Securitised liabilities	Liabilities at amortised cost	Amortised cost	1,468,582.1
Subordinated liabilities	Liabilities at amortised cost	Amortised cost	68,922.1

31/12/2017		IAS 39	
Balance sheet item	**Class IAS 39**	**Measurement category**	**Book values**
Cash and cash equivalents	Cash and cash equivalents	Amortised cost	318,109.1
Loans and advances to banks	Loans and receivables: Loans and advances to banks	Amortised cost	140,197.5
Loans and advances to customers	Loans and receivables: Loans and advances to customers	Amortised cost	2,092,328.0
Assets at fair value through profit or loss	At fair value through profit or loss: fair-value option	At fair value through profit or loss	605,731.1
Assets at fair value through OCI (IFRS 9)	None	None	0.0
Assets available for sale	Available for sale	At fair value through OCI	211,564.2
Derivatives	Derivatives designated as hedging instruments	At fair value through profit or loss	221,828.0
	At fair value through profit or loss: held for trading	At fair value through profit or loss	10,788.8
Amounts owed to banks	Liabilities at amortised cost	Amortised cost	532,838.2
Amounts owed to customers	Liabilities at amortised cost	Amortised cost	1,038,002.0
Derivatives	Derivatives designated as hedging instruments	At fair value through profit or loss	77,404.1
	At Fair Value through Profit or Loss: Held-for-Trading	At fair value through profit or loss	167,305.3
Securitised liabilities	Liabilities at amortised cost	Amortised cost	1,468,582.1
Subordinated liabilities	Liabilities at amortised cost	Amortised cost	68,922.1

The following table shows a reconciliation of risk provisions from IAS 39 as at 31 December 2017 to the expected-loss model according to IFRS 9 as at 1 January 2018 (see also Note 8):

1/1/2018	IAS 39			IFRS 9
Balance sheet item	**Risk provision**	**Reclassification**	**Re-measurement**	**Risk provision**
Loans and advances to banks (book value reduction)	0.0	0.0	3.5	3.5
Loans and advances to customers (book value reduction)	448.4	0.0	489.7	938.0
Provisions	0.0	0.0	234.8	234.8
Sub-total of expected losses as at 1/1/2018 according to IFRS 9				1,176.3
Expected losses in assets at fair value through OCI				240.2
Total expected losses through first adoption of IFRS 9 as at 1/1/2018:				**1,416.5**

As regards hedge accounting, the transition from IAS 39 to IFRS 9 does not have any effects on Kommunalkredit's equity. For fair value hedge accounting, Kommunalkredit has applied the IFRS 9 rules since 1 January 2018, with all fair value hedges in place under IAS 39 remaining unchanged under IFRS 9. As macro hedge accounting is not part of the published IFRS 9, the IAS 39 rules on portfolio fair value hedges remain in place.

Therefore, the portfolio hedge was implemented according to IAS 39 in the course of the reclassification of financial assets as of 1 January 2018. Based on IFRS 9 rules, items recognised at fair value through profit or loss according to IAS 39 are now measured at amortised cost or at fair value through other comprehensive income. In order to continue its practice of offsetting value changes in the underlying hedging derivatives through value adjustments of the underlying transactions in the income statement, Kommunalkredit, as of 1 January 2018, defined a portfolio fair value hedge for interest rate risks of financial assets allocated to the hold-to-collect business model and a portfolio fair value hedge for interest rate risks of financial assets allocated to the hold-to-sell business model.

IFRS 15 (Revenue from Contracts with Customers)

IFRS 15 applies to the realisation of revenue and replaces IAS 11 "Construction Contracts", IAS 18 "Revenue", SIC 31 "Revenue – Barter Transactions Involving Advertising Services", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate" and IFRIC 18 "Transfer of Assets from Customers".

The objective of IFRS 15 is to create principles to be applied by a company when providing useful information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. According to IFRS 15, revenue is to be recognised when the customer obtains control of the promised goods and services and can derive a benefit from them. The new standard provides for a five-step process for the determination of revenue to be realised. IFRS 15 contains numerous disclosure requirements regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

First-time adoption of IFRS 15 has no impact on the consolidated financial statements of Kommunalkredit.

As a follow-up to IFRS 15, the IASB published a clarification on IFRS 15 Revenue from Contracts with Customers, application of which has also been mandatory since 1 January 2018. The amendments in the clarification address three topics (Identifying Performance Obligations, Principal versus Agent Considerations, and Licensing) and provide some transition relief for modified contracts and completed contracts. This clarification does not result in any additional adjustments for the Kommunalkredit Group.

Amendment to IFRS 2 (Share-based Payment)

The amendments address individual issues arising in connection with the accounting of cash-settled share-based payment transactions. The most important amendment consists in the inclusion of rules concerning the measurement of the fair value of obligations arising from share-based payments.

The amendments have no impact on Kommunalkredit's consolidated financial statements.

Amendment to IFRS 4 (Adoption of IFRS 9 together with IFRS 4)

The amendments to IFRS 4 "Insurance Contracts" were published by the IASB in September 2016 in order to address accounting issues arising from the different dates of first adoption of IFRS 9 "Financial Instruments" and the new standard governing the accounting of insurance contracts (IFRS 17).

The amendments have no impact, as Kommunalkredit has no contracts within the scope of IFRS 4.

Amendment to IAS 40 (Investment Property)

The amendments serve to clarify the rules regarding transfers of property to, or from, investment property. More specifically, the question is whether a property under construction or development that was previously classified as inventory can be transferred to investment property when there is an evident change in use.

The amendments have no impact on Kommunalkredit's consolidated financial statements.

IFRIC 22 (Foreign Currency Transactions and Advance Consideration)

The interpretation clarifies which exchange rate is to be applied at the time of initial recognition of a foreign currency transaction in the functional currency of a company, if the company pays or receives advance consideration.

It has impact on Kommunalkredit's consolidated financial statements.

Annual Improvements 2014-2016 (IFRS 1, IAS 28)

The Annual Improvements of IFRS (improvement cycle 2014-2016) published on 8 December 2016 contain amendments to the following IFRS, which have already been endorsed by the EU but have not been applied prior to the mandatory date of adoption:

- IFRS 1 "First-time Adoption of International Financial Reporting Standards"
  Through this amendment, short-term exemptions for first-time adopters in IFRS 1 Appendix E no longer apply.

- IAS 28 "Investments in Associates and Joint Ventures"
  According to IAS 28, venture capital organisations, investment funds, unit trusts or similar companies can elect to recognise their investments in associates or joint ventures according to IFRS 9 at fair value through profit or loss. The amendment explicitly clarifies that this election is available at the time of initial recognition and has to be exercised separately for each associate or joint venture.

These amendments have no impact on Kommunalkredit's consolidated financial statements.

Overview of standards already adopted by the EU but not applied before the mandatory date:

Standard	Title of the Standard/Interpretation	First-time adoption
IFRS 16	Leases	1/1/2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation	1/1/2019
IFRIC 23	Uncertainty over Income Tax Treatment	1/1/2019
The standards are applied to annual periods beginning on or after the date shown under “First-time Adoption”.		

IFRS 16 (Leases)

IFRS 16 “Leases” specifies how to recognise, measure, present and disclose leases in the annual financial statements. The standard provides a single accounting model for the lessee. Lessees are required to recognise assets and liabilities from all leases on the balance sheet, unless the lease term is 12 months or less or the underlying asset has a low value. As a practical expedient, lessees have a choice of several options. For accounting purposes, lessors will continue to distinguish between finance leases and operating leases. In this respect, the accounting model according to IFRS 16 does not differ materially from the IAS 17 model.

Kommunalkredit has no material leases within the scope of IFRS 16. Portfolios to which the exemptions of IFRS 16 (short duration; low-value leases) do not apply are being analysed in details in the current implementation phase. A material impact on future consolidated financial statements of Kommunalkredit is not to be expected.

Amendments to IFRS 9 (Prepayment Features with Negative Compensation)

The amendments permit measurement at amortised cost and/or at fair value through other comprehensive income (FVOCI) for some pre-payable financial assets, where a party receives or pays a reasonable (negative) compensation for early termination of the contract.

Impacts on Kommunalkredit’s consolidated financial statements are not to be expected.

IFRIC 23 (Uncertainty over Income Tax Treatment)

The interpretation contains rules on the recognition and measurement of tax risk positions and thus closes the gaps in the IAS 12 rules on income tax. According to IFRIC 23, complete information of the tax authorities is to be assumed in the assessment of tax risk positions. Moreover, tax-related facts constituting a risk may have an impact on the determination of current and deferred taxes. The published interpretation also contains references to disclosure obligations according to IAS 1.122 and IAS 1.125-1.129 regarding judgments, assumptions and estimates made within the framework of the accounting of tax risk positions. Furthermore, reference is made to rule IAS 12.88 and the duty to disclose any tax-related contingent liabilities and contingent assets.

Impacts on Kommunalkredit's consolidated financial statements are not to be expected.

Overview of standards not yet adopted by the EU and not applied before the mandatory date of first adoption:

Standard	Titel des Standards/Interpretation	Erstmalige Anwendung
IFRS 17	Insurance Contracts	1/1/2021
Amendment to IFRS 3	Definition of a Business	1/1/2020
Amendments to IAS 1 and IAS 8	Definition of Material	1/1/2020
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and an Associate or Joint Venture	indefinite
Amendment to IAS 28	Long-term Interests in Associates and Joint Ventures	1/1/2019
Amendment to IAS 19	Plan Amendment, Curtailment or Settlement	1/1/2019
Amendment to Conceptual Framework	Updating References to the Conceptual Framework in IFRS Standards	1/1/2019
Annual Improvements of IFRS 2015-2017	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 13	1/1/2019
The date of first-time adoption in the EU may change subject to endorsement by the EU.		

IFRS 17 (Insurance Contracts)

This standard published by the IASB on 18 May 2017 contains rules on the accounting of assets and liabilities resulting from insurance contracts. These rules do not only apply to insurance companies but also to other industries, if the contracts meet the definition of an insurance contract. The term "insurance risk", for instance, also applies to product and residual value risks.

IFRS 17 provides for three approaches to the presentation of insurance contracts:

- The Building Block Approach (BBA) is the basic model for the presentation of insurance contracts. It applies to all insurance contracts within the scope of IFRS 17, unless one of the following exceptions is applied.

- The Premium Allocation Approach (PAA) is a simplified version of the Building Block Approach applicable to insurance contracts for which measurement according to the PAA does not materially differ from measurement according to the BBA, or which have a short coverage period.

- The Variable Fee Approach (VFA) is yet another version of the Building Blocks Approach for insurance contracts with payments contractually linked to direct participating features.

Impacts on Kommunalkredit's consolidated financial statements are not to be expected.

Amendments to IFRS 3 (Business Combinations)

The acquisition method according to IFRS 3 is to be applied exclusively to business combinations, but not to the purchase of individual assets / liabilities or groups of assets / liabilities. The amendment contains new rules on how to assess if a business or merely individual assets are acquired.

The amendments are to be applied to business combinations concluded after 1 January 2020; therefore, there are no impacts on business combinations already concluded.

Amendment to IAS 1 (Presentation of Financial Statements) and IAS 8 (Accounting Policies)

The amendments to IAS 1 and IAS 8 are intended to harmonize the definition of materiality in the International Financial Reporting Standards. Moreover, it is clarified that materiality is to be assessed relative to the financial statements in their entirety. The term “users of financial statements” is explained in greater detail.

No material impacts on Kommunalkredit’s consolidated financial statements are to be expected.

Amendments to IFRS 10 (Consolidated Financial Statements) and IAS 28 (Associates)

The amendments address a conflict between the rules of IAS 28 “Investments in Associates and Joint Ventures” and IFRS 10 “Consolidated Financial Statements”. The amendments clarify that in the case of transactions with an associate or a joint venture the extent of recognition of the result depends on whether the assets sold or received represent a business as defined by IFRS 3 “Business Combinations”. Entry into force of the amendments has been postponed indefinitely by the IASB.

Amendments to IAS 28 (Long-term Interests in Associates and Joint Ventures)

The amendments clarify that IFRS 9 is to be applied to long-term interests in associates or joint ventures not accounted for at equity. The determination of impairments to such interests, if any, therefore follows the rules of IFRS 9.

No impacts on Kommunalkredit’s consolidated financial statements are to be expected.

Amendments to IAS 19 (Employee Benefits)

According to IAS 19 “Employee Benefits”, in the case of changes to and cuts of pension plans as well as reimbursements, pension obligations are to be measured on the basis of updated assumptions. The amendment clarifies that service costs and net interest for the remainder of the period are to be taken into account on the basis of the updated assumptions.

No material impacts on Kommunalkredit's consolidated financial statements are to be expected.

Amendments to the references to the Conceptual Framework in the IFRS

References to or quotes from the Framework are frequently found in the IFRS. As the Framework was updated last year, updating the references was considered to be necessary.

No material impacts on Kommunalkredit's consolidated financial statements are to be expected.

Annual Improvements 2015-2017 (Amendments to an Clarifications of Various IFRS)

The annual improvements of IFRS (improvement cycle 2015-2017) published on 12 December 2017 contain amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.

- Amendments to IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements"
  - If a company, by acquiring additional interests, obtains control of a former joint operation, as defined in IFRS 10, the rules of IFRS 3 on step acquisitions apply and the formerly held interest is to be remeasured according to IFRS 3.42. Moreover, the IASB clarifies that not only the assets and liabilities previously accounted for on a pro-rata basis, but the entire previously held interest in the joint operation is to be re-measured.
  - If a company, by acquiring additional interest, does not obtain control, but merely joint management of a joint operation, the amendments clarify that re-measurement of the previously held interest in the joint operation is not required.

- Amendments to IAS 23 "Borrowing Costs"
  The amendments explicitly clarify that outstanding borrowings made originally to acquire a specific qualified asset, from the point in time when this qualified asset is ready for its intended use or sale, is to be included in the determination of the general borrowing cost ratio for other qualified assets for which no special borrowings were made.

- Amendments to IAS 12 "Income Taxes"
  The amendment aims to clarify the recognition of the tax effect of dividend payments. Accordingly, and in line with the original standard, the income tax consequences of dividend payments are to be treated in the same way as the transaction(s) from which the tax effect originally arose.

No impacts on Kommunalkredit's consolidated financial statements are to be expected.

3. Scope of Consolidation

According to the rules of IFRS 10, the scope of consolidation of the Kommunalkredit Group comprises the following companies, besides Kommunalkredit as the parent, as of 31 December 2018:

Name and registered office	Financial statement disclosures (IFRS)							
	Investment		Share in capital 31/12/2018 in %	Share in capital 31/12/2017 in %	Last financial statements	Total assets in EUR 1,000	Equity in EUR 1,000	Profit/loss for the year in EUR 1,000
	direct	indirect						
1. Subsidiaries								
Fully consolidated subsidiaries								
Kommunalkredit Public Consulting GmbH, Vienna	x		90,00%	90,00%	31/12/2018	7,099.1	1,599.0	412.3
Kommunalkredit KBI Immobilien GmbH, Vienna	x		100,00%	100,00%	31/12/2018	49.9	49.9	15.0
Kommunalkredit KBI Immobilien GmbH & Co KG, Vienna	x		100,00%	100,00%	31/12/2018	32,068.5	32,068.5	-12.8
Kommunalkredit TLI Immobilien GmbH & Co KG, Vienna		x	100,00%	100,00%	31/12/2018	32,992.5	32,967.6	948.6
Fidelio KA Beteiligung GmbH, Germany	x		85,00%	-	31/12/2018	62.8	61.0	-4.5
Fidelio KA Infrastructure Opportunities Fund GP S. à r. l., Luxembourg		x	85,00%	-	31/12/2018	17.4	12.0	0.0
Fidelio KA Investment Advisory GmbH,Germany		x	85,00%	-	31/12/2018	24.9	25.0	-2.3
Fidelio KA Infrastructure Opportunities SICAV-RAIF SCA, Luxembourg		x	85,00%	-	31/12/2018	138,736.4	30.0	99.1
2. Associates								
Associates included at equity								
Kommunalleasing GmbH, Vienna	x		50,00%	50,00%	31/12/2018*	72,194.0	5,716.9	567.6

* Preliminary unaudited figures.

During the first half of 2018, Kommunalkredit established several companies for the purpose of using strategic opportunities in investment fund and asset management, which are included in the financial statements on a fully consolidated basis according to IFRS 10: Fidelio KA Beteiligung GmbH, Fidelio KA Investment Advisory GmbH, Fidelio KA Infrastructure Opportunities Fund GP S. à r. l. and Fidelio KA Infrastructure Opportunities SICAV-RAIF SCA.

No material risks or restrictions arise for the Kommunalkredit Group from its subsidiaries. The activities of Kommunalleasing GmbH, included at equity, comprise leasing transactions for Austrian local authorities; the company has not engaged in any new business since 2008. In the reporting year 2016, the book value of the participation in Kommunalleasing GmbH was reduced by TEUR 2,322.4 to TEUR 0.0 and recognised in profit or loss according to IAS 36 rules. No material risks arise for the Kommunalkredit Group from its associates.

ACCOUNTING AND MEASUREMENT PRINCIPLES

4. General Accounting and Measurement Methods

The consolidated financial statements of Kommunalkredit were prepared on a going-concern basis. The financial information provided in the consolidated financial statements comprises the data of the parent together with its subsidiaries, presented as one economic entity. The accounting and measurement principles are applied uniformly throughout the Group and continuously for the reporting periods presented. The following reporting changes were made in 2018:

- Fees constituting an integral part of the effective interest rate of a financial instrument are distributed over the term of the underlying transaction at a constant effective interest rate. Derecognition of the corresponding asset leads to the immediate receipt of fees not yet amortised at the time of derecognition. From 2018 onward, Kommunalkredit reports such effects by source in net interest income; in the previous year, they were reported under the net result of valuations and realised gains/losses. The comparative figures of the previous year were therefore adjusted through the reclassification of TEUR 921.6 from “Net result of valuations and realised gains/losses” to “Net interest income”.

- In accordance with the IFRIC decision of 13 March 2018, interest income and expenses of assets measured at fair value through profit or loss are recognized for the first time under the newly created items of “income similar to interest income” and “expenses similar to interest expenses”. The comparative figures of the previous year were adjusted, with TEUR 29,106.7 from “Interest income” and TEUR -25,920.2 from “Interest expenses” now being shown separately under “Income similar to interest income” and “Expenses similar to interest expenses”.

These financial statements are intended to give a true and fair view of the assets, the financial position and the income of the Kommunalkredit Group according to IFRS rules, as adopted by the EU.

Acquisitions and disposals in all classes of financial assets are recognised on the day of trading.

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

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

The reporting currency of these consolidated financial statements is the euro as the functional currency of all companies of the Group. Unless otherwise indicated, the figures are rounded to the nearest thousand, which may result in rounding differences in the tables.

5. Consolidation Principles

All material subsidiaries controlled by Kommunalkredit, as defined by IFRS 10, are fully consolidated.

The consolidation actions taken include capital consolidation, debt consolidation and the consolidation of expenses and income. The fully consolidated companies all present their annual financial statements as at the Group reporting date.

Within the framework of capital consolidation, all identifiable tangible and intangible assets, liabilities and contingent liabilities of the subsidiary at the time of acquisition are re-measured. The acquisition costs are offset against the pro-rata net assets of the subsidiary at the time of transfer of control. The shares held by the other shareholders are determined on the basis of the assets and liabilities measured at their fair value.

Intra-Group receivables and liabilities as well as expenses and income are eliminated, unless they are immaterial. Intra-Group transactions, balances, and unrealised gains and losses from transactions between Group companies are eliminated, unless they are immaterial.

According to the consolidation rules, joint arrangements (IFRS 11) are accounted for as joint operations and/or joint ventures. Companies over which Kommunalkredit has a material influence and/or joint ventures (investments in associates and joint ventures according to IAS 28) are measured according to the equity method and recognised as investments in associates. According to the equity method, the investments in associates and/or joint ventures are recognised at acquisition cost, plus any post-acquisition changes in the shares held by the Group in the net assets of the associate. The most recent financial statements (including reconciliation to IFRS) of the associate are used as a basis. The pro-rata result (minus dividends paid) is recognised in the Income Statement under “Income from investments in associates”. At every balance sheet date, an impairment test is performed on the basis of financial forecasts. Currently, Kommunalkredit has one associate accounted for according to the equity method (IAS 28).

6. Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at the rate notified by the European Central Bank (euro reference rate) as at the balance sheet date. Non-monetary items measured at historic acquisition costs in a foreign currency are to be translated at the exchange rate on the day of the transaction; non-monetary items measured at fair value in a foreign currency are to be translated at the exchange rate of the day on which the value was determined. Results from currency translation are recognised in the Income Statement under the "Net trading and valuation result". In the case of available-for-sale instruments, the translation result from fair value measurement through equity is reported in comprehensive income.

7. Classification and Measurement of Financial Assets

7.1. Classification principles

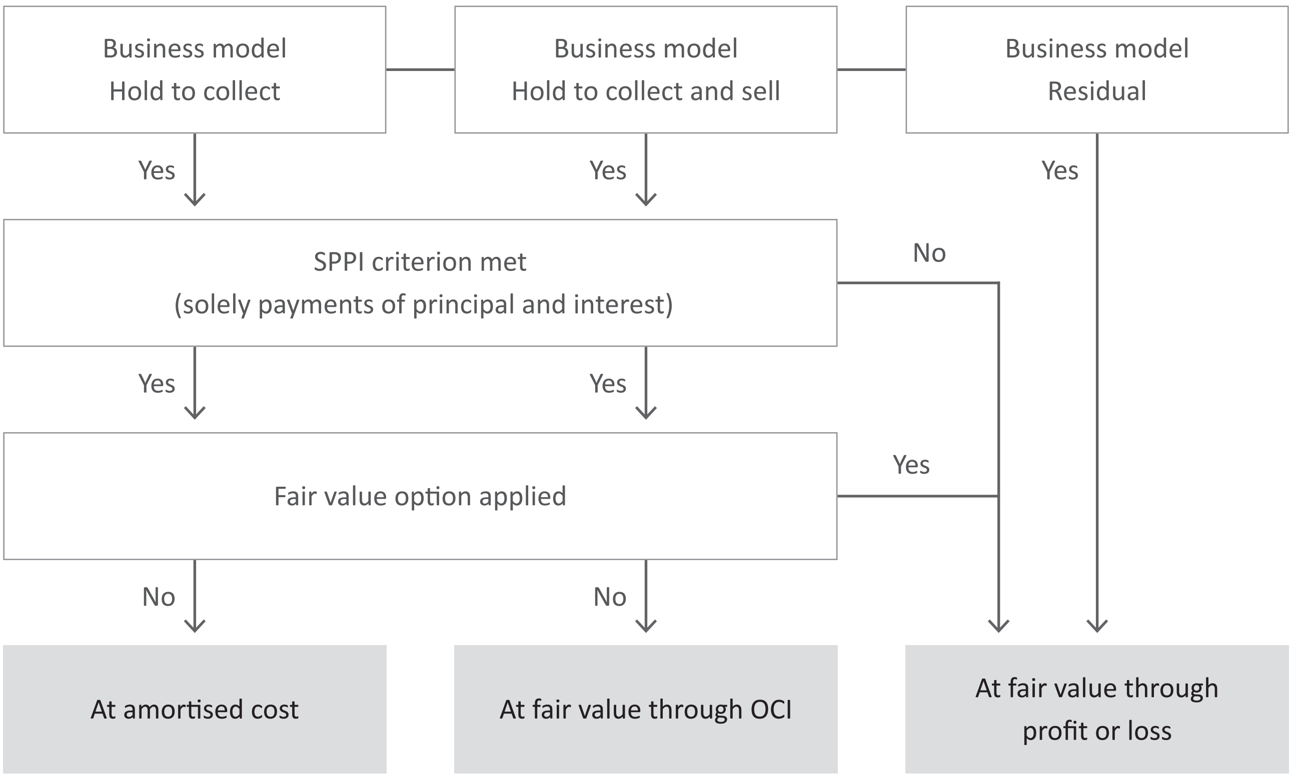
IFRS 9 provides for all financial assets to be measured either at amortised cost or at fair value, depending on the characteristics of the contractual cash flows and the business model. Measurement at fair value is possible either through other comprehensive income or through profit or loss. Kommunalkredit analyses the contractual cash flows and the business model upon closure of the transaction at the level of the individual financial asset.

The **allocation to a business model** is based on an analysis of the purpose of an asset. Items which are exclusively held to generate net interest income without any intention to sell are allocated to the "hold to collect" business model. Financial assets which are expected to be either sold or partly or fully held to maturity are allocated to the "hold to collect and sell" business model. At Kommunalkredit, such assets include, in particular, finance positions held with the intention of placement. Assets held with the intention to trade or to generate short-term gains are allocated to the "residual" business model. For the time being, this business model is of little relevance to Kommunalkredit. As at 31 December 2018, there are no portfolios allocated to this business model.

The **analysis of the contractual cash flows** of a financial asset is performed to verify if the cash flows represent solely payments of principal and interest (SPPI criterion) on the outstanding capital. As at 31 December 2018, all assets met the SPPI criterion.

Financial assets are to be reclassified only in the event of a strategic change of the business model, which, by definition, is an exceptional case. No reclassifications were performed in the reporting year. The following diagram summarizes the process of classification according to IFRS 9:

Classification according to IFRS 9



7.2. Financial assets at amortised cost

Financial assets which exclusively generate contractual cash flows meeting the SPPI criterion (solely payments of principal and interest) and are held within the framework of a business model intended to generate income through contractual cash flows ("hold to collect" business model) are recognised at amortised cost.

Financial assets of this category are shown on the balance sheet under "Loans and advances to banks", "Loans and advances to customers" and "Cash and cash equivalents". Initially, such financial assets are recognised at fair value (see Note 11), with transaction costs taken into account. Subsequently, they are measured at amortised cost, which are derived from the amount at which the financial assets were measured upon first-time recognition, less redemptions, plus/less the cumulative distribution of temporary differences between the original issuing amount and the amount repayable upon maturity, applying the effective interest method and taking risk provisions into account (see Note 8). The result of amortisation of temporary differences at constant effective interest is shown in net interest income in the income statement. The recognition of loans and receivables representing underling transactions in hedge accounting is described in detail in Note 12.

If financial assets from the "hold to collect" business model are sold shortly before the maturity date or for reasons of creditworthiness, this is permissible in principle and compatible with the business model. Kommunalkredit examines such transactions in detail for their compatibility with the business model and recognises the results in a separate income statement item.

7.3. Financial assets at fair value through other comprehensive income

If the financial asset exclusively generates cash flows meeting the SPPI criterion and if it is held in a business model intended to generate income through contractual cash flows and through selling ("hold to collect and sell" business model), it is measured at fair value through other comprehensive income.

Financial instruments of this category are initially and subsequently measured at fair value, taking transaction costs into account. Any temporary difference between acquisition costs and the amount repayable upon maturity is distributed over the term of the instrument in accordance with the effective interest method and recognised in net interest income. Changes in fair value are recognised in the statement of comprehensive income and directly result in a change of the reserve for financial assets measured at fair value through other comprehensive income.

If a financial asset is sold or derecognised, an amount previously recognised in the reserve for financial assets measured at fair value through other comprehensive income is recycled to the income statement. Moreover, derecognition results in the immediate receipt of fees and transaction costs not yet amortised at the time of derecognition. Kommunalkredit recognised these effects by cause in net interest income.

7.4. Financial assets at fair value through profit or loss

Financial assets which do not meet the SPPI criterion or are allocated to the "hold to sell" business model, are measured at fair value through profit or loss. Moreover, companies can elect to measure financial instruments at fair value at the time of purchase or origination, if incongruences resulting from different measurement methods can thus be eliminated or significantly reduced (fair value option). For the time being, Kommunalkredit does not elect to apply the fair value options for financial assets or liabilities.

Financial instruments allocated to this category are initially recognised and subsequently measured at fair value. Transaction costs are shown directly in the income statement. Effects of changes in fair value on the result are shown in the income statement under "Net trading and valuation result".

In accordance with the IFRIC decision of 13 March 2018, interest income and expenses of assets measured at fair value through profit or loss are recognised in "Income similar to interest income" and "Expenses similar to interest expenses".

7.5. Equity instruments

As a matter of principle, equity instruments are to be recognised at fair value through profit or loss. For equity instruments not held for trading, a company can elect to measure them at fair value through other comprehensive income.

Kommunalkredit has elected to use this possibility for all equity instruments in its portfolio, as these are held as strategic, long-term investments. All changes in the fair values of strategic equity instruments are shown in other comprehensive income. Dividend income from such instruments is recognised in the income statement under investment income.

In the event of sale or the occurrence of default, value changes previously recognised in the reserve for financial assets measured at fair value through other comprehensive income are recycled to revenue reserves (no recycling to the income statement).

7.6. Modifications/Changes in estimates

Modifications are defined as contractual adjustments of originally agreed cash flows that are primarily due to marked-induced factors. A distinction is made between substantial modifications and non-substantial modifications. A substantial modification of contractual cash flows leads to derecognition of the original financial instrument (see Note 20) and to the addition of a modified financial instrument. In the case of a non-substantial modification, the book value of the financial asset is adjusted to the modified contractual cash flows. The immediate change in net present value caused by the modification is recognised through profit or loss in the net result of valuations and realised gains/losses. Consequently, the difference against the amount repayable is distributed over the residual term of the financial instrument on the basis of the effective interest method and shown in net interest income. In the assessment as to whether a modification leads to a substantial change reference is made to both quantitative and qualitative factors. The quantitative assessment is based on a net present value test comparing the effects of a modification on the contractual cash flows. Modification effects are assessed both for financial assets and for financial liabilities (see Note 17).

Changes in the expectations of cash flows without contractual adjustments (changes in estimates), like non-substantial modifications, lead to an adjustment of the book value of the instrument on the basis of the revised cash flow expectations. In the case of changes of estimates, the adjustment is recognised as an income or expense item in net interest income.

8. Risk Provisions

Risk provisions for the lending business comprise impairments (for on-balance-sheet lending business) and provisions (for off-balance-sheet lending business), unless the financial instruments concerned are designated as at fair value through profit or loss. The impairment model of IFRS 9 requires the recognition of impairments on the basis of the expected credit loss instead of the incurred loss, as was the case under IAS 39 until 31 December 2017.

Risk provisions for financial assets measured at amortised cost are booked on separate accounts and the changes are recognised in net provisions for credit losses. In the case of financial assets measured at fair value through other comprehensive income, the component of the change in market value resulting from changes in loan loss provisions is reclassified to net provisions for credit losses.

The impairment of loans according to IFRS 9 is to be measured either as the expected 12-month credit loss (stage 1) or the expected lifetime credit loss (stage 2 and stage 3), depending on whether the risk of default has increased significantly since the first-time recognition of the financial asset. A specific loan loss provision is to be booked for financial assets classified as stage 3. For the monthly assessment of a significant increase in the risk of default (stage transfer), Kommunalkredit takes quantitative and qualitative factors into account. These include, in particular:

- Absolute amount of the credit risk (“low credit risk” criterion), with financial assets rated investment grade generally being allocated to stage 1;
- Relative change in credit risk based on the probability of default, with default-preventing collateral taken into account;
- Changes of internal price indicators, with contract terms and conditions remaining the same;
- Possible significant change in contract terms and conditions, if the financial instrument were newly issued;
- Changes of external market indicators of a financial instrument of equivalent design;
- If payment is overdue for more than 30 days, the case is examined individually to establish if this leads to a significant increase in credit risk.

If the (quantitative or qualitative) factor responsible for the downgrading of the exposure ceases to apply, the exposure is retransferred.

The calculation of impairments for stage 1 and stage 2 is performed on a probability-weighted basis and takes account of all expected disbursements and redemptions as well as the maximum contract term during which

Kommunalkredit is exposed to a risk of default. The input parameters for the calculation of the expected credit losses, such as exposure at default (EAD), probability of default (PD) and loss given default (LGD), are derived from a combination of internal and external data. The risk provision calculated for the future is discounted to the reporting date and totalized, with the discount rate corresponding to the effective interest rate. The inclusion of forward-looking information is based on a macro-economic model, which takes GDP growth, the unemployment rate and changes in various indices into account. The input derived from macro-economic scenarios as a basis for the probability-weighted calculation of expected credit losses takes the specific features of Kommunalkredit's portfolios into account and is validated at regular intervals.

Kommunalkredit assesses the specific loan loss provisioning requirement (IFRS stage 3) at single-transaction level, with financial assets and related credit commitments taken into account for each individual transaction. A multi-stage risk control process is used to identify, monitor and manage counterparties with increased credit risks; all exposures/counterparties are classified according to four risk classes.

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

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

- **Risk class 2:** Workout – restructuring
  Exposures in workout classified as restructuring cases

- **Risk class 3:** Workout – resolution
  Exposures for which restructuring is not expected to produce the desired result and recovery measures are taken instead

Starting from risk class 1, provisioning requirements are reviewed monthly (impairment test). Specific loan loss provisions (IFRS stage 3) are to be set up if partial or full recovery of an amount owed, including interest, is considered unlikely. In any case, the possibility of specific loan loss provisioning is to be examined if the regulatory definitions of default are met and an exposure meets at least one of the following criteria:

- Interest waived due to the counterparty's rating

- Significant credit risk adjustment, e.g.:
  - Rating downgrade to B range or lower
  - Default rating by an external rating agency
  - Reduction of current market price by more than 25%
  - Termination and call of receivable due to counterparty's rating

- Concessions granted for reasons of counterparty's rating (forbearance)
  Insolvency proceedings or similar proceedings have been instituted, or commencement of bankruptcy proceedings has been rejected for lack of assets, or the debtor as a legal person has been wound up by decision of a court or an administrative authority.

- Significant negative information available
  Payment arrears of 90 days, with the receivable past due exceeding the approved and communicated overall limit by more than 2.5%, but at least by EUR 250.00. Cash flow estimates at single-transaction level are used in stage 3.

Impairments are recognised in the amount of the difference between the book value of the financial asset and the net present value of the expected future cash flows, discounted at the original effective interest rate of the financial asset. Additionally, impaired financial assets are booked on a non-interest basis, with contractually agreed interest income being no longer recognised. Instead, interest income is determined by adding non-accrued interest to the net present value of the cash flows expected over the reporting period at the effective interest rate used to determine the loan impairment charge. Once it has been established that no payment will be received, the receivable is derecognised.

Kommunalkredit's portfolio does not contain any financial assets that were already impaired at the time of initial recognition ("Purchased or Originated Credit Impaired Financial Assets – POCI").

9. Derivatives

The main purpose of derivatives at Kommunalkredit is to hedge the risk of interest rate changes and/or currency risks.

The derivatives items on the balance sheet comprise derivatives in hedges (fair value hedges) and other derivatives.

Derivatives are recognised at their fair value. Positive fair values are reported as assets under "Derivatives"; negative fair values are reported as liabilities under "Derivatives". Changes in the value of these derivatives based on the clean price are shown in the income statement in the "Net trading and valuation result", whereas interest income and expenses are recognised in gross interest income.

The fair values of derivatives are measured according to IFRS 13, as explained in detail in Note 11.

10. Financial Guarantees

A financial guarantee is a contract under which the guarantor is obliged to make certain payments to compensate the beneficiary of the guarantee for any losses arising from the failure of a debtor to make payments on schedule and according to the terms and conditions of a debt instrument. If Kommunalkredit is the guarantor, the potential obligation to pay is recognised as soon as Kommunalkredit becomes a contracting party. Initial measurement is at fair value. In an arm's length transaction, the fair value corresponds either to the premium obtained upon conclusion of the contract, or a value of zero if no premium was paid upon conclusion of the contract, the assumption being based on the equivalence of performance and consideration. Within the framework of subsequent measurement, the higher of the impairment amount or the originally recognised amount, minus cumulative income if applicable, is taken into account.

If Kommunalkredit is the beneficiary of the guarantee, the guarantee is not recognised on the balance sheet.

Premiums received and paid are accounted for on an accrual basis and recognised in the income statement in "Net fee and commission income".

11. Fair Value Measurement

Fair value measurement according to IFRS 9 in conjunction with IFRS 13 is performed on the basis of the fair value hierarchy according to IFRS 13.72 (see also Note 64).

If the conditions of an active market are fulfilled, prices quoted in an active market are used for the measurement of **securities**. If no prices are quoted, the credit spread of comparable instruments is used to establish the fair value. If there is no active market, the fair value is measured using generally accepted, prevailing measurement methods on the basis of observable data. If necessary, these data are adjusted through risk premiums. If no observable inputs are available, reference is made to non-observable data (e.g. parameter estimates). If none of these measurement options can be applied, indicative third-party prices or expert estimates are used for fair value measurement.

Loans are measured by means of an internal measurement model based on the discounted-cash-flow method. The expected cash flows are discounted on the basis of current yield curves, considering the prevailing credit spreads. If the cash flows are not determinate, modelling is based on optional terms and conditions assessed to be economically material.

For infrastructure transactions (new business), the credit spreads required for the discounted cash flow method are determined on a single-transaction basis; an individual credit spread is determined for each transaction. For this purpose, up-to-date internal and external information on comparable transactions (internal database, InfraDeals, PFI) are combined in a balanced scorecard approach and a sector-specific spread is determined as a first step. In a second step, transaction-specific features are assessed on the basis of catalogues of criteria and combined with the sector-specific spread. Quarterly meetings of spread assessment teams, involving Risk Controlling, Banking, Syndication and Credit Risk, are held to discuss the spread developments for each deal. As a result, credit spreads are agreed upon throughout the bank, which reflect the risk involved in a transaction as accurately as possible.

For the public finance portfolio, clusters are formed (by segment, by rating class), for which a curve for valuation adjustments is reassessed on a quarterly basis. These valuation adjustments are observed in the market on the basis of near-time transactions and comparative offers in the respective loan segments and recognised for different segments and rating classes broken down by maturity.

Derivatives are measured by means of an internal measurement model based on the discounted-cash-flow method, which takes current yield and basis spread curves into account. Embedded options are measured by means of the usual option measurement models (e.g. Hull-White, Dupire, Libor market model).

OIS curves (overnight index swaps) are used for the discounting of cash flows from OTC (over-the-counter) derivatives. When measuring interest-sensitive products with variable indicators, yield curves with different basis spread premiums are used, depending on the indicator (e.g. 3-month LIBOR, 12-month LIBOR). These refer to the respective indicator and are used to derive forward rates for cash flow determination.

For derivatives in several currencies (e.g. cross-currency swaps), a cross currency basis is applied according to prevailing market standards, in addition to the adaptation of forwards by basis swap spreads. In simple trades, the OIS discount factor curve of the leg not corresponding to the collateral currency is aligned with the collateral currency through cross currency basis spreads. In trades with a more complex structure, the cross currency basis is also considered in the calculation of cash flows.

According to IFRS 13, counterparty default risk and own credit risk (credit value adjustment and debt value adjustment) are to be taken into account in measuring the fair value of derivatives. Both components are shown as BCVA (bilateral CVA = CVA-DVA). Kommunalkredit determines BCVA for all derivatives without bilateral daily cash collateral margin calls. For collateralised derivatives with bilateral daily cash collateral margin calls BCVA is considered to be immaterial. BCVA is calculated by the potential exposure method (based on Monte Carlo simulations) at counterparty level according to IFRS 13.48.

12. Hedge Accounting

IAS 39 and IFRS 9 contain provisions on hedge accounting, which are intended to prevent economically unjustified effects of measurement differences in hedged underlying transactions and hedging instruments on the income statement. The purpose of the hedge accounting rules is to recognise value changes of hedging instruments and the transactions hedged as mutually offsetting. In micro hedge accounting, Kommunalkredit has applied the IFRS 9 rules since 1 January 2018. To account for a fair value hedge of the interest rate exposure of a portfolio, the IAS rules (IAS 39.89A) are applied. Hedging cash flows and/or a net investment in a foreign business operation is of no relevance to Kommunalkredit for the time being.

a. **Fair value hedge:** The fair value hedge applied by Kommunalkredit serves to hedge the fair value of assets or liabilities. This type of hedge is used to hedge interest and/or currency risks. The hedging instruments used are interest-rate swaps and interest-rate cross-currency swaps. The derivative used as a hedging instrument is recognised at its fair value, with measurement changes carrying through profit or loss and recognised in the income statement in the “Net trading and valuation result”. For the hedged asset or liability, the changes in fair value resulting from the hedged risk (interest and/or currency risks) are recognised in the same income statement item. On the balance sheet, the measurement result corresponding to the hedged risk is recognised in the same item as the underlying transaction.

   In order to apply the hedge accounting rules, it is necessary to provide evidence of an economic relationship between the hedged underlying transaction and the hedging transaction. Kommunalkredit verifies compliance with these conditions through prospective (cross-checking of the components determining the market value) and retrospective effectiveness tests. The prospective effectiveness test compares all parameters of the underlying transaction and the hedging transaction that determine the extent of the hedged change in value and verifies if the value changes in the underlying transaction and the hedging transaction offset each other relative to the hedged risk. The retrospective effectiveness test checks the development of the hedged fair value of the structure (underlying transaction and hedging transaction) for its effectiveness.

b. **Portfolio hedge:** The portfolio hedge implemented by Kommunalkredit upon adoption of IFRS 9 serves to hedge the fair value of a portfolio of financial assets. This type of hedge is used to hedge a portfolio against fixed-interest risks. Interest rate swaps are used as hedging instruments.

   To model the hedged underlying transaction, Kommunalkredit uses the bottom-layer approach according to IAS 39 carve-out. From the total number of fixed-interest underlying transactions not hedged at single-transaction level, a synthetic underlying transaction is modelled and compared to the hedging derivatives. The fair value change of the synthetic underlying transaction, which is attributable to the hedged risk, is recognised in “Portfolio hedge” as a separate balance sheet item. In the income statement, the change is recognised in “Net trading and valuation result”. The derivative used as a hedging instrument is recognised at fair value, with valuation adjustments being recognised as offsetting amounts in the same income statement item.

To verify the effective hedging relationship of the underlying and hedging transactions contained in the portfolio hedge, Kommunalkredit uses prospective and retrospective effectiveness tests. The prospective effectiveness test of the portfolio fair value hedge verifies at regular intervals if in a comparison of the maturity scenarios of underlying and hedging transactions the hedging relationship continues to exist. In a retrospective effectiveness test of the portfolio fair value hedge, the hedge is deemed to be effective if the fair value fluctuations from the hedging instrument and the compensatory results of a reporting period from the hedged underlying transaction, relative to the hedged risk, are mutually offsetting.

Hedge ineffectiveness, which at Kommunalkredit primarily results from OIS discounting of interest rate derivatives or credit risk components of unsecured interest rate derivatives, is recognised in the income statement.

13. Classes of Financial Instruments

In accordance with the requirement to group financial instruments into classes of similar instruments within the framework of the notes to the financial statements, Kommunalkredit distinguishes the following classes of financial instruments:

Classes of financial instruments according to IFRS 9 (since 1/1/2018)	Accounting treatment
Cash and balances with central banks	fortgeführte Anschaffungskosten
Financial assets	
At fair value through profit or loss: held for trading	Fair value
At fair value through profit or loss: mandatory	Fair value
At fair value through profit or loss: fair value option	Fair value
Assets at amortised cost	Amortised cost
At fair value through other comprehensive income	Fair value
Financial liabilities	
Liabilities at amortised cost	Amortised cost
At fair value through profit or loss: fair value option	Fair value
At fair value through profit or loss: held for trading	Fair value
Derivatives designated as hedging instruments	Fair value
Contingent liabilities	Off-balance-sheet
Other off-balance-sheet liabilities	Off-balance-sheet

Classes of financial instruments according to IAS 39 (until 31/12/2017)	Accounting treatment
Cash and balances with central banks	Amortised cost
Financial assets	
At fair value through profit or loss: held for trading	Fair value
At fair value through profit or loss: fair value option	Fair value
Held to maturity	Amortised cost
Loans and receivables: loans and advances to banks	Amortised cost
Loans and receivables: loans and advances to customers	Amortised cost
Available for sale	Fair value
Financial liabilities	
At amortised cost	Amortised cost
At fair value through profit or loss: fair value option	Fair value
At fair value through profit or loss: held for trading	Fair value
Derivatives designated as hedging instruments	Fair value
Contingent liabilities	Off-balance-sheet
Other off-balance-sheet liabilities	Off-balance-sheet

As of the balance sheet date, the following classes of financial instruments were not used by Kommunalkredit as at 31 December 2018:

- Financial assets: at fair value through profit or loss: mandatory
- Financial liabilities: at fair value through profit or loss: fair value option
- Financial liabilities: at fair value through profit or loss: fair value option
- Financial liabilities: at fair value through profit or loss: held for trading

14. Investments in Associates

Associates are measured according to the equity method under IAS 28 (Associates and Joint Ventures) (see also Note 5). The recoverability of these investments is reviewed at every balance-sheet date on the basis of forecasts.

15. Property, Plant and Equipment

Property, plant and equipment comprise land and buildings primarily for the company's own use as well as office furniture and equipment.

Land is recognised at cost. Buildings as well as office furniture and equipment are measured at cost less straight-line depreciation. The assumed projected periods of use are:

- Buildings: 40 years
- Office furniture and equipment: 4 to 10 years
- IT investment: 3 to 4 years
- Works of art are not subject to straight-line depreciation.

In the event of indications of impairment, extraordinary write-offs are made if the book value is above the higher of net sales price or value in use. If the grounds for impairment no longer apply, reversals are booked up to the level of amortised cost.

16. Intangible Assets

Intangible assets exclusively comprise purchased software. Software is written off by the straight-line method over 3 years and recognised in general administrative expenses.

In the event of indications of impairment, extraordinary write-offs are made if the book value is above the higher of net sales price or value in use. If the grounds for impairment no longer apply, reversals are booked up to the level of amortised cost.

17. Financial Liabilities

Financial liabilities are initially recognised at fair value, with transaction costs taken into account on the liabilities side. Subsequent measurement is at amortised cost, using the effective interest method. Long-term bonds issued discounted (e.g. zero bonds) and similar liabilities are recognised marked up for interest accruing by means of the effective interest method. Currently, there are no liabilities in the fair value portfolio. For details on the accounting treatment of liabilities representing underlying transactions in hedge accounting, see Note 12.

18. Provisions

Provisions for pensions, severance pay and jubilee bonuses are calculated annually by an independent actuary according to the projected unit credit method in accordance with IAS 19. The "AVÖ 2008-P calculation bases for pension insurance – Pagler & Pagler", in their version for salaried employees, are used as a calculation basis. The actuarial discount rate was determined on the basis of the yields of prime fixed-income corporate bonds, with due consideration given to the terms of the obligations to be met.

The most important parameters applied in the calculation are:

- an actuarial discount rate of 2.0% to 2.25% (2017: 2.0%) for pension obligations, 1.50% (2017: 1.50%) for obligations from severance pay and 0.50% (2017: 0.50%) for obligations from jubilee bonuses;

- an incremental rate of active salary and pension payments of 2%, unchanged from the previous year;

- a career trend of 1.5%, unchanged from the previous year;

- assumed pensionable ages of 60 for women and 65 for men, taking into account the transitional provisions of the 2003 Budget Framework Act and the provisions on age limits for women of the Act on Occupational Old-Age Provision;

- a fluctuation discount on provisions for severance pay determined on the basis of statistically derived rates of early termination of employment, depending on length of service, with and/or without severance payments.

All pension obligations to active employees have been transferred to a pension fund. The provisions reported therefore only contain entitlements from defined-benefit pension obligations for eight employees not covered by the pension fund, resulting from direct commitments within the framework of the collective bargaining agreement (1961 pension reform, as amended on 1 January 1997) made prior to the transfer to the pension fund, or from individual contracts. The pension plan is a defined-benefit plan under which benefits for active staff, relative to the risk of death and invalidity, depend on the salary earned. Benefits for staff reaching retirement age are already fixed and therefore only subject to adjustment in line with the annual increase agreed through collective bargaining. As the defined-benefit components are fully funded, supplementary allocations will only be required in the event of underperformance or "premature" payment of benefits.

The provision for pensions corresponds to the net present value of the defined-benefit obligation minus the fair value of the plan assets. Actuarial gains and losses based on empirically determined adjustments and changes in actuarial assumptions are recognised in comprehensive income in the period in which they arise. Other expenses are recognised in the Income Statement under "Personnel expenses" as part of general administrative expenses.

Provisions for severance pay are calculated by an independent actuary and set up according to the same actuarial principles to cover statutory and contractual entitlements. Actuarial gains and losses are subject to the same accounting treatment as pension obligations.

For other long-term employee benefits, i.e. jubilee bonus entitlements, a jubilee bonus provision, calculated according to the same principles, is set up. Actuarial gains and losses are recognised their entirety in personnel expenses in the period in which they arise and carry through profit or loss.

19. Current and Deferred Tax Assets

Taxes on income are recognised and calculated according to IAS 12.

Current income-tax assets and liabilities are measured at current tax rates. Tax claims are shown under "Current tax assets", and tax payable under "Current tax liabilities".

For the calculation of deferred taxes, all temporary differences are taken into account. Under this concept, the assets and liabilities recognised on the balance sheet according to IFRS are compared with the taxable amounts of the group company in question. Temporary differences between the amounts recognised lead to differences in value, for which deferred tax assets or liabilities must be reported – irrespective of the time of their release. Deferred tax assets and deferred tax liabilities for the same term are offset if they exist against the same tax creditor.

Tax loss carryforwards are recognised as tax assets if they can be reasonably expected to be used in the near future. The possibility of using tax loss carryforwards is reviewed annually on the basis of the Group's tax budgeting process.

Effective as of 2016, a tax group pursuant to § 9 of the Corporate Income Tax Act was formed, with Satere Beteiligungsverwaltungs GmbH as the group parent and Gesona Beteiligungsverwaltung GmbH, Kommunalkreidt, KBI, KPC and TrendMind IT Dienstleistung GmbH (TrendMind) as group members. On the basis of a group and tax contribution agreement, the stand-alone method was chosen for the calculation of the tax contributions. According to this method, the amount of the tax contributions of the group members depends on the amount of corporate income tax the group member would have had to pay if its tax result had not been counted toward the group parent. Tax loss carryforwards of a group member from periods prior to the formation of the group (pre-group losses) are credited up to the amount of the profit of the group member and diminish the tax contribution of the group member. If a group member's negative income is counted toward the group parent, this tax loss is kept on record for the group member (internal loss carryforward) and netted against the positive income of the group member in subsequent years up to 100%. Upon termination of the tax group or elimination of a group member, a final compensation has to be paid for tax losses not yet reimbursed, multiplied by the corporate tax rate applicable at the time of termination of the agreement.

20. Derecognition of Financial Assets and Liabilities

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset have expired or when the Group has transferred such rights, including all material risks and rewards of ownership. If all risks and rewards are neither transferred nor retained, derecognition of the asset depends on whether control over the asset is transferred.

If the Group retains all substantial risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset as well as a collateralised financial instrument for the consideration received.

A financial liability is derecognised upon redemption, i.e. when its contractual obligations have been discharged or are cancelled or expire, or when a financial liability is replaced by a liability against the same lender under significantly different contractual terms.

Upon complete derecognition of a financial instrument, the difference between the book value and the sum total of the consideration received or to be received and all accumulated gains or losses, which have been recognised in comprehensive income and accumulated in equity, are recognised in the income statement.

21. Significant Estimates And Judgments

The preparation of financial statements according to IFRS requires management to make judgments, estimates and assumptions regarding certain categories of assets and liabilities. Areas in which such estimates and judgements are required include, in particular, the setting up of risk provisions (see Note 8), the determination of the fair value of financial assets and liabilities (see Note 11), the measurement of provisions (see Note 18), the recognition and measurement of deferred tax assets (see Note 19), and the assessment of legal risks (see Note 66).

These judgments and estimates influence the measurement of assets and liabilities, contingent claims and contingent liabilities on the balance sheet date, and of income and expenses of the reporting period. Management holds regular meetings to review its judgments and estimates. Decisions are taken by the competent bodies of the bank and documented accordingly. The underlying assumptions are continuously reviewed and recorded. Actual results may differ from management estimates.

BALANCE SHEET DISCLOSURES OF THE KOMMUNALKREDIT GROUP

22. Cash and Cash Equivalents

Cash and cash eqivalents in EUR 1,000	31/12/2018	31/12/2017
Cash on hand	9.2	9.1
Balances with central banks	314,399.7	318,100.0
Total	**314,408.9**	**318,109.1**

23. Loans and Advances to Banks

Loans and advances to banks in EUR 1,000	31/12/2018	31/12/2017
Repayable on demand	83,777.11	101,809.8
Securities	134,807.0	0.0
Expected credit losses	-22.6	38,387.7
Other receivables	0.0	38,387.7
Total	**218,561.5**	**140,197.5**

Loans and advances to banks repayable on demand include cash and cash equivalents provided as cash collateral for negative market values of derivatives according to ISDA/CSA arrangements in the amount of TEUR 56,490.0 (31/12/2017: TEUR 87,362.2) and positive balances with credit institutions in the amount of TEUR 13,840.0 (31/12/2017: TEUR 14,397.6). Securities, i.e. listed bonds, in the amount of TEUR 134,807.0 (31/12/2017: TEUR 0.0) are recognised at amortised cost according to IFRS 9.

24. Loans and Advances to Customers

Loans and advances to customers in EUR 1,000	31/12/2018	31/12/2017
Repayable on demand	102,770.3	97,213.9
Loans	1,332,591.4	1,641,820.0
Securities	534,019.2	353,294.1
Expected credit losses (IFRS 9.5.5) / Portfolio allowance (IAS 39.64)	-1,048.4	-448.4
Other receivables	1,350.6	0.0
Total	**1,969,637.9**	**2,091,879.7**

Loans and advances to customers repayable on demand include cash and cash equivalents provided as collateral for negative market values of derivatives (transactions with non-bank financial institutions) according to ISDA/CSA arrangements in the amount of TEUR 102,520.2 (31/12/2017: TEUR 97,079.0).

Loans and advances to customers with a book value of TEUR 1,332,591.4 (31/12/2017: TEUR 1,641,820.0) and securities with a book value of TEUR 534,019.2 (31/12/2017: TEUR 353,294.1) exclusively comprise financial assets measured at amortised cost under IFRS 9. In the previous year, loans and advances to customers and securities were shown under “Loans and receivables” according to IAS 39. Securities include TEUR 283,621.5 (31/12/2017: TEUR 96,041.1) in public listed bonds.

In the reporting year Kommunalkredit sold financial assets of the “hold to collect” business model with a nominal value of TEUR 10,000.0 on account of an impending deterioration of credit risk. The resulting losses amounted to TEUR -21.5.

25. Risk Provisions

25.1. Development of risk provisions

Risk provisions included in “Loans and advances to banks” and “Loans and advances to customers” exclusively comprise assets recognised at amortised cost, which are booked on separate value adjustment accounts and developed as follows:

Risk provisions in EUR 1,000	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired (POCI)	Total
	12m ECL	Lifetime ECL	Lifetime ECL		
Risk provisions as at 1/1/2018	**834.0**	**107.5**	**0.0**	**0.0**	**941.5**
Changes with impact on P&L			**0.0**	**0.0**	
Transfers:					
Transfer from stage 1 to stage 2	*0.0*	*0.0*	*0.0*	*0.0*	***0.0***
Transfer from stage 1 to stage 3	*0.0*	*0.0*	*0.0*	*0.0*	***0.0***
Transfer from stage 2 to stage 2	*0.0*	*0.0*	*0.0*	*0.0*	***0.0***
Addition of new financial assets	352.3	0.0	0.0	0.0	**366.3**
Changes in risk parameters (PD/LGD/EAD)	-103.0	-15.0	0.0	0.0	**-118.0**
Changes due to changes in the models use	0.0	0.0	0.0	0.0	**0.0**
Changes due to contract modifications	0.0	0.0	0.0	0.0	**0.0**
Fair value effects	155.1	-12.3	0.0	0.0	**142.8**
Foreign currency effects and other changes	0.1	0.0	0.0	0.0	**0.1**
Total net change in P&L during the reporting period	**404.5**	**-27.3**	**0.0**	**0.0**	391.3
Changes without impact on P&L			0.0	0.0	
Transfers					
Transfer from stage 2 to stage 3	*0.0*	*0.0*	*0.0*	*0.0*	***0.0***
Transfer from stage 3 to stage 2	*0.0*	*0.0*	*0.0*	*0.0*	***0.0***
Derecognition of financial assets during the reporting period	-247.8	0.0	0.0	0.0	**-247.8**
Write-off	0.0	0.0	0.0	0.0	**0.0**
Risk provisions as at 31/12/2018	**990.7**	**80.3**	**0.0**	**0.0**	**1,070.9**

As in the previous year, no specific loan loss provisions had to be set up in 2018. The non-performing-loan ratio remained unchanged at 0.0%. For details on risk provisioning, see Note 8.

25.2. Development of gross book values in connection with risk provisions

The following table shows the gross book values of the financial assets of relevance for the calculation of risk provisions, broken down by rating class. Significant changes in gross book values that would have resulted in material changes in risk provisioning did not occur in the reporting year.

Breakdown of credit exposure in EUR 1,000	2018					2017 Total
	Stage 1 12m ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total	
Credit rating						
AAA	35,961.9	0.0	0.0	0.0	35,961.9	100.3
AA+	7,639.4	0.0	0.0	0.0	7,639.4	0.0
AA	747,468.7	0.0	0.0	0.0	747,468.7	846,437.5
AA-	148,637.1	0.0	0.0	0.0	148,637.1	96,233.9
A+	171,404.7	0.0	0.0	0.0	171,404.7	68,385.6
A	163,855.0	0.0	0.0	0.0	163,855.0	197,966.2
A-	34,175.3	0.0	0.0	0.0	34,175.3	795.8
BBB+	162,200.3	0.0	0.0	0.0	162,200.3	327,623.8
BBB	89,542.6	0.0	0.0	0.0	89,542.6	103,846.0
BBB-	209,057.3	0.0	0.0	0.0	209,057.3	187,160.5
BB+	24,212.8	0.0	0.0	0.0	24,212.8	45,164.0
BB	103,246.0	0.0	0.0	0.0	103,246.0	25,202.5
BB-	50,519.7	15,074.5	0.0	0.0	65,594.2	34,456.7
B+	24,532.6	0.0	0.0	0.0	24,532.6	20,923.3
B-	15,123.7	0.0	0.0	0.0	15,123.7	15,099.7
Not rated	0.0	0.0	0.0	0.0	0.0	0.0
Gross book values	1,987,577.1	15,074.5	0.0	0.0	2,002,651.6	1,969,395.7
Risk provisions	-975.7	-95.3	0.0	0.0	-1,070.9	-941.5
Book values after risk provisions	1,986,601.4	14,979.3	0.0	0.0	2,001,580.7	1,968,454.2

Neither substantial nor non-substantial modifications occurred in stage 2 financial instruments during the reporting year. Kommunalkredit had no stage 3 financial instruments during the reporting year, neither on 31 December 2018 nor on 1 January 2018. Therefore, there were no downward stage transfers due to modifications during the reporting year.

Assuming that all exposures would deteriorate by one rating stage, the lifetime expected credit loss of stage 2 would increase by approx. TEUR 2,500.0.

25.3. Forbearance

Forbearance exposures are exposures to counterparties at risk of no longer being able to meet their payment obligations.

On account of the quality of its portfolio and/or its credit risk profile, forbearance practices are of minor importance for Kommunalkredit. In Kommunalkredit's entire portfolio, a single counterparty in risk class 1, rated B+, with a book value of TEUR 5,860.9 (31/12/2017: TEUR 6,122.4) was classified as a forbearance exposure ("forbearance performing") as at 31 December 2018.

26. Assets at Fair Value through other Comprehensive Income

Assets at Fair Value in EUR 1,000	31/12/2018	31/12/2017
Equity instruments	1,980.8	0.0
Loans	1,115,735.8	0.0
Securities	61,223.0	0.0
Total	**1,178,939.7**	**0.0**

For details on fair value measurement, see Note 11. A breakdown of the categories of the fair value hierarchy according to IFRS 13.27 and a detailed description thereof are contained in Note 64.

Securities include public bond in the amount of TEUR 25,499.2 (of which listed: TEUR 24.7) and other listed bonds in the amount of TEUR 20,418.6.

As at 31 December 2018, risk provisions (see also Note 8) for financial assets measured at fair value through other comprehensive income amounted to TEUR -803.5. At the time of transition to IFRS 9 they amounted to TEUR -240.2.

The equity instruments reported are long-term, strategic investments, which Kommunalkredit elects to measure at fair value through other comprehensive income, as permitted by IFRS 9. The book values and the dividends earned are as follows:

in EUR 1,000	Book values 31/12/2018	Dividend earned 1/1/2018-31/12/2018
Strategic investments in equity instruments	1,980.8	192.0

The book values of the equity instruments correspond to their fair values. The dividends earned are recognised as income from investments. No additional items of other comprehensive income were reclassified to retained earnings in the reporting year. An equity instrument already impaired in its entirety in 2017 was sold in 2018.

Financial assets reclassified in the course of transition to IFRS 9 from measured at fair value through other comprehensive income under IAS 39 (available for sale) to measured at amortised cost under IFRS 9 amounted to a cumulative fair value of TEUR 86,882.0 as at 31 December 2018. The effect on equity from the change in fair value of these financial assets which, if not reclassified, would have been recognised in other comprehensive income, would have amounted to TEUR 89.9 in the reporting period. The corresponding book value according to IFRS 9 is now recognised either under "Loans and advances to customers" (see Note 24) or under "Loans and advances to banks (see Note 23).

27. Derivatives

Derivative transactions at Kommunalkredit mainly serve for the purpose of hedging interest rate and/or currency risks. The positive fair values (for details on fair value measurement, see Note 11) of the derivative financial instruments are recognised on the asset side and shown in the following table (including interest accruals/deferrals):

Derivatives **in EUR 1,000**	**31/12/2018**	**31/12/2017**
Interest-related transactions	204,144.9	231,392.0
of which in fair value hedges	*197,221.6*	*220,905.0*
of which in portfolio hedge	*64.2*	*0.0*
Currency-related transactions	16,741.0	1,224.8
of which in fair value hedges	*949.4*	*923.1*
Total	**220,886.0**	**232,616.8**

The structure of the derivative financial instruments, including their market values, is shown in Note 61.

28. Investments in Associates

The book value of the investment in Kommunalleasing GmbH remains unchanged at TEUR 0.0. Non-recognised losses for this at-equity investment are reported neither in the reporting year nor on a cumulative basis.

As at 31 December 2018, the assets and liabilities of this company amounted to TEUR 72,194.0 (31/12/2017: TEUR 81,191.2) and TEUR 66,477.1 (31/12/2017: TEUR 76,004.2), respectively; revenues amounted to TEUR 440.6 (1/1-31/12/2017: TEUR 491.3), and the profit for the year according to IFRS came to TEUR 567.6 (1/1-31/12/2017: TEUR 126.6).

29. Property, Plant and Equipment

The development and composition of property, plant and equipment is shown in Note 31 (Schedule of Non-current Asset Transactions). The value of land and buildings used mainly by the Group, as shown on the Balance Sheet, is unchanged from the previous year and includes a land value of TEUR 3,961.1.

Property, plant and equipment in EUR 1,000	31/12/2018	31/12/2017
Land and buildings	22,570.1	23,302.6
Office furniture and equipment	2,261.8	2,547.7
Total	**24,831.9**	**25,850.3**

30. Intangible Assets

This balance sheet item exclusively comprises purchased software. For its development and composition, see Note 31 (Schedule of Non-current Asset Transactions).

31. Schedule of Non-Current Asset Transactions

The Schedule of Non-current Asset Transactions shows the development and composition of property, plant and equipment and non-current intangible assets.

As at 31 December 2018, the Schedule of Non-current Asset Transactions is as follows:

Schedule of non-current asset transactions 2018	Acquisition costs					Cumulative depreciation and amortisation					
in EUR 1,000	**as at 1/1/2018**	**Additions**	**Disposals**	**Reclassifica-tions**	**as at 31/12/2018**	**as at 1/1/2018**	**Additions**	**Disposals**	**as at 31/12/2018**	**Book value 31/12/2018**	**Book value 31/12/2017**
Property, plant and equipment	**45,176.3**	**422.1**	**-102.1**	**0.0**	**45,496.3**	**19,326.0**	**1,440.0**	**-101.6**	**20,664.4**	**24,831.8**	**25,850.3**
Land and buildings	37,607.5	184.0	0.0	0.0	37,791.5	14,304.9	916.5	0.0	15,221.4	22,570.1	23,302.6
Office furniture and equipment	7,568.8	238.1	-102.1	0.0	7,704.8	5,021.1	523.5	-101.6	5,443.0	2,261.8	2,547.7
Intangible assets	**4,539.0**	**153.4**	**-162.4**	**0.0**	**4,530.1**	**4,347.6**	**141.0**	**-162.4**	**4,326.2**	**203.9**	**191.4**
Total of property, plant and equipment and intangible assets	**49,715.3**	**575.5**	**-264.5**	**0.0**	**50,026.4**	**23,673.7**	**1,580.9**	**-264.0**	**24,990.6**	**25,035.7**	**26,041.7**

Schedule of non-current asset transactions 2017	Acquisition costs					Cumulative depreciation and amortisation					
in EUR 1,000	**as at 1/1/2017**	**Additions**	**Disposals**	**Reclassifi-cations**	**as at 31/12/2017**	**as at 1/1/2017**	**Additions**	**Disposals**	**as at 31/12/2017**	**Book value 31/12/2017**	**Book value 31/12/2016**
Property, plant and equipment	**44,752.7**	**468.2**	**-44.6**	**0.0**	**45,176.3**	**17,811.8**	**1,558.6**	**-44.4**	**19,326.0**	**25,850.3**	**26,940.9**
Land and buildings	37,453.0	127.9	0.0	26.6	37,607.5	13,394.1	910.8	0.0	14,304.9	23,302.6	24,058.9
Office furniture and equipment	7,273.1	340.3	-44.6	0.0	7,568.8	4,417.7	647.8	-44.4	5,021.1	2,547.7	2,855.4
Facilities under construction	26.6	0.0	0.0	-26.6	0.0	0.0	0.0	0.0	0.0	0.0	26.6
Intangible assets	**4,415.1**	**123.9**	**0.0**	**0.0**	**4,539.0**	**4,126.3**	**221.3**	**0.0**	**4,347.6**	**191.4**	**288.7**
Total of property, plant and equipment and intangible assets	**49,167.8**	**592.1**	**-44.6**	**0.0**	**49,715.3**	**21,938.1**	**1,779.9**	**-44.4**	**23,673.7**	**26,041.7**	**27,229.6**

32. Tax Assets

Tax assets in EUR 1,000	31/12/2018	31/12/2017
Current tax assets	258.6	476.5
Deferred tax assets	6,183.3	27,243.6
Total	**6,441.8**	**27,720.1**

Deferred tax assets and liabilities include taxes arising from temporary differences between the values recognised according to IFRS and the calculation of the Group's taxable profit. Deferred tax assets also include capitalised tax loss carryforwards. The origin and development of deferred taxes assets is shown in the following table:

Deferred taxes in EUR 1,000	as at 31/12/2017	IFRS 9 Reclassification effect and change recognised in P&L	Change recognised in OCI	as at 31/12/2018
Deferred taxes from temporary differences in asset items				
Tax loss carryforwards	31,394.0	-17,117.8	0.0	14,276.1
Loans and advances to banks	-8.7	4,617.4	0.0	4,608.7
Loans and advances to customers	-11,414.4	-1,679.4	0.0	-13,093.7
Assets at fair value through P&L	-32,351.5	32,351.5	0.0	0.0
Assets at fair value through OCI	0.0	-39,966.3	1,716.0	-38,250.3
Assets available for sale	-616.2	616.2	0.0	0.0
Derivatives	-50,263.6	6,549.0	0.0	-43,714.6
Portfolio hedge	0.0	-202.0	0.0	-202.0
Investments in associates	133.9	-26.8	0.0	107.1
Property, plant and equipment	-11.4	0.0	0.0	-11.4
Deferred taxes from temporary differences in liability items				
Amounts owed to banks	-374.5	374.5	0.0	0.0
Amounts owed to customers	835.9	-1,518.3	0.0	-682.4
Derivatives	43,661.3	-2,139.7	0.0	41,521.6
Securitised liabilities	44,891.1	-5,277.0	0.0	39,614.1
Subordinated liabilities	348.7	38.1	0.0	386.8
Provisions	878.9	759.7	-197.7	1,440.9
Other liabilities	140.0	42.2	0.0	182.1
Total	**27,243.6**	**-22,578.7**	**1,518.3**	**6,183.3**

The comparative figures as at 31 December 2017 are as follows:

Deferred taxes in EUR 1,000	as at 31/12/2016	Recognised in profit or loss	Recognised in equity	as at 31/12/2017
Deferred taxes from temporary differences in asset items				
Tax loss carryforwards	21,917.7	9,476.2	0.0	31,394.0
Loans and advances to banks	0.0	-8.7	0.0	-8.7
Loans and advances to customers	-17,611.6	6,197.3	0.0	-11,414.4
Assets at fair value through P&L	-38,357.3	6,005.8	0.0	-32,351.5
Assets available for sale	-2,392.7	1,643.8	132.8	-616.2
Derivatives	-69,886.6	19,623.0	0.0	-50,263.6
Investments in associates	160.7	-26.8	0.0	133.9
Property, plant and equipment	0.0	-11.4	0.0	-11.4
Deferred taxes from temporary differences in liability items				
Amounts owed to banks	0.0	-374.5	0.0	-374.5
Amounts owed to customers	4,376.2	-3,540.3	0.0	835.9
Derivatives	55,393.0	-11,731.7	0.0	43,661.3
Securitised liabilities	60,695.6	-15,804.5	0.0	44,891.1
Subordinated liabilities	579.8	-231.1	0.0	348.7
Provisions	966.4	0.0	-87.5	878.9
Other liabilities	0.0	140.0	0.0	140.0
Total	**15,841.2**	**11,357.1**	**45.3**	**27,243.6**

The asset item booked for deferred tax assets in the amount of TEUR 6,183.3 (31/12/2017: TEUR 27,243.6) comprises TEUR 14,276.1 (31/12/2017: TEUR 31,394.0) in capitalised tax loss carryforwards and TEUR -8,092.8 (31/12/2017: TEUR -4,150.4) in temporary differences, as shown in the above table.

Of the tax loss carryforwards as at 31 December 2018 in the amount of TEUR 96,653.0 (31/12/2017: TEUR 128,642.6), an amount of TEUR 57,105.0 (31/12/2017: TEUR 125,567.0) was taken into account due to its probable use in the near future based on tax budgeting. Given a tax rate of 25%, this resulted in an asset item of TEUR 14,276.1 (31/12/2017: TEUR 31,394.0). For the determination of the expected future use of the tax loss carryforward the effects of the tax group formed in 2016 pursuant to § 9 of the Corporate Income Tax Act with Satere Beteiligungsverwaltungs GmbH as the group parent in 2016 (for details see Note 19) was taken into account.

Given a tax rate of 25%, the use of tax loss carryforwards in the reporting year amounted to TEUR 7,610.0 (2017: TEUR 4,001.6).

The capitalised tax loss carryforward of TEUR 14,276.1 as at 31 December 2018 is to be realised within the coming twelve months in an amount of TEUR 2,896.0. The balance of TEUR 11,380.1 is expected to be used in the following four years.

There are no plans to realise deferred tax assets resulting from financial instruments and provisions (apart from measurement effects and maturities) within the coming twelve months. Current tax assets arise from current tax accounting and are of a short-term nature.

33. Other Assets

Other assets in EUR 1,000	31/12/2018	31/12/2017
Other assets	6,351.9	8,339.5
Accruals/deferrals	688.9	1,030.9
Total	**7,040.8**	**9,370.4**

Other assets comprise the following material items: receivables for services invoiced to KA Finanz AG in the amount of TEUR 1,222.7 (31/12/2017: TEUR 3,678.8), trade receivables in the amount of TEUR 4,003.8 (31/12/2017: 2,244.9) and receivables from the settlement of payments under support programmes in the amount of TEUR 445.5 (31/12/2017: TEUR 353.4).

Accruals/deferrals mainly comprise fees and other administrative expenses recognised according to the accruals concept.

34. Amounts Owed to Banks

Amounts owed to banks in EUR 1,000	31/12/2018	31/12/2017
Repayable on demand	104,584.9	114,768.3
Other liabilities	390,984.2	418,069.9
Total	**495,569.2**	**532,838.2**

Amounts owed to banks repayable on demand include cash and cash equivalents received as cash collateral for positive market values of derivatives according to ISDA/CSA arrangements in the amount of TEUR 104,584.9 (31/12/2017: TEUR 96,216.0). Other liabilities to banks include TEUR 311,162.2 (31/12/2017: TEUR 312,431.8) in medium-term funds from the TLTRO II programme (Targeted Longer-Term Refinancing Operations) of the

European Central Bank (ECB) and TEUR 59,763.0 (31/12/2017: TEUR 62,209.4) in collateralised loans of the European Investment Bank.

35. Amounts Owed to Customers

Amounts owed to customers include the following:

Amounts owed to customers in EUR 1,000	31/12/2018	31/12/2017
Deposits by corporates, municipalities and quasi-municipal enterprises	714,735.8	528,760.9
Deposits by retail customers – KOMMUNALKREDIT INVEST	287,681.5	115,653.7
Cash collateral received for positive market values of derivatives	60,001.3	63,715.8
Other long-term liabilities to customers	394,054.3	329,892.6
Total	**1,456,472.9**	**1,038,002.0**

Amounts owed to customers include TEUR 157,955.5 (31/12/2017: TEUR 212,325.1) repayable on demand.

36. Derivatives

Derivative transactions at Kommunalkredit mainly serve for the purpose of hedging interest rate and/or currency risks. The negative fair values of derivative financial instruments are reported on the liabilities side (for details on fair value measurement, see Note 14) and shown in the following table (including interest accruals/deferrals):

Derivatives in EUR 1,000	31/12/2018	31/12/2017
Interest-related transactions	193,803.4	205,016.7
of which in fair value hedges	*83,095.4*	*74,412.9*
of which in portfolio hedge	*73,070.3*	*0.0*
Currency-related transactions	7,173.1	39,692.6
of which in fair value hedges	*5,739.3*	*2,991.2*
Total	**200,976.4**	**244,709.4**

The structure of the derivative financial instruments, including their market values, is shown in Note 61.

37. Securitised Liabilities

Securitised liabilities in EUR 1,000	31/12/2018	31/12/2017
Bonds issued	991,970.8	947,323.0
Other securitised liabilities	404,082.9	521,259.1
Total	**1,396,053.7**	**1,468,582.1**

Bonds issued and other securitised liabilities comprise covered bonds issued by Kommunalkredit in a book value of TEUR 1,135,843.3 (31/12/2017: TEUR 1,123,636.9), which are collateralised by a cover pool. Besides covered bonds, this balance sheet item primarily includes senior unsecured bonds with long maturities. Securitised liabilities with a nominal value of TEUR 93,612.1 (2018: TEUR 21,703.4) will fall due in 201.

38. Subordinated Liabilities

As at 31 December 2018, subordinated liabilities were broken down as follows:

Type of liability	Interest rate 31/12/2018	Currency	Nominal in EUR 1,000	Book value in EUR 1,000
Subordinated bonded loan 2007-2022	4.67%	EUR	10,000.0	11,263.5
Subordinated bonded loan 2007-2022	4.67%	EUR	10,000.0	11,263.5
Subordinated bonded loan 2007-2047	5.02%	EUR	10,000.0	10,141.3
Subordinated bonded loan 2007-2047	5.02%	EUR	9,000.0	9,127.2
Subordinated bonded loan 2007-2037	5.08%	EUR	10,000.0	10,239.7
Subordinated bonded loan 2007-2037	5.08%	EUR	800.0	819.2
Subordinated bonded loan 2007-2037	5.08%	EUR	10,200.0	10,444.5
Subordinated bond 2006-2021	5.40%	EUR	5,000.0	5,775.4
Total			**65,000.0**	**69,074.4**

The comparative figures as at 31 December 2017 are as follows:

Type of liability	Interest rate 31/12/2017	Currency	Nominal in EUR 1,000	Book value in EUR 1,000
Subordinated bonded loan 2007-2022	4.67%	EUR	10,000.0	11,538.2
Subordinated bonded loan 2007-2022	4.67%	EUR	10,000.0	11,538.2
Subordinated bonded loan 2007-2047	5.02%	EUR	10,000.0	9,910.0
Subordinated bonded loan 2007-2047	5.02%	EUR	9,000.0	8,919.0
Subordinated bonded loan 2007-2037	5.08%	EUR	10,000.0	10,028.8
Subordinated bonded loan 2007-2037	5.08%	EUR	800.0	802.3
Subordinated bonded loan 2007-2037	5.08%	EUR	10,200.0	10,229.4
Subordinated bond 2006-2021	5.40%	EUR	5,000.0	5,956.3
Total			**65,000.0**	**68,922.1**

Kommunalkredit's subordinated liabilities add up to a nominal value of TEUR 65,000.0, unchanged from the previous year, and book values of TEUR 69,074.4 (31/12/2017: TEUR 68,922.1). The difference between the book value and the nominal value is due to hedge accounting according to IFRS 9.

Interest expenses for all subordinated liabilities in the reporting year amounted to TEUR 2,674.8 (1/1-31/12/2017: TEUR 2,674.5). Creditor claims to repayment of these liabilities are subordinate in relation to other creditors and, in the event of bankruptcy or liquidation, will be fulfilled only after all non-subordinated creditors have been satisfied.

The subordinated liabilities meet the conditions of Part 2 Title I Chapter 4 of EU Regulation 575/2013 (CRR) and are eligible as additional tier 1 capital for regulatory purposes.

39. Provisions

As at 31 December 2018, provisions primarily included long-term provisions for personnel expenses. (For details on provisions, see also Note 18.)

Provisions in EUR 1,000		Changes		
	Opening balance 1/1/2018	Recognised in income statement	Recognised in comprehensive income and/or equity	Closing balance 31/12/2018
Provisions for pensions	1,575.7	92.0	-630.0	1,037.7
Provisions for severance pay	5,617.2	-508.7	-160.7	4,947.8
Provisions for jubilee bonuses	275.7	-42.8	0.0	232.8
Provision for restructuring	0.0	2,500.0	0.0	2.500
Provisions for expected losses on credit commitments*	234.8	-36.1	0.0	198.7
Other provisions	125.6	-125.6	0.0	0.0
Total	**7,828.9**	**1,878.7**	**-790.7**	**8,917.0**

* Set up for the first time at time of transition to IFRS 9.

The actuarial provisioning requirement for personnel expenses developed as follows in 2018:

Provisions in EUR 1,000		Provisions for			Total
		Pensions	Severance pay	Jubilee bonuses	
as at 31/12/2017 Present value of defined benefit obligation DBO as at 31/12/2017		2,078.3	5,617.2	275.7	7,971.2
- plan assets		-502.6	0.0	0.0	-502.6
Actuarial provisioning requirement as at 31/12/2017		**1,575.7**	**5,617.2**	**275.7**	**7,468.6**
Current service cost		60.5	310.8	9.2	
Interest cost		41.6	81.1	1.2	
Actuarial gains (-) / losses (+) from DBO		-688.0	-160.7	33.3	
of which due to changes in demographic assumptions		-587.5	-104.2	23.2	
of which due to empirical changes		-92.1	-56.5	10.1	
of which due to changes in financial assumptions		-8.4	0.0	0.0	
Payments		0.0	-786.1	-44.5	
Other changes		0.0	-114.6	-42.1	
Change in DBO 2018		**-585.9**	**-669.4**	**-42.8**	
Change in plan assets 2018		**47.9**	**0.0**	**0.0**	
DBO as at 31/12/2018		1,492.4	4,947.8	232.8	6,673.1
- plan assets		-454.7	0.0	0.0	-454.7
Actuarial provisioning requirement as at 31/12/2018		**1,037.7**	**4,947.8**	**232.8**	**6,218.4**
Duration of DBO in years		18	11		
Sensitivity of DBO to change in actuarial interest rate by	plus 0.5%	-8.3%	-5.3%		
	minus 0.5%	9.5%	5.7%		
Sensitivity of DBO to deviation of salary development by	plus 0.5%		5.5%		
	minus 0.5%		-5.2%		
Sensitivity of DBO to deviation of pension increase by	plus 0.5%	7.5%			
	minus 0.5%	-6.8%			

The comparative figures as at 31 December 2017 are as follows:

Provisions in EUR 1,000	Changes			
	Opening balance 1/1/2017	Recognised in personnel expenses	Recognised in comprehensive income and/or equity	Closing balance 31/12/2017
Provisions for pensions	1,415.3	281.6	-121.2	1,575.7
Provisions for severance pay	6,063.3	425.6	-871.7	5,617.2
Provisions for jubilee bonuses	341.0	-65.3	0.0	275.7
Other provisions	0.0	125.6	0.0	125.6
Total	**7,819.6**	**767.5**	**-992.8**	**7,594.2**

The actuarial provisioning requirement for personnel expenses developed as follows in 2017:

Provisions in EUR 1,000		Provisions for			Total
		Pensions	Severance pay	Jubilee bonuses	
as at 31/12/2016 Present value of defined benefit obligation DBO as at 31/12/2017		1,885.8	6,063.3	341.0	8,290.1
- plan assets		-470.5	0.0	0.0	-470.5
Actuarial provisioning requirement as at 31/12/2016		**1,415.3**	**6,063.3**	**341.0**	**7,819.6**
Current service cost		67.0	393.5	13.0	
Interest cost		37.7	88.6	1.6	
Actuarial gains (-) / losses (+) from DBO		-98.5	-871.7	-29.4	
of which due to changes in demographic assumptions		0.0	-522.3	0.0	
of which due to empirical changes		-98.5	-349.4	-29.4	
of which due to changes in financial assumptions		0.0	0.0	0.0	
Payments		0.0	-56.4	-50.6	
Other changes		186.3	0.0	0.0	
Change in DBO 2017		**192.5**	**-446.0**	**-65.4**	
Change in plan assets 2017		**-32.1**	**0.0**	**0.0**	
DBO as at 31/12/2017		2,078.3	5,617.2	275.7	7,971.2
- plan assets		-502.6	0.0	0.0	-502.6
Actuarial provisioning requirement as at 31/12/2017		**1,575.7**	**5,617.2**	**275.7**	**7,468.6**
Duration of DBO in years		19	11		
Sensitivity of DBO to change in actuarial interest rate by	plus 0.5%	-8.8%	-5.4%		
	minus 0.5%	10.1%	5.9%		
Sensitivity of DBO to deviation of salary development by	plus 0.5%		5.7%		
	minus 0.5%		-5.3%		
Sensitivity of DBO to deviation of pension increase by	plus 0.5%	8.3%			
	minus 0.5%	-7.4%			

The following table shows the development of the fair value of plan assets:

Development of the fair value of plan assets in EUR 1,000	2018	2017
as at 1/1	**502.6**	**470.5**
Interest income	10.1	9.4
Actuarial result due to empirical changes	-58.0	22.7
Changes in the business year	-47.9	32.1
as at 31/12	**454.7**	**502.6**

The breakdown of assets by asset class is shown in the following table:

Plan assets by asset class	31/12/2018	31/12/2017
Securities – euro	12.8%	13.1%
Securities – euro high yield	1.3%	4.8%
Securities – euro emerging markets	5.1%	12.2%
Securities – euro corporate	21.1%	9.1%
Securities – non-euro	0.0%	0.2%
Equity instruments – euro	5.9%	13.0%
Equity instruments – non-euro	5.7%	11.8%
Equity instruments – emerging markets	4.8%	10.9%
Alternative investments	3.1%	3.6%
Real estate	5.3%	4.5%
Cash and cash equivalents	34.9%	16.7%
Total	**100.0%**	**100.0%**

As at 31 December 2018, no market prices were quoted in an active market for 57.3% of the plan assets (31/12/2017: 9.6%). For 2019, the following developments are expected for the defined-benefit pension plans, assuming there is no change in the calculation parameters:

Expected development of DBO in EUR 1,000	
Defined Benefit Obligation (DBO) as at 1/1/2019	**1,492.4**
Expected current service cost	36.0
Expected interest cost	29.9
Expected payments	-15.3
Expected actuarial result	-34.9
DBO as at 31/12/2019	**1,508.1**

Expected development of plan assets in EUR 1,000	
Plan assets as at 1/1/2019	**454.7**
Expected interest income	9.2
Expected payments by pension fund	0.0
Expected contribution by employer	0.0
Expected actuarial result	0.3
Expected plan assets as at 31/12/2019	**464.2**

40. Current Tax Liabilities

As at 31 December 2018, tax liabilities amounted to TEUR 1,135.8 (31/12/2017: TEUR 599.8), of which TEUR 22.9 (31/12/2017: TEUR 37.3) resulted from corporate income tax and TEUR 1,112.9 (31/12/2017: TEUR 562.5) from turnover tax and other tax accounting, thus being of a short-term nature.

41. Other Liabilities

Other liabilities in EUR 1,000	31/12/2018	31/12/2017
Accruals/deferrals	807.7	1,641.1
Other liabilities	17,991.1	17,216.8
as at 31/12	**18,798.9**	**18,857.9**

Accruals/deferrals mainly include income from guarantee fees and other fees accounted for under the accruals concept.

Other liabilities mainly include accruals/deferrals for personnel-related expenses and accruals/deferrals for audit, legal and consultancy expenses.

42. Equity

A. Development and composition

The share capital of Kommunalkredit as of 31 December 2018, unchanged from the previous year, amounts to EUR 159,491,290.16. Gesona Beteiligungsverwaltung GmbH (Gesona) holds 30,938,843 no-par-value shares, i.e. 99.78% of the shares; the Association of Austrian Municipalities holds 68,216 shares, i.e. 0.22% of the shares. Each no-par-value share represents an interest of EUR 5.14 in the share capital. There are no shares that have been issued but not fully paid in. By a resolution adopted by the Annual Shareholders' Meeting of 10 March 2017, the Executive Board was authorized to increase the share capital through the issue of up to 15,503,529 new no-par-value registered shares by a maximum amount of EUR 79,745,642.51 (authorized capital), subject to approval by the Supervisory Board, within a period of five years after registration of the amendment to the Articles of Association.

The development and composition of equity according to IFRS is shown under Section IV (Statement of Changes in Equity).

B. Dividend payment on equity / Profit distribution proposal

The profit for the year reported by Kommunalkredit Austria AG for 2018 pursuant to the Austrian Company Code/Austrian Banking Act amounts to EUR 30,409,289.33. The net profit, after profit carried forward from the previous year of EUR 19,422,421.16 and the capital-accretive appropriation to reserves of EUR 49,626,690.98, amounts to EUR 205,019.51. The Executive Board will propose to the Annual Shareholders' Meeting on 13 March 2019 that the net profit of TEUR 205,019.51 reported in the financial statements of Kommunalkredit Austria AG prepared in accordance with the Austrian Company Code/Austrian Banking Act, after appropriations to reserves, be carried forward to new account.

C. Capital adequacy management and regulatory capital ratios

Kommunalkredit is subject to the own funds requirements pursuant to Article 92 CRR (CET 1 ratio 4.5%, core capital ratio 6%, total capital ratio 8%). Taking into account the capital conservation buffer, the anticyclical buffer and the surcharge from the supervisory review and evaluation process (SREP), a common equity tier 1 ratio of 6.87%, a core capital ratio of 8.47% and a total capital ratio of 10.67% % are required. The statutory requirements were met at all times during the reporting year.

Kommunalkredit's equity management is aimed at achieving a core capital ratio of 15% in the medium term. For operational supervision and control, a system of continuous monitoring has been set up and monthly reports are submitted to the Executive Board. Details on Kommunalkredit's equity management are described in Note 65 (Risk Management) in the paragraph "Securing Minimum Capital Adequacy" (ICAAP).

C.1. Regulatory group of credit institutions

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

Besides Satere, Gesona and Kommunalkredit, Kommunalkredit KBI Immobilien GmbH, Kommunalkredit KBI Immobilien GmbH & Co KG and Kommunalkredit LTI Immobilien GmbH & Co KG, as providers of ancillary services, form part of the regulatory group of credit institutions.

Own funds and own funds requirements of the group of credit institutions pursuant to the Austrian Company Code/Austrian Banking Act, calculated in accordance with CRR, show the following composition and development:

Basis for calculation in EUR 1,000	pursuant to Art. 92 CRR 31/12/2018	pursuant to Art. 92 CRR 31/12/2017
Total risk exposure amount pursuant to Art. 92 CRR	**1,331,612.9**	**991,206.5**
of which credit risk	*1,206,002.2*	*871,504.6*
of which operational risk	*107,711.1*	*102,095.6*
of which CVA charge	*17,779.0*	*17,502.1*
of which default fund of a qualifying counterparty	*120.5*	*104.2*

Own funds – Actual in EUR 1,000 or %	31/12/2018	31/12/2017
Common equity tier 1 after deductible items (CET 1)	259,263.9	225,661.4
Additional tier 1 capital after deductible items	58,287.2	64,195.6
Eligible own funds (tier 1 and tier 2)	**317,551.09**	**289,857.0**
Total capital ratio	23.8%	29.2%
Common equity tier 1 ratio	19.5%	22.8%

Total capital as shown in the above table includes the profit for the year of the group companies included pursuant to the Austrian Company Code/Austrian Banking Act in the amount of TEUR 31,316.7 (2017: TEUR 11,159.3), which is retained in its entirety and leads to an increase in total capital (in 2017, the proposed dividend of TEUR 11,500.0 led to a reduction in total capital).

C.2. Regulatory own funds of Kommunalkredit Austria AG

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

Basis for calculation in EUR 1,000	pursuant to Art. 92 CRR 31/12/2018	pursuant to Art. 92 CRR 31/12/2017
Total exposure amount pursuant to Art. 92 CRR	**1,334,717.6**	**992,393.5**
of which credit risk	*1,210,502.1*	*874,843.9*
of which operational risk	*106,315.9*	*99,943.4*
of which CVA charge	*17,779.0*	*17,502.1*
of which default fund of a qualifying counterparty	*120.5*	*104.2*

Own funds – Actual in EUR 1,000 or %	31/12/2018	31/12/2017
Common equity tier 1 after deductible items (CET 1)	265,454.1	232,963.8
Additional tier 1 capital after deductible items	58,287.2	64,195.6
Eligible own funds (tier 1 and tier 2)	**323,741.3**	**297,159.4**
Total capital ratio	24.3%	29.9%
Common equity tier 1 ratio	19.9%	23.5%

Eligible own funds, as shown in the above table, include the 2018 profit for the year reported in the separate financial statements of Kommunalkredit Austria AG pursuant to the Austrian Company Code/Austrian Banking Act in the amount of TEUR 30,409.3 (2017: TEUR 18,865.8), which is retained in its entirety and leads to an increase in total capital (the dividend proposed in 2017 in the amount of TEUR 11,500.0 led to a reduction in total capital).

INCOME STATEMENT DISCLOSURES OF THE KOMMUNALKREDIT GROUP

43. Net Interest Income

Net interest income in EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Interest income and income similar to interest income	**173,381.00**	**158,056.5**
Interest income from loans and advances to banks	1,251.5	1,980.2
Interest income from loans and advances to customers*	85,499.9	54,860.9
Interest income from derivatives	66,497.5	65,982.3
Interest income from maturing derivatives in the portfolio hedge	9,542.3	0.0
Interest income from assets available for sale	0.0	6,001.2
Interest income from assets at fair value through other comprehensive income	9,881.8	0.0
Interest income from other assets and changes in estimates	707.9	125.2
Income similar to interest income	0.0	29,106.7
Interest expenses and expenses similar to interest expenses	**-120,664.9**	**-121,917.1**
Interest expenses for amounts owed to banks	-1,903.2	-1,943.9
Interest expenses for amounts owed to customers	-17,948.7	-15,199.9
Interest expenses for derivatives	-52,972.4	-31,816.4
Interest expenses for securitised liabilities	-41,204.3	-44,362.2
Interest expenses for subordinated capital	-2,674.8	-2,674.5
Interest expenses for other liabilities and changes in estimates	-1,023.2	0.0
Expenses similar to interest expenses	-2,938.1	-25,920.2
Net interest income	**52,716.1**	**36,139.4**

*2017 resulting from interest income from loans and advances to customers and assets at fair value through profit and loss.

Net interest income amounts to TEUR 52,716.1 (1/1-31/12/2017: TEUR 36,139.4). The significant increase over the previous year's level results, one the one hand, from the growing contribution of new business to net interest income of TEUR 23,735.0 (2017: TEUR 7,922.5) and, on the other hand, to TEUR 9,542.3 from the interest-related maturing effect of derivatives serving as hedging instruments in the portfolio hedge implemented on 1 January 2018 (under IAS 39 these effects were recognised in the net treading and valuation result). Negative interest on credit balances with the Austrian National Bank (OeNB) and interest on other borrowings from credit institutions reduced the 2018 net interest income by TEUR 1,867.1 (31/12/2017: TEUR 1,428.3). The corresponding interest expense is shown in the above table under "Interest expenses for amounts owed to banks".

Financial instruments not measured at fair value through profit or loss resulted in interest income of TEUR 106,883.5 (1/1-31/12/2017: TEUR 56,841.1) and interest expenses of TEUR 64,754.4 (1/1-31/12/2017: TEUR 64,180.5).

Financial assets which were reclassified from measured at fair value through profit or loss in the course of the transition to IFRS 9 carried effective interest at a rate of 3.01% at the time of first adoption of the new standard, and interest income of TEUR 23,055.6 was recognised in 2018 either under “Interest income from loans and advances to customers” or under “Interest income from assets at fair value through other comprehensive income” in the above table, depending on the classification according to IFRS 9.

Interest income and interest expenses are recognised according to the accruals concept. Kommunalkredit uses derivatives mainly to hedge the risk of interest rate changes and/or currency risks. Interest income and expenses are shown as gross amounts, broken down by incoming and outgoing payments.

44. Net Fee and Commission Income

Net fee and commission income in EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Fee and commission income	**19,857.3**	**18,135.7**
Management of support programmes and consultancy business	15,226.3	15,962.4
Lending business	3,058.9	1,316.0
Other service business	1,572.1	857.3
Fee and commission expenses	**-1,390.3**	**-877.4**
Lending business	-451.3	-196.0
Securities business	-541.4	-488.2
Money and FX trading	-199.6	-193.1
Other service business	-198.0	0.0
Net fee and commission income	**18,467.1**	**17,258.3**

Net fee and commission income in the amount of TEUR 18,467.1 (1/1-31/12/2017: TEUR 17,258.3) primarily includes revenues of TEUR 15,226.3 (1/1-31/12/2017: TEUR 15,962.4) generated by Kommunalkredit Public Consulting GmbH (KPC) through its management of support programmes and its consultancy business. Fee and commission income from the lending business increased to TEUR 3,058.9 in 2018 (1/1-31/12/2017: TEUR 1,316.0) and primarily includes fees from new lending business as well as management and guarantee fees. Arrangements fees of TEUR 12,407.7 (2017: TEUR 8,991.2) received for new business transactions closed in 2018 are booked at constant effective interest over the term of the underlying loans and recognised in net interest income.

Fee and commission expenses included TEUR -451.3 (1/1-31/12/2017: TEUR -196.0) from the lending business, TEUR -541.4 (1/1-31/12/2017: TEUR -488.2) from the securities business and TEUR -199.6 (1/1-31/12/2017: TEUR -193.1) from money and FX trading. All fee and commission income and expenses are recognised according to the accruals concept.

45. Net Provisions for Credit Loss

Net provisions for credit loss in EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Development of expected losses of stage 1 according to IFRS 9.5.5	-724.9	0.0
Development of expected losses of stage 2 according to IFRS 9.5.5	25.6	0.0
Development of portfolio allowance according to IAS 39.64	0.0	-300.4
Total	**-699.3**	**-300.4**

Net provisions for credit loss in 2018 came to TEUR -699.3 (1/1-31/12/2017: TEUR -300.4) and exclusively concerned the development of expected credit losses according to IFRS 9. As in the previous year, no specific loan loss provisions were set up and no credit defaults occurred in 2018. The non-performing-loan ratio remains at 0.0%. For details on the development of risk provisions, see Notes 8 and 25.

As of 31 December 2018, the total of expected credit losses according to IFRS 9 amounted to TEUR -2,101.9, of which TEUR -1,070.9 were set up for loans and securities measured at amortised cost and reduced the book value accordingly (see Notes 23 and 24). A provision of TEUR -803.5 was set up for expected credit losses from loans and securities measured at fair value through other comprehensive income (see Note 26). A provision of TEUR -198.7 was set up for expected losses from credit commitments (see Note 39). Moreover, an amount of TEUR -28.9 was booked for expected credit losses from other financial assets and trade receivables.

46. General Administrative Expenses

General administrative expenses in EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Personnel expenses	**-34,989.7**	**-36,064.3**
Salaries	-27,525.1	-27,163.7
Statutory social security contributions	-5,671.3	-6,329.1
Voluntary social security contributions	-849.1	-754.0
Expenses for pensions and employee benefits	-944.2	-1,817.6
Other administrative expenses	**-17,553.4**	**-18,104.0**
Depreciation, amortisation and impairment of	**-1,580.9**	**-1,779.9**
intangible assets	-141.0	-221.3
property, plant and equipment	-1,440.0	-1,558.6
Total	**-54,124.0**	**-55,948.3**

General administrative expenses declined by TEUR 1,824.3 to TEUR 54,124.0 in the reporting period (1/1-31/12/2017: TEUR 55,948.3). The reduction is primarily due to lower expenses as a result of the efficiency programme for the improvement of operational processes implemented in the previous year.

Personnel expenses declined by TEUR 1,074.6 or 3.0% to TEUR 34,989.7 in 2018 (1/1-31/12/2017: TEUR 36,064.3). Expenses for pensions and employee benefits comprise TEUR 715.2 (2017: TEUR 712.2) for defined-benefit pension plans (contributions to the pension plan based on collective bargaining agreement) and TEUR 293.8 (2017: TEUR 297.4) for contributions to company pension funds.

Other administrative expenses include the following items:

Other administrative expenses in EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Third-party services	-6,836.3	-7,627.9
Consulting and auditing fees	-2,517.8	-2,120.6
IT	-2,284.9	-2,096.5
Public relations and advertising	-1,882.8	-1,645.0
External news services	-1,009.0	-1,411.3
Headhunting and personnel development	-545.5	-445.5
Rating	-283.1	-448.1
Other non-personnel administrative expenses	-2,193.9	-2,309.1
Sum-total of other administrative expenses	**-17,553.4**	**-18,104.0**

Other administrative expenses declined by TEUR 550.7 from the previous year's level and came to TEUR 17,553.4 (2017: TEUR 18,104.0). Expenses for third-party services dropped by TEUR -791.6 (the higher amount in 2017 was due to the implementation of the online platform KOMMUNALKREDIT INVEST) and expenses for external news services were reduced by TEUR -402.4.

Auditing fees counting towards the reporting period came to a total of TEUR 283.4 (1/1-31/12/2017: TEUR 192.9). The amount includes TEUR 99.6 (1/1-31/12/2017: TEUR 53.1) for the audit of the separate financial statements, TEUR 40.4 (1/1-31/12/2017: TEUR 32.1) for the audit of the consolidated financial statements, and TEUR 143.4 (1/1-31/12/2017: TEUR 107.8) for other audit services. Fees for non-audit services provided by the auditor amounted to TEUR 113.9 in 2018 (1/1-31/12/2017: TEUR 174.1).

47. Bank Resolution Fund

In 2018, Kommunalkredit's contribution to the European Bank Resolution Fund amounted to TEUR 1,571.0 (1/1-31/12/2017: TEUR 949.5).

48. Other Operating Result

Other operating result in EUR 1,000	1/1-31/12/2018	1/1-31/12/ 2017
Other operating income	**9,289.8**	**12,531.6**
Income from services provided for KA Finanz AG	8,601.5	12,105.8
Other operating income	688.3	425.8
Other operating expenses	**-1,026.7**	**-1,282.8**
Bank stability tax	-575.6	-675.6
Other	-451.0	-607.3
Total	**8,263.1**	**11,248.7**

Kommunalkredit acts as a service provider for the banking operations of KA Finanz AG (KF). The services to be provided are defined in a service agreement and a service level agreement. In 2018, an amount of TEUR 8,601.5 (1/1-31/12/2017: TEUR 12,105.8) was invoiced to KF for services rendered.

Other operating expenses mainly include the stability tax payable by Austrian banks in the amount of TEUR -575.6 (1/1-31/12/2017: TEUR -675.6).

49. Restructuring Expenses

After a call for tenders in the second quarter of 2018, KA Finanz AG decided to award the contract for services, previously provided by Kommunalkredit under a service agreement and a service level agreement, to another group of bidders. For good order's sake, Kommunalkredit terminated the service agreement as of 31 March 2019. As of 31 December 2018, Kommunalkredit set up a restructuring provision of TEUR 2,500.0 for capacity adjustments in the wake of termination of the service agreement; in particular, the provision takes voluntary expenses for employees into account, which are expected within the framework of a company agreement on the reconciliation of interests concluded between the bank and the staff council.

50. Net Trading and Valuation Result

The net trading and valuation result of the financial year 2018 was positive at TEUR 11,863.2 (1/1-31/12/2017: TEUR 2,144.9) and comprised the following items:

in EUR 1,000	1/1-31/12/2018	1/1-31/12/ 2017
a) Result from financial instruments measured at fair value through P&L	**662.1**	**-197.8**
a1) of which loans (IAS 39: Fair value option)	*0.0*	*-26,389.9*
a2) of which interest and currency hedging derivatives	*662.1*	*26,192.0*
b) Result from early redemption of own issues and from the placement and measurement of assets	**11,837.3**	**3,637.8**
c) Valuation result from fair value hedge	**-270.4**	**-1,304.4**
c1) of which interest rate derivatives	*-19,111.6*	*50,793.8*
c2) of which underlying instruments	*18,841.2*	*-52,098.2*
d) Valuation result from portfolio hedge	**129.8**	**0.0**
d1) of which interest rate derivatives	*-2,744.1*	*0.0*
d2) of which underlying instruments (Layer)	*2,873.8*	*0.0*
e) Result from modifications	**-506.7**	**0.0**
e1) of which income from modifications	*147.4*	*0.0*
e2) of which expenses from modifications	*-654.1*	*0.0*
f) Foreign currency valuation	**11.0**	**9.4**
Total	**11,863.2**	**2,144.9**

50.1. Result from financial instruments measured at fair value through P&L

According to IFRS 9 rules, the result from financial instruments measured at fair value through profit or loss exclusively comprises the valuation of interest and currency hedging derivatives.

Under IAS 39 rules, Kommunalkredit designated assets as belonging to this category in order to avoid incongruences arising when gains and losses are not measured or recognised on the same accounting basis (accounting mismatch) and/or when financial assets are managed, measured and reported to the management on a fair value basis. Under IFRS 9, Kommunalkredit does not elect to use the fair value option for financial assets or liabilities for the time being.

Financial assets which were recognised under IAS 39 at fair value through profit or loss and are now measured either at fair value through other comprehensive income or at amortised cost, represented a cumulative fair value of TEUR 118,321.4 as at 31 December 2018. In the absence of reclassification, the result from changes in the fair value of these financial instruments amounting to TEUR -8,395.0 would have been recognised through profit or loss. Under IFRS 9, the related interest hedging derivatives, which offset this change in fair value, are now in portfolio hedges, as described in Note 50.4.

50.2. Gains/losses realised through the redemption/buyback of own issues and the placement and measurement of assets

The buyback/early redemption of own issues (securitised liabilities) and the closure of the related derivatives resulted in gains of TEUR 11,331.8 in 2018 (1/1-31/12/2017: TEUR 5,317.1). Moreover, this item also comprises other gains/losses from the placement and/or measurement assets in the amount of TEUR 505.5 (1/1-31/12/2017: TEUR -498.3).

50.3. Measurement result from the fair value hedge

The measurement result from the fair value hedge shows the ineffectiveness of the hedges accounted for by Kommunalkredit. For details on hedge accounting and the measurement of hedge effectiveness, see Note 12.

50.4. Measurement result from the portfolio hedge

In the course of first-time adoption of IFRS 9 and the reclassification of financial assets as at 1 January 2018, a portfolio hedge based on IAS 39 rules was implemented. On the basis of IFRS 9 rules, loans which were previously recognised at fair value through profit or loss according to IAS 39 are now measured at amortised cost or at fair value through other comprehensive income. In order to continue to offset changes in the value of the underlying hedging derivatives through value adjustments of the underlying transactions in the income statement, Kommunalkredit defined portfolio fair value hedges for risks of interest rate changes as of 1 January 2018. The measurement result from the portfolio hedge reveals the ineffectiveness of the hedges formed and accounted for. For details on hedge accounting and the measurement of effectiveness, see Note 12.

50.5. Result from modifications

The result from modifications comprises income and expenses resulting from contractual amendments to cash flows. In 2018, these were exclusively market-induced, non-substantial modifications, which produced an effect of TEUR 506.7 (1/1-31/12/2017: TEUR 0.0).

50.6. Result of the held-for-trading portfolio according to IFRS (interest rate derivatives; foreign currency measurement)

It is Kommunalkredit's business strategy not to engage in any activities with the intention to trade. According to IFRS, the result from the measurement of derivatives, by definition, is to be recognised in the held-for-trading portfolio. However, for Kommunalkredit these are not trading positions, but economic hedges.

According to IFRS definitions, the result of the held-for-trading portfolio amounts to TEUR 673.4 (1/1-31/12/2017: TEUR 26,201.4) and includes the following components shown in the table above:

- a2) Interest rate derivatives (trading) in the amount of TEUR 662.1 (1/1-31/12/2017: TEUR 26,192.0)

- f) Foreign currency measurement in the amount of TEUR 11.0 (1/1-31/12/2017: TEUR 9.4)

51. Taxes on Income

Taxes on income in EUR 1,000	1/1-31/12/2018	1/1-31/12/ 2017
Current tax expense	-156.2	-514.4
Deferred tax expense/income	-18,107.1	11,517.8
Total	**-18,263.3**	**11,003.4**

The current tax expense is calculated on the basis of the taxable profit of the business year at the local tax rate applicable to the Group companies concerned (as in the previous year, all Group companies are subject to the Austrian corporate income tax rate of 25%).

Deferred tax expenses amounted to TEUR -18,107.1 in 2018 (1/1-31/12/2017: deferred tax income TEUR 11,517.8). The expense resulted from changes in temporary differences between the tax base and IFRS book values and from changes in capitalised tax loss carryforwards. As at 31 December 2018, capitalised tax loss carryforwards amounted to TEUR 14,276.1 (31/12/2017: TEUR 31,394.0). The reduction by TEUR 17,117.9, as compared to the previous year, resulted from the use of capitalised tax loss carryforwards in the amount of TEUR 7,610.0 (1/1-31/12/2017: TEUR -4,001.6) and the depreciation of capitalised tax loss carryforwards on the basis of current tax budgeting by TEUR 9,507.8. Following the formation of a tax group pursuant to § 9 of the Corporate Income Tax Act in 2016 with Satere Beteiligungsverwaltungs GmbH as the group parent (for details see Note 19), tax loss carryforwards from periods before the effective date of the group (pre-group losses) can be offset by Kommunalkredit without limitation up to the amount of its own profit.

Deferred tax income does not contain any amounts based on changes in tax rates or new taxes. The following reconciliation shows the relation between expected and reported taxes on income:

Tax reconciliation table in EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Profit for the year before tax	**32,585.7**	**7,051.4**
Expected tax expense/tax income in the financial year at the Austrian income tax rate (25%)	-8,146.4	-1,762.9
Decrease of tax expense due to tax-exempt income from associates	48.0	40.3
Decrease of tax expense due to other tax-exempt income	0.0	5.6
Increase of tax expense due to non-deductible items	-604.9	-489.4
Aperodic tax expense	0.0	-256.2
Depreciation/capitalisation of tax loss carryforward	-9,571.5	13,477.8
Other	11.5	-11.7
Taxes on income	**-18,263.3**	**11,003.5**

OTHER DISCLOSURES

52. Significant Events after the Balance Sheet Date

Jörn Engelmann resigned from the Executive Board of Kommunalkredit as of 31 January 2019, date of expiry of his executive board contract. Since 1 February 2019, the Executive Board of the bank has consisted of Bernd Fislage (CEO) and Jochen Lucht (CFO/CRO/COO).

53. Breakdown of Revenues by Region

Kommunalkredit operates primarily in the field of municipal and infrastructure-related project business. The bank's activities are concentrated in a single business segment, the results of which are reported regularly to the Executive Board and the Supervisory Board by way of the consolidated financial statements prepared according to IFRS. The disclosures relating to the business segment are presented in the balance sheet and the income statement of the Group. Reconciliation is therefore not required.

Information on geographic regions for the year under review, broken down into net interest income and net fee and commission income, is shown in the following table (for addition information on the geographic breakdown of the loan volume, see Note 65.5.4 Economic country risk).

Presentation of revenues by region (registered office of counterparty) 2018 in EUR 1,000	Austria	Europe	Rest of the world	Total
Interest and similar income	109,631.4	61,193.4	2,556.2	173,381.0
Interest and similar expenses	-88,852.7	-30,604.3	-1,207.8	-120,664.9
Net interest income	**20,778.7**	**30,589.0**	**1,348.4**	**52,716.1**
Net fee and commission income	**10,966.1**	**7,570.9**	**-69.9**	**18,467.1**

The comparative figures for the period from 1 January 2017 to 31 December 2017 are as follows:

Presentation of revenues by region (registered office of counterparty) 2017 in EUR 1,000	Austria	Europe	Rest of the world	Total
Interest and similar income	108,020.9	48,622.7	491.3	157,134.9
Interest and similar expenses	-76,524.6	-45,460.8	68.3	-121,917.1
Net interest income	**31,496.3**	**3,161.9**	**559.6**	**35,217.8**
Net fee and commission income	**12,224.7**	**5,033.0**	**0.6**	**17,258.3**

54. Breakdown by Residual Maturity

Residual maturity is defined as the period between the balance sheet date and the contractual due date of the receivable or liability; for partial amounts, residual maturity is shown separately for each part. Interest accruals are recognised under "up to 3 months".

Cash collateral is shown under "repayable on demand" (daily payment terms).

For details on liquidity risk management, see Note 65.6. (Risk Management).

The breakdown of the book values of material asset and liability items by residual maturity as at 31 December 2018 is as follows:

Assets by residual maturity as at 31/12/2018 in EUR 1,000	Repayable on demand	up to 3 months	3 months up to 1 year	1 to 5 years	more than 5 years	Total
Cash and cash equivalents	314,408.9	0.0	0.0	0.0	0.0	**314,408.9**
Loans and advances to banks	83,777.1	467.2	0.0	18,627.3	115,689.9	**218,561.5**
Loans and advances to customers	102,770.3	26,294.8	81,580.3	904,774.9	854,217.6	**1,969,637.9**
Assets at fair value through OCI	42.4	33,830.2	45,400.8	452,506.4	647,159.8	**1,178,939.7**
Other assets	6,513.3	0.0	0.0	20.0	507.5	**7,040.8**
Total[1]	**507,512.0**	**60,592.2**	**126,981.2**	**1,375,928.6**	**1,617,574.8**	**3,688,588.8**

Liabilities by residual maturity as at 31/12/2018 in EUR 1,000	Repayable on demand	up to 3 months	3 months up to 1 year	1 to 5 years	more than 5 years	Total
Amounts owed to banks	104,584.9	1,016.3	5,861.2	380,193.6	3,913.0	**495,569.2**
Amounts owed to customers	157,955.5	198,931.7	474,799.7	236,339.6	388,446.5	**1,456,472.9**
Securitised liabilities	0.0	23,895.5	88,799.5	744,423.6	538,935.0	**1,396,053.7**
Subordinated liabilities	0.0	2,894.1	0.0	27,525.0	38,655.3	**69,074.4**
Other liabilities	6,904.1	-3.5	7,664.9	3,935.9	297.6	**18,798.9**
Total[1]	**269,444.4**	**226,734.1**	**577,125.3**	**1,392,417.8**	**970,247.4**	**3,435,969.0**

[1] The table only shows material asset and liability items; the total therefore does not correspond to the bank's total assets.

Breakdown by residual maturity as at 31 December 2017:

Assets by residual maturity as at 31/12/2017 in EUR 1,000	Repayable on demand	up to 3 months	3 months up to 1 year	1 to 5 years	more than 5 years	Total
Cash and balances with central banks	318,109.1	0.0	0.0	0.0	0.0	**318,109.1**
Loans and advances to banks	101,809.8	10.0	0.0	38,377.8	0.0	**140,197.5**
Loans and advances to customers	97,213.9	95,812.7	102,063.4	836,181.1	960,608.6	**2,091,879.7**
Assets at fair value through profit or loss	0.0	23,356.2	28,816.4	202,318.0	351,240.5	**605,731.1**
Assets available for sale	0.0	3,867.0	107,860.8	1,989.7	97,846.8	**211,564.2**
Other assets	7,193.3	80.6	86.4	727.9	1,282.3	**9,370.4**
Total[1]	**524,326.1**	**123,126.5**	**238,827.0**	**1,079,594.4**	**1,410,978.1**	**3,376,852.1**

Liabilities in EUR 1,000	Repayable on demand	up to 3 months	3 months up to 1 year	1 to 5 years	more than 5 years	Total
Amounts owed to banks	114,768.3	21,004.5	5,850.2	386,867.4	4,347.8	**532,838.2**
Amounts owed to customers	212,325.1	163,051.0	242,330.9	110,650.9	309,644.1	**1,038,002.0**
Securitised liabilities	0.0	17,743.3	21,853.4	766,617.9	662,367.5	**1,468,582.1**
Subordinated liabilities	0.0	2,527.3	0.0	28,236.2	38,158.7	**68,922.1**
Other liabilities	7,244.1	82.3	7,218.2	3,565.3	748.0	**18,857.9**
Total[1]	**334,337.5**	**204,408.4**	**277,252.7**	**1,295,937.7**	**1,015,266.1**	**3,127,202.3**

[1] The table only shows material asset and liability items; the total therefore does not correspond to the bank’s total assets.

55. Classes of Financial Instruments

For a definition of the classes of financial instruments, see Note 13.

The following table shows the book values and the fair values of the classes of financial instruments and financial liabilities, as defined by Kommunalkredit, and their reconciliation to the individual balance sheet items:

Classes IFRS 9: 31/12/2018 in EUR million	Cash and cash equivalents	At fair value through P&L: held for trading[1]	At fair value through P&L: mandatory	At fair value through P&L: fair value option	Assets at amortised cost	At fair value through OCI	Liabilities at amortised cost	Derivatives designated as hedging instruments	Book value	Fair value
Cash and cash equivalents	314.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	314.4	314.4
Loans and advances to banks	0.0	0.0	0.0	0.0	218.6	0.0	0.0	0.0	218.6	214.1
Loans and advances to customers	0.0	0.0	0.0	0.0	1,969.6	0.0	0.0	0.0	1,969.6	2,043.4
Assets at fair value through OCI	0.0	0.0	0.0	0.0	0.0	1,178.9	0.0	0.0	1,178.9	1,178.9
Derivatives	0.0	22.7	0.0	0.0	0.0	0.0	0.0	198.2	220.9	220.9
Amounts owed to banks	0.0	0.0	0.0	0.0	0.0	0.0	495.6	0.0	495.6	495.4
Amounts owed to customers	0.0	0.0	0.0	0.0	0.0	0.0	1,456.5	0.0	1,456.5	1,419.9
Derivatives	0.0	39.1	0.0	0.0	0.0	0.0	0.0	161.9	201.0	201.0
Securitised liabilities	0.0	0.0	0.0	0.0	0.0	0.0	1,396.1	0.0	1,396.1	1,369.2
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	69.1	0.0	69.1	59.5

[1] These are interest rate swaps and FX forward transactions concluded, in particular, to hedge interest rate and FX risks. The bank has no proprietary trading portfolio.

The previous year's figures are as follows:

Classes IAS 39: 31/12/2017 in EUR million	Cash and cash equivalents	At fair value through P&L: held for trading[1]	At fair value through P&L: fair value option	Loans and receivables: Loans and advances to banks	Loans and receivables: Loans and advances to customers	Available for sale	Liabilities at amortised cost	Derivatives designated as hedging instruments	Book value	Fair value
Cash and cash equivalents	318.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	318.1	318.1
Loans and advances to banks	0.0	0.0	0.0	140.2	0.0	0.0	0.0	0.0	140.2	139.8
Loans and advances to customers	0.0	0.0	0.0	0.0	2,091.9	0.0	0.0	0.0	2,091.9	2,195.1
Assets at fair value through profit or loss	0.0	0.0	605.7	0.0	0.0	0.0	0.0	0.0	605.7	605.7
Assets available for sale	0.0	0.0	0.0	0.0	0.0	211.6	0.0	0.0	211.6	211.6
Derivatives	0.0	10.8	0.0	0.0	0.0	0.0	0.0	221.8	232.6	232.6
Amounts owed to banks	0.0	0.0	0.0	0.0	0.0	0.0	532.8	0.0	532.8	532.9
Amounts owed to customers	0.0	0.0	0.0	0.0	0.0	0.0	1,038.0	0.0	1,038.0	997.7
Derivatives	0.0	167.3	0.0	0.0	0.0	0.0	0.0	77.4	244.7	244.7
Securitised liabilities	0.0	0.0	0.0	0.0	0.0	0.0	1,468.6	0.0	1,468.6	1,421.2
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	68.9	0.0	68.9	58.4

[1] These are interest rate swaps and FX forward transactions concluded, in particular, to hedge interest rate and FX risks. The bank has no proprietary trading portfolio.

The fair values of securities and loans are determined according to the method and hierarchy described in Note 11 in conjunction with Note 64. To determine the fair values of other financial instruments not measured at fair value, maturity-, rating- and instrument-specific measurement parameters, in combination with prevailing measurement methods, are used.

The maximum risk of default by class of financial instruments corresponds to the book values shown in the table. The maximum risk of default of financial guarantees and irrevocable credit commitments corresponds to a nominal value of TEUR 5,129.5 (31/12/2017: TEUR 6,291.1) and TEUR 215,407.4 (31/12/2017: TEUR 135,370.9), respectively.

56. Book Values by Measurement Category

According to IFRS 9 measurement categories, the book values of Kommunalkredit's financial assets and liabilities are as follows:

in EUR 1,000	31/12/2018
Assets	
Amortised cost	2,502,608.3
Fair value through other comprehensive income	1,178,939.7
Fair value through profit or loss[1]	220,886.0
in EUR 1,000	**31/12/2018**
Liabilities	
Amortised cost	3,417,170.2
Fair value through profit or loss[1]	200,976.4

[1] These are interest rate swaps and FX forward transactions concluded, in particular, to hedge interest rate and FX risks. The bank has no proprietary trading portfolio.

According to IAS 39 measurement categories, the previous year's book values of Kommunalkredit's financial assets and liabilities are as follows:

in EUR 1,000	31/12/2017
Assets	
Loans and receivables	2,550,186.3
Fair value option	605,731.1
Interest rate derivatives (trading)	232,616.8
Available for sale	211,564.2
in EUR 1,000	**31/12/2017**
Liabilities	
Amortised cost	3,108,344.4
Interest rate derivatives (trading)	244,709.4

57. Subordinated Assets

As at 31 December 2018, Kommunalkredit held subordinated assets of TEUR 10,646.8 (31/12/2017: TEUR 0.0), which were recognised in loans and advances to customers.

58. Assets Assigned as Collateral

58.1. Collateralised derivatives

As regards collateralised derivatives, a distinction is made between bilateral and cleared derivative contracts.

Pursuant to Regulation (EU) 2016/2251, which entered into force on 1 March 2017, bilateral derivative contracts are subject to a collateralisation requirement. Kommunalkredit complies with all requirements arising in this context. Based on ISDA/CSA arrangements and/or Austrian and German framework contracts/collateral annexes, exclusively cash and cash equivalents (cash collateral) were deposited as collateral by Kommunalkredit with counterparties and/or received by Kommunalkredit from counterparties as at 31 December 2018. The positive and negative present values, calculated by counterparty, are offset against one another and the resulting aggregate net present value of the portfolio, taking collateral parameters into account (threshold, minimum transfer amount), is put up or called by the respective counterparty.

Kommunalkredit uses the services of the London Clearinghouse (LCH) as the central counterparty via two clearing brokers. Initial and variation margins are exchanged for cleared derivative contracts.

Offsetting of all payment claims from the market values of derivatives and the repayment of collateral is not possible, except in the event of counterparty default. There is no unconditional right of offset.

58.2. Collateralised funding

- Kommunalkredit has assigned loans as collateral for global loans and other funding received from the European Investment Bank in Luxembourg. The collateral taker has the right to realise the collateral only in the event of the debtor's default.
- For covered bonds issued by Kommunalkredit, loans and securities were assigned to a cover pool which can only be drawn on with the approval of a government commissioner.

- For funding obtained through participation in the ECB tender, assets were provided as collateral as at 31 December 2018, which the collateral taker has the right to realise only in the event of the debtor's default.

The following table shows the book values of derivatives and funding received and the corresponding financial collateral, broken down by balance sheet item. As none of the transactions meet the prerequisites for offsetting according to IAS 32.42, they are shown on the balance sheet in gross amounts.

Book values 31/12/2018 in EUR 1,000	Fair value of collateralised derivative	Funding received (-)	Collateral received (-) and provided (+) in the form of financial instruments	Total
Market values of derivatives according to ISDA/CSA arrangements and/or in central clearing	**20,114.1**		**-5,576.1**	**14,538.0**
Derivatives (positive market value)	206,047.1			
Derivatives (negative market value)	-185,933.1			
Loans and advances to banks			56,490.0	
Loans and advances to customers			102,520.2	
Amounts owed to banks			-104,584.9	
Amounts owed to customers			-60,001.3	
European Investment Bank		**-59,763.0**	**72,141.1**	**12,378.1**
Amounts owed to banks		-59,763.0		
Loans and advances to banks			31,615.0	
Loans and advances to customers			40,526.1	
Covered bond issues		**-1,135,843.3**	**1,254,719.8**	**118,876.5**
Securitised liabilities		-1,028,732.8		
Collateral for KA Finanz AG's liability arising from the demerger*		-107,110.5		
Loans and advances to customers			739,765.4	
Assets at fair value through OCI			442,579.3	
Derivatives (positive market value)			75,250.9	
Derivatives (negative market value)			-2,875.7	
ECB tender		**-311,162.1**	**376,817.5**	**65,655.3**
Amounts owed to banks		-311,162.1		
Loans and advances to banks			6,532.5	
Loans and advances to customers			365,357.6	
Assets at fair value through OCI			4,927.4	
Other		**-23,239.1**	**27,748.1**	**4,509.0**
Amounts owed to banks		-17,053.0		
Securitised liabilities		-6,186.2		
Loans and advances to customers			26,974.3	
Assets at fair value through OCI			773.7	
Total	**20,114.1**	**-1,530,007.5**	**1,725,850.4**	**215,956.9**

* Not recognised on the balance sheet.

The comparative figures as at 31 December 2017 are as follows:

Book values 31/12/2017 in EUR 1,000	Fair value of collateralised derivative	Funding received (-)	Collateral received (-) and provided (+) in the form of financial instruments	Total
Market values of derivatives according to ISDA/CSA arrangements and/or in central clearing	**-11,255.2**		**24,509.3**	**13,254.1**
Derivatives (positive market value)	218,326.6			
Derivatives (negative market value)	-229,581.8			
Loans and advances to banks			87,362.2	
Loans and advances to customers			97,079.0	
Amounts owed to banks			-96,216.0	
Amounts owed to customers			-63,715.8	
European Investment Bank	**0.0**	**-62,209.4**	**68,719.1**	**6,509.7**
Amounts owed to banks		-62,209.4		
Assets available for sale			68,719.1	
Covered bond issues	**0.0**	**-1,123,636.9**	**1,382,330.5**	**258,693.6**
Securitised liabilities		-1,016,529.4		
Collateral for KA Finanz AG's liability arising from the demerger		-107,107.5		
Loans and advances to customers			792,641.2	
Assets at fair value through profit or loss*			516,813.5	
Derivatives (positive market value)			76,662.7	
Derivatives (negative market value)			-3,787.0	
ECB tender	**0.0**	**-312,431.8**	**346,287.3**	**33,855.5**
Amounts owed to banks		-312,431.8		
Loans and advances to customers			295,045.5	
Assets available for sale			51,241.8	
Other	**0.0**	**-25,292.4**	**30,444.8**	**5,152.4**
Amounts owed to banks		-18,929.9		
Securitised liabilities		-6,362.5		
Loans and advances to customers			30,266.5	
Assets at fair value through profit or loss			178.3	
Total	**-11,255.2**	**-1,523,570.5**	**1,852,291.0**	**317,465.4**

* Not recognised on the balance sheet.

58.3. Collateral provided for the liability of KA Finanz AG arising from the demerger

As collateral for the liability arising from the demerger for KA Finanz AG, which is liable jointly and severally with Kommunalkredit for the obligations which arose prior to the entry of the demerger in the Companies Register on 26 September 2015 and were transferred to Kommunalkredit. Kommunalkredit issued a covered bond with a nominal value of TEUR 107,000.0 and pledged it to KA Finanz AG. As the covered bond was not placed on the market, it is not recognised as a liability on the balance sheet.

59. Contingent Liabilities

Contingent liabilities comprise sureties and guarantees from the lending business in a nominal amount of TEUR 5,129.5 (31/12/2017: TEUR 6,291.1). The residual maturities are as follows:

Residual maturity in EUR 1,000	31/12/2018	31/12/2017
Up to 1 year	0.0	136.1
1 to 5 years	3,369.0	4,392.1
More than 5 years	1,760.4	1,762.9
Total	**5,129.5**	**6,291.1**

A future outflow of funds from contingent liabilities is considered unlikely.

60. Other Off-Balance-Sheet Liabilities

As at 31 December 2018, the nominal value of loan commitments and unused lines was TEUR 215,407.4 (31/12/2017: TEUR 135,370.9). The residual maturities are as follows:

Residual maturity in EUR 1,000	31/12/2018	31/12/2017
Up to 1 year	68,243.3	34,890.6
1 to 5 years	130,566.3	93,451.2
More than 5 years	16,597.7	7,029.1
Total	**215,407.4**	**135,370.9**

Moreover, Kommunalkredit holds in trust and manages in its own name financial instruments with a nominal value of TEUR 432,671.2 (31/12/2017: TEUR 435,246.0) at third parties’ risk and cost.

61. Derivative Financial Instruments

Kommunalkredit uses derivatives primarily to hedge interest rate and/or currency risks. The structure of open derivative financial transactions is as follows:

31/12/2018 in EUR 1,000	Nominal as at 31/12/2018			Nominal Total 2018	Positive fair value	Negative fair value
	Residual maturity					
	up to 1 year	1-5 years	more than 5 years			
Interest-related transactions	**132,746.1**	**1,047,084.8**	**1,867,978.2**	**3,047,809.2**	**204,144.9**	**-193,803.4**
OTC products						
Interest rate swaps – trading*	66,746.1	0.0	182,033.2	248,779.3	6,859.2	-37,637.7
Interest rate swaps – fair value hedge	41,000.0	952,084.8	1,282,705.6	2,275,790.4	197,221.6	-83,095.4
Interest rate swaps – portfolio hedge	25,000.0	95,000.0	403,239.4	523,239.4	64.2	-73,070.3
Currency-related transactions	**798,049.7**	**0.0**	**0.0**	**798,049.7**	**16,741.0**	**-7,173.1**
OTC products						
FX forwards	712,775.1	0.0	0.0	712,775.1	14,379.4	-1,327.3
Cross-currency swaps – trading*	55,895.3	0.0	0.0	55,895.3	1,412.3	-106.4
Cross-currency swaps – fair value hedge	29,379.4	0.0	0.0	29,379.4	949.4	-5,739.3
Total	**930,795.8**	**1,047,084.8**	**1,867,978.2**	**3,845,858.9**	**220,886.0**	**-200,976.4**

* Interest rate and/or currency swaps concluded to hedge interest rate and FX risks, not accounted for as hedges within the framework of IFRS 9. The bank has no proprietary trading portfolio.

31/12/2017 in EUR 1,000	Nominal as at 31/12/2017			Nominal Total 2017	Positive fair value	Negative fair value
	Residual maturity					
	up to 1 year	1-5 years	more than 5 years			
Interest-related transactions	**170,056.1**	**1,085,242.3**	**1,816,428.1**	**3,071,726.5**	**231,392.0**	**-205,016.7**
OTC products						
Interest rate swaps – Trading*	30,000.0	230,282.1	611,477.2	871,759.3	10,487.1	-130,603.8
Interest rate swaps – Fair value hedge	140,056.1	854,960.2	1,204,951.0	2,199,967.2	220,905.0	-74,412.9
Currency-related transactions	**740,221.8**	**27,424.0**	**0.0**	**767,645.8**	**1,224.8**	**-39,692.6**
OTC products						
FX forwards	740,221.8	0.0	0.0	740,221.8	301.7	-36,701.5
Interest rate and currency swaps – Fair value hedge	0.0	27,424.0	0.0	27,424.0	923.1	-2,991.2
Total	**910,277.9**	**1,112,666.3**	**1,816,428.1**	**3,839,372.3**	**232,616.8**	**-244,709.4**

* Economic hedges outside the scope of hedge accounting according to IAS 39. The measurement effects from changes in the fair value of these derivatives were booked against the measurement results from financial instruments measured at fair value.

Taking all positions into account, the negative fair value amounts to TEUR 19,909.5 (31/12/2017: negative fair value of TEUR 12,092.6), which is collateralised mainly through cash and cash equivalents according to ISDA/CDA arrangements. Moreover, there are options embedded in loans and/or own issues, which are fully hedged through options embedded in derivatives. Given the fact that the options are closely associated with their host contracts, they are recognised and measured together with the underlying transactions and not shown in the above table. The negative fair values of these options embedded in loans and own issues amount to TEUR 32,746.1 (31/12/2017: TEUR 36,740.9).

Derivatives with positive fair values of TEUR 47,511.3 (31/12/2017: TEUR 31,329.7) will fall due within one year, TEUR 31,496.4 (31/12/2017: TEUR 42,342.7) in one to five years, and TEUR 141,878.2 (31/12/2017: TEUR 158,944.5) in more than five years. Derivatives with negative fair values in the amount of TEUR 27,056.6 (31/12/2017: TEUR 63,787.4) will fall due within one year, TEUR 36,559.4 (31/12/2017: TEUR 41,557.2) in one to five years, and TEUR 137,360.4 (31/12/2017: TEUR 139,364.9) in more than five years.

62. Financial Instruments in Hedge Accounting

Financial instruments, the interest rate risk of which is hedged through derivative financial instruments, are recognised as fair value hedges. The book values of these underlying transactions are as follows:

Book values in EUR 1,000	31/12/2018	31/12/2017
Assets		
Loans and advances to banks – fair value hedges	134,784.4	0.0
Loans and advances to customers – fair value hedges	688,531.2	519,688.7
Loans and advances to customers – portfolio hedge	215,270.3	0.0
Assets at fair value through OCI – fair value hedges	98,273.4	0.0
Assets at fair value through OCI – portfolio hedge	570,137.8	0.0
Assets available for sale – fair value hedges	0.0	208,733.8
Liabilities		
Amounts owed to customers – fair value hedges	248,431.6	300,922.9
Securitised liabilities – fair value hedges	1,292,180.9	1,383,057.7
Subordinated liabilities – fair value hedges	46,547.3	45,845.8

The following table shows the cumulative hedge-related adjustments to the underlying transactions:

Hedge-related adjustments in EUR 1,000	31/12/2018	31/12/2017
Assets		
Loans and advances to banks – fair value hedges	1,739.9	0.0
Loans and advances to customers – fair value hedges	48,907.1	52,586.4
Loans and advances to customers – portfolio hedge	808.0	0.0
Assets at fair value through OCI – fair value hedges	-747.7	0.0
Assets at fair value through OCI – portfolio hedge	2,065.8	0.0
Assets available for sale – fair value hedges	0.0	543.8
Liabilities		
Amounts owed to customers – fair value hedges	-2,727.3	3,343.7
Securitised liabilities – fair value hedges	158,514.6	179,566.0
Subordinated liabilities – fair value hedges	1,547.1	1,394.8

The following table shows the maturity profile of the hedging instruments broken down by receiver and payer swaps:

Maturity profile 31/12/2018 in EUR 1,000	Residual maturity		
	Up to 1 year	1 year to 5 years	More than 5 years
Interest rate swaps – fair value hedge			
Receiver nominal	*41,000.0*	*681,209.6*	*675,273.4*
Payer nominal	*0.0*	*270,875.2*	*607,432.2*
Interest rate swaps – portfolio hedge			
Receiver nominal	*0.0*	*0.0*	*0.0*
Payer nominal	*25,000.0*	*95,000.0*	*403,239.4*

Maturity profile 31/12/2017 in EUR 1,000	Residual maturity		
	Up to 1 year	1 year to 5 years	More than 5 years
Interest rate swaps – fair value hedge			
Receiver nominal	*31,703.4*	*661,873.4*	*821,468.8*
Payer nominal	*108,353.7*	*193,087.8*	*383,483.2*

The following table shows the ineffectiveness of hedges recognised through profit or loss in the business year 2018 and in the previous year for the designated fair value hedges:

in EUR 1,000	Ineffectiveness recognised in profit or loss 2018	Ineffectiveness recognised in profit or loss 2017	Recognition of ineffectiveness in the income statement
Micro fair value hedge	-270.4	-1,304.4	Net trading and valuation result
Portfolio fair value hedge	129.8	0.0	Net trading and valuation result

63. Supplementary Disclosures Pursuant to § 59a and § 64 of the Austrian Banking Act

In accordance with its business strategy, Kommunalkredit does not engage in any proprietary trading activities. As of 31 December 2018, unchanged from the previous year, the bank has no trading portfolio.

Assets denominated in foreign currencies in the amount of TEUR 257,998.6 (31/12/2017: TEUR 176,800.0) are shown on the balance sheet. Liabilities denominated in foreign currencies as at 31 December 2018 amounted to TEUR 684,419.9 (31/12/2017: TEUR 708,965.8). Open currency positions are closed through corresponding swap contracts. As Kommunalkredit's open foreign currency position is continuously monitored and strictly limited, there are no material currency risks.

The return on assets at Group level, calculated as the profit for the year after tax divided by total assets according to IFRS at the balance sheet date, stands at 0.36% (2017: 0.49%).

64. Disclosures relating to Fair Value Measurement (Fair Value Hierarchy)

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

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

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

- **Level 3:** Inputs cannot be observed in the market. This category includes, above all, prices based mainly on expert estimates and/or non-observable data. Level 3 financial instruments are measured by means of an internal model based on the net-present-value method. The cash flows are discounted on the basis of current yield curves with due consideration given to credit spreads. Owing to the specific modelling features, project finance transactions are all allocated to level 3.

64.1. Financial instruments recognised at fair value

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

Book values for financial instruments recognised at fair value in EUR 1,000	31/12/2018		
	Level 1	Level 2	Level 3
At fair value through OCI*	20,418.6	786,027.9	372,493.3
At fair value through P&L (from asset-side positions)	0.0	22,650.8	0.0
At fair value through P&L (from liability-side positions)	0.0	-39,071.4	0.0
Derivatives designated as hedging instruments (from asset-side positions)	0.0	198,235.1	0.0
Derivatives designated as hedging instruments (from liability-side positions)	0.0	-161,905.0	0.0

*The corresponding value for level 3 according to IFRS 3 is TEUR 266,610.4 as at 1 January 2018.

The financial instruments of level 3 recognised at fair value through other comprehensive income exclusively relate to project finance transactions.

The comparative values of the previous year according to IAS 39 classes are as follows:

Book values for financial instruments recognised at fair value in EUR 1,000	31/12/2017		
	Level 1	Level 2	Level 3
Available for ale	208,733.8	0.0	0.0
At fair value through profit or loss – Fair value option	0.0	605,731.1	0.0
At fair value through profit or loss – Held for trading (from assets-side items)	0.0	10,788.8	0.0
At fair value through profit or loss – Held for trading (from liability-side items)	0.0	-167,305.3	0.0
Derivatives designated as hedging instruments (from asset-side items)	0.0	221,828.0	0.0
Derivatives designated as hedging instruments (from liability-side items)	0.0	-77,404.1	0.0

No migrations of financial instruments measured at fair value between the levels of the fair value hierarchy were recorded in the period under review.

The following table shows a reconciliation of financial instruments of level 3 of the fair value hierarchy measured at fair value:

in EUR 1,000	At fair value through other comprehensive income
as at 1/1/2018	266,610.4
Additions / disbursements	290,533.3
Sold / redeemed	-184,528.6
At fair value through P&L	103.6
of which realised (net interest income)	*103.6*
of which non-realised (net treading and valuation result)	*0.0*
At fair value through OCI	-225.4
as at 31/12/2018	**372,493.3**

64.2. Financial instruments not recognised at fair value

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

Fair values of financial instruments not recognised at fair value in EUR 1,000	31/12/2018		
	Level 1	Level 2	Level 3
Amortised cost – assets	416,166.4	1,450,692.8	390,657.7
Amortised cost – liabilities	0.0	-3,344,054.7	0.0

The comparative values for the previous year, presented by IAS 39 classes, is as follows:

Fair values of financial instruments not recognised at fair value in EUR 1,000	31/12/2017		
	Level 1	Level 2	Level 3
Loans and receivables: Loans and advances to banks	0.0	122,032.1	17,730.6
Loans and receivables: Loans and advances to customers	0.0	1,656,979.4	538,125.6
Amortised cost – liabilities	0.0	-3,010,250.9	0.0

No migrations of financial instruments not measured at fair value between the levels of the hierarchy were recorded in the period under review.

65. Risk Management

65.1. Risk management strategies and procedures

The instruments used by Kommunalkredit for the complete identification of the risk drivers of the business model are risk assessments and a risk map. Within the framework of risk assessment, the main types of risk for the bank are identified through a structured analytical process. Based on the results of the assessment, a risk map is drawn up for the bank as a whole, which contains a definition of risks, broken down by risk type, and assesses the individual risks in terms of significance, risk transparency, control frequency and limitation. The risk map serves to establish a uniform understanding of the risk concept and a uniform view of risk priorities, and to review the system for completeness and identify potential control gaps. The types of risk covered are those which are classified as highly relevant, but are characterised by low risk transparency and a low control frequency and are therefore given top priority in respect of further development needs. This analysis is performed annually.

The economic capital required for the main types of risk (in particular: liquidity risk, credit risk, market risk and syndication risk) is calculated by internal methods based on generally recognised principles of bank management. Additionally, a risk buffer is available for risks that cannot be sufficiently quantified (in particular: operational risk, reputation risk, legal risks and other risks) and to cover potential model inaccuracies.

Within the framework of the risk strategy for the main types of risk, the Executive Board specifies the principles for their adequate management and limitation. For each main type of risk and each field of business, the economic risk is limited in accordance with the risk-bearing capacity (ICAAP – Internal Capital Adequacy Assessment Process and/or ILAAP – Internal Liquidity Adequacy Assessment Process) and the risk appetite of the bank. Monthly reviews are performed to check the level of utilisation of the risk budget, as well as the risk appetite, for the entire bank and to verify that it is not overrun. Counterparty limits as well as the operational risk limits for the open FX position are reviewed on a daily basis. Kommunalkredit's business operations do not include any trading activities.

Kommunalkredit formally has a trading book, but its use is strictly limited. The transactions exclusively are risk-free through-trading activities within the framework of the provision of customer services. Trading activities aimed at generating a profit from short-term price differences and taking risk positions on the trading book are not part of Kommunalkredit's business and risk strategy and are forbidden under the bank's internal guidelines, the enforcement of which is supported by organisational measures.

65.2. Organisational structure of risk management and risk monitoring

The overall responsibility for ICAAP lies with the Executive Board. The risk-policy principles and the risk strategy are derived from Kommunalkredit's business-policy strategy. The Executive Board also decides on the risk management procedures to be applied and regularly informs the Supervisory Board and/or its committees (above all the Risk Committee, the Audit Committee and the Credit Committee) on Kommunalkredit's risk position.

Kommunalkredit has established an organisational structure for risk management, which clearly defines and sets out the tasks, competences and responsibilities within the framework of the risk management process. Risk-taking organisational units (front office) are clearly separated from organisational units in charge of the monitoring and communication of risks (back office) at all levels up to the Executive Board. The Chief Risk Officer (CRO) is a member of the Executive Board. The function receives technical and operational support from Risk Controlling and Credit Risk Management. Together, these functions independently perform the tasks of a risk management pursuant to § 39 (5) of the Austrian Banking Act and report directly to Kommunalkredit's Executive Board. Thus, the organisational structure fully meets the regulatory requirement of separation between front-office and back-office functions.

Pursuant to § 39d of the Austrian Banking Act, a Risk Committee of the Supervisory Board has been set up. The committee's mandate includes, in particular, advising the management on the current and future risk appetite and risk strategy of the bank, monitoring the implementation of this risk strategy in connection with the management, monitoring and limitation of risks, and monitoring the capital position and the liquidity position of the bank. Besides the reports submitted by the Risk Committee, the Supervisory Board regularly receives information on the risk position of the bank through comprehensive quarterly risk reports and a monthly key data sheet showing the development of the most important capital, earnings and risk indicators.

Risks are managed and monitored by the Risk Management Committee, the Asset-Liability Committee and the Credit Committee.

The Risk Management Committee (RMC) constitutes the central element of the comprehensive risk management process, providing information to the Executive Board on the overall risk position of the bank on a monthly basis. In organisational terms, Risk Controlling is in charge of this committee. The RMC is responsible for the establishment of guidelines for the implementation of the risk strategy and is in charge of limit setting (except country and counterparty limits) and limit monitoring by type of risk.

The Asset-Liability Committee (ALCO) supports the operational management of market and liquidity risks. In organisational terms, the Market Division is in charge of this committee. At its meetings, the committee evaluates the market situation, monitors the limits and discusses the management of interest rate and liquidity risks. In addition, a detailed daily liquidity monitoring process is in place.

The weekly Credit Committee (CC) meeting is the central element of the credit approval process and the continuous portfolio and single-name review process. In organisational terms, Credit Risk is responsible for this committee (analysis and assessment of single-name risks, casting of a second vote on credit approval and/or review, management of single-name risks and/or other risks, work-out cases, qualitative portfolio analyses and rating).

Risk Controlling is responsible for the quantification of risks and the aggregate risk cover as well as for the performance of stress tests.

The objective of asset and liability management is to optimise the use of capital resources in terms of risk and return within the framework of the bank's risk appetite and risk-bearing capacity.

The strategies, methods, reporting rules and organisational responsibilities for the management of risks are documented in writing in the ICAAP manual, in risk management manuals for each type of risk and in organisational guidelines, which can be downloaded via the Intranet in their current versions at any time by all staff members concerned.

The following types of risk were identified up to the balance sheet date and are continuously monitored at Kommunalkredit:

- **Credit risk**
  - Default and counterparty risk
  - Replacement risk in the event of counterparty default
  - Rating migration risk
  - Investment risk
  - Country and/or transfer risk
  - Settlement risk
  - Securitisation risk
  - Cluster risk
  - Concentration risk

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

- **Market risk**
  - Interest rate risk – banking book
  - Interest rate risk – trading book
  - Currency risk

    - Commodity risk
    - Credit spread risk
    - Basis spread risk
    - Option price risk
    - OIS risk

- **Operational risk**
    - Risks from human failure, processes, systems and external risks
    - Legal risk
    - Risk from service level agreement (SLA) with KA Finanz AG
    - ICT risk

- **Funding risk**
    - BCVA risk*
    - Replacement risk through rating trigger

      * comprises CVA risk and DVA risk and is allocated in its entirety to the funding risk

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

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

65.3. Risk-policy guidelines for risk management

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

- The limitation of risks at Kommunalkredit is commensurate with the bank’s earning strength and its equity base.

- Kommunalkredit supports a risk culture characterised by a deliberate management of risks in day-to-day business, observance of the agreed risk appetite and the promotion of open dialogue on risk-related issues at all levels.

- Kommunalkredit only takes risks in fields of business and markets for which it owns or has access to the necessary expertise. Before activities are taken up in new fields of business or new products are sold, the risks involved and the suitability of the existing methods, instruments and processes for the management of such risks are analysed. For this purpose, a product approval process has been implemented at Kommunalkredit.

- As a matter of principle, any transaction through which Kommunalkredit deliberately takes risks should, viewed from the perspective of the entire business relation with the customer, generate a contribution margin that is commensurate with the risk. In its risk management, Kommunalkredit primarily focuses on covering unexpected losses, whereas expected losses are covered by the margins earned in the individual transactions.

- The expertise of Kommunalkredit staff and the systems in place must correspond to the complexity of the business model and have to be developed together with the core fields of business.

- In terms of organisational structure, a clear separation between risk-taking on the one hand and risk calculation and/or risk management on the other hand is essential. Conflicts of interest for staff members are avoided through a clear separation of the different fields of activity.

- Risk management is an integral component of the business process and is based on recognised methods of risk measurement, monitoring and control. For credit and market risks, this principle is applied on an economic basis (value-at-risk approach).

- All measurable risks are subject to a limit structure; regular monitoring of the observance of limits on the basis of transparent and uniform principles is obligatory. An escalation process applies in the event of limit breaches. A capital buffer is kept for risks that have been identified but are not/not yet sufficiently measurable.

- The risk measurement results have to be subjected to regular stress testing and taken into account in determining the risk-bearing capacity of the credit institution. The results of stress testing have to be related to a limit and/or a hedging target.

- Kommunalkredit's system of risk management provides for comprehensive, regular and standardised risk reporting, with reports on the risk position of Kommunalkredit being produced at least once a month and, if necessary, supplemented by ad-hoc risk reports.

- Core bank functions and important controlling function are not outsourced, unless an adequate level of qualified know-how and experience in these areas is maintained within the bank.

- An integrated IT infrastructure, as a prerequisite for the systematic reduction of risks from interfaces and data inconsistencies and as a basis for efficient reporting and data processing, constitutes an essential organisational and risk-policy objective.

65.4. Securing minimum capital adequacy

ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) are core elements of Pillar 2 of the Basel Accord and comprise all procedures and measures applied by a bank to ensure the appropriate identification, measurement and limitation of risks, a level of capitalisation in line with the risk profile of the business model, and the use and continuous further development of suitable risk management systems.

For the main types of risk (in particular: liquidity risk, credit default risk, market risk and syndication risk), the economic capital required to cover the risk is calculated according to recognised internal bank management procedures. In addition, a risk buffer is provided to cover risks that cannot be adequately quantified (in particular: operational risk, reputational risk, legal risks and other risks) as well as potential model inaccuracies. The economic perspective serves to secure adequate long-term capitalisation of the bank.

Kommunalkredit uses the method of risk-bearing-capacity analysis for the quantitative assessment of its capital adequacy, by which the economic risks are compared with the risk coverage potential. Depending on the hedging target pursued, two economic control loops are applied:

- **Liquidation perspective** (Economic control loop based on the principle of creditor protection)
  Hedging objective: The main focus is on the protection of creditors and on securing a level of capitalisation to ensure that, in the event of liquidation of the company, all lenders can be satisfied with a defined probability. Economic capital requirements (internal risk measurement) are compared with the company's total capital, adjusted for hidden burdens and reserves. The aggregate risk cover is determined on the basis of its present value ("full fair value" approach) and is therefore not subject to accounting and measurement rules. A confidence level of 99.95% is used in determining the economic risk.

  Risk status: As at 31 December 2018, the economic risks correspond to 34.1% (31/12/2017: 26.3%) of the aggregate risk cover, the **risk buffer** being **65.9%** (31/12/2017: 73.7%).

- **Going concern perspective** (Economic control loop based on the going-concern principle)
  Hedging objective: If the risks materialise, the survival of the bank as a going concern without additional equity is to be ensured with a defined degree of probability. The defined level of protection

from risk under the going-concern perspective is a minimum tier 1 ratio of 12%. All risks impacting on profit and loss must be covered by the budgeted annual result, realisable reserves and the "free tier 1" capital. Free tier 1 is the tier 1 portion over and above the capital required to secure a tier 1 ratio of 12%. The aggregate risk cover is broken down into primary and secondary coverage potential, always considering possible realisation and external effects; early warning levels have been introduced. A confidence level of 95% is used in determining the economic risk.

Risk status: As at 31 December 2018, the economic risks correspond to 52.4% (31/12/2017: 43.1%) of the aggregate risk cover, the **risk buffer** being **47.6%** (31/12/2017: 56.9%).

Alongside these economic control loops, compliance with regulatory/statutory minimum requirements and hedging objectives within the framework of medium-term planning and current capital budgeting is guaranteed.

Additionally, stress tests are performed regularly to test the robustness of the business model and to ensure capital adequacy. For this purpose, two different economic scenarios (general recession scenario and portfolio-specific stress) are defined and their impact on the bank's risk-bearing capacity is quantified. In addition to the stressed risk-bearing capacity, a stressed multi-year plan is drawn up for each scenario in order to test the stability of the business model over time. Besides the macroeconomic stress tests, reverse stress tests are performed. These are intended to show the extent to which parameters and risks can be stressed before regulatory or internal minimum requirements can no longer be met.

65.5. Credit risk management

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

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

Based on the current CRR standardised approach for all classes of receivables, Kommunalkredit primarily uses external ratings. If no external ratings are available, ratings are derived from internal scoring and/or rating models for internal risk control. Every active customer is assigned an external or internal rating, which is updated at least once a year. Thus, assets on the banking book and off-balance-sheet transactions can be classified fully according to probability of default and collateralisation. On the basis of an internal rating scale (master scale), the probabilities of default are grouped in categories, to which external ratings can be assigned. To ensure a uniform system of determining the probabilities of default, all internal and external rating procedures and/or ratings have to be calibrated against the master scale. The discriminatory power of the rating procedures and their ability to forecast defaults are checked regularly and adjusted, if necessary.

65.5.1. Unexpected loss

To quantify the unexpected loss, monthly credit VaR calculations are performed to manage and limit the risk and to determine the economic capital required within the framework of risk-bearing-capacity analyses. Kommunalkredit uses a default model based on the CreditRisk+ approach to quantify the risk of unexpected default for credit risks. To calculate the credit VaR, rating-dependent one-year probabilities of default (PD) as well as regional and sector-specific loss ratios (LGD) are used. These parameters are reviewed and updated at least once a year and documented in a validation report.

From the **liquidation perspective**, the potential unexpected loss from credit defaults for a holding period of one year as at 31 December 2018 amounted to 7.6% (31/12/2017: 5.8%) relative to the economic aggregate risk cover.

From the **going-concern perspective**, the potential unexpected loss from credit defaults for a holding period of one year as at 31 December 2018 amounted to 18.7% (31/12/2017: 14.6%) relative to the economic aggregate risk cover.

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

65.5.2. Breakdown by rating

The breakdown of credit exposure by rating shows that the exposure is concentrated in the top rating categories: as at 31 December 2018, 41.0% (31/12/2017: 46.4%) of the exposure was rated "AAA"/"AA"; 81.8% (31/12/2017: 89.4%) was rated investment grade. Overall, the Kommunalkredit portfolio has a high asset quality; the exposure-weighted average rating of the total exposure is "A-" (according to Standard & Poor's rating scale).

Breakdown of exposure* by rating 31/12/2018 in EUR million	Exposure	Proportion	of which securities	of which guarantees	of which loans
AAA	51.1	1.5%	35.3	0.0	15.8
AA	1,322.7	39.5%	197.9	0.0	1,124.4
A	527.2	15.8%	66.0	0.0	398.6
BBB	836.0	25.0%	119.0	4.8	671.5
BB	567.9	17.0%	0.0	0.0	557.7
B	40.1	1.2%	0.0	0.0	40.1
CCC	0.0	0.0%	0.0	0.0	0.0
D	0.0	0.0%	0.0	0.0	0.0
non-rated	0.0	0.0%	0.0	0.0	0.0
Total	**3,345.0**	**100.0%**	**418.2**	**4.8**	**2,808.1**

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

Breakdown of exposure* by rating 31/12/2017 in EUR million	Exposure	Proportion	of which securities	of which guarantees	of which loans
AAA	17.9	0.6%	0.0	0.0	17.9
AA	1,337.2	45.7%	93.9	0.0	1,242.7
A	461.9	15.8%	46.6	0.0	348.1
BBB	795.3	27.2%	145.0	6.0	599.2
BB	249.7	8.5%	0.0	0.0	249.7
B	61.1	2.1%	0.0	0.0	61.1
CCC	0.0	0.0%	0.0	0.0	0.0
D	0.0	0.0%	0.0	0.0	0.0
non-rated	0.0	0.0%	0.0	0.0	0.0
Total	**2,923.3**	**100%**	**285.4**	**6.0**	**2,518.8**

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

65.5.3. Concentration risko

Risk concentrations are taken into account in the process of loan origination, monitored in the course of the monthly credit risk reports to the RMC, and shown in reports to the Credit Committee and the Supervisory Board. The total portfolio is broken down according to different parameters (breakdown by country, region, top 20 “group of related customers”, rating, sector); limits are set by top risk drivers, sectors and geographic regions. In addition, risk concentrations in individual sub-portfolios are identified by Credit Risk Management, which performs sub-portfolio analyses. Portfolio analyses comprise correlating regional and/or sectorial risks or risk concentrations and permit the early detection, limitation and management of risk portfolios under current and future conditions. Depending on the risk assessment, reviews are performed at different intervals, but at least once a year.

The exposure to the top 20 "group of related customers" comprises an exposure of EUR 0.6bn (31/12/2017: EUR 0.7bn) to the Austrian provinces, accounting for 42.2% (31/12/2017: 44.2%) of the total exposure. It includes broadly diversified mortgage loans in a total amount of EUR 163.2m (31/12/2017: EUR 151.4m) that are guaranteed by the Austrian provinces concerned.

65.5.4. Economic country risk

Credit exposures are reported for the purpose of internal risk management on the basis of the economic country risk. Kommunalkredit's country risk is reported monthly to the RCM and at least once a year to the Credit Committee of the Supervisory Board. For each country, information on the country rating, limit utilization and exposure by product type is monitored.

Geographically, most of the exposure is accounted for by EU Member States (EU, incl. Austria, 94.4%; 31/12/2017: 98.2%). As at 31 December 2018, Kommunalkredit had no exposure to Greece and Ukraine.

Breakdown of exposure by region 31/12/2018 in EUR million	Exposure	Proportion	of which securities	of which guarantees	of which loans
Austria	1,708.6	51.1%	152.6	1.3	1,551.6
EU-28 (European Union excl. Austria)	1,447.2	43.3%	190.6	3.5	1,148.7
of which EU-19 (euro area excl. Austria)	*995.0*	*29.8%*	*158.0*	*3.5*	*775.4*
Non-EU Europe	91.8	2.7%	9.0	0.0	76.8
Other	97.4	2.9%	66.0	0.0	31.0
Total	**3,345.0**	**100.0%**	**418.2**	**4.8**	**2,808.1**

Breakdown of exposure by region 31/12/2017 in EUR million	Exposure	Proportion	of which securities	of which guarantees	of which loans
Austria	1,826.2	62.5%	79.5	1.5	1,744.0
EU-28 (European Union excl. Austria)	1,044.0	35.7%	193.5	4.5	739.5
of which EU-19 (euro area excl. Austria)	*564.2*	*19.3%*	*80.4*	*4.5*	*423.2*
Non-EU Europe	9.0	0.3%	0.0	0.0	4.3
Other	44.1	1.5%	12.4	0.0	31.1
Total	**2,923.3**	**100.0%**	**285.4**	**6.0**	**2,518.8**

Exposure to sovereigns and territorial authorities as at 31 December 2018

Direct exposures to sovereigns and territorial authorities as well as exposures guaranteed by sovereigns in the countries of the euro area (EU-19) are broken down as follows:

31/12/2018 in EUR million	Exposure	of which sovereigns	of which territorial authorities	of which government-guaranteed
Austria	1,200.1	0.0	1,178.2	21.9
Germany	21.8	0.0	6.0	15.8
Ireland	20.2	20.2	0.0	0.0
Slovakia	13.6	13.6	0.0	0.0
Slovenia	25.8	25.8	0.0	0.0
Italy	0.0	0.0	0.0	0.0
Lithuania	18.6	18.6	0.0	0.0
Spain	23.2	15.9	7.3	0.0
Latvia	14.6	14.6	0.0	0.0

Except for Austria and Germany, these exposures refer, in particular, to securities held for the purpose of liquidity management.

The comparative values of the previous year are as follows:

31/12/2017 in EUR million	Exposure	of which sovereigns	of which territorial authorities	of which government-guaranteed
Austria	1,346.1	0.0	1,346.1	0.0
Germany	25.1	0.0	7.2	17.8
Ireland	10.2	10.2	0.0	0.0
Slovakia	10.6	10.6	0.0	0.0
Slovenia	15.7	15.7	0.0	0.0
Italy	10.3	10.3	0.0	0.0
Lithuania	10.2	10.2	0.0	0.0
Spain	21.3	16.0	5.4	0.0
Latvia	0.0	0.0	0.0	0.0

Exposure to Austrian provinces as at 31 December 2018

Of Kommunalkredit's total exposure to Austria in a volume of EUR 1,708.6m (31/12/2017: EUR 1,826.2m), the following exposures are to Austrian provinces and/or provincial entities guaranteed by provincial governments:

Total exposure Austria 31/12/2018 in EUR million	Direct exposure	Exposure guaranteed by provincial government	Total exposure
Province of Upper Austria	0.0	84.5	84.5
Province of Lower Austria	1.0	94.0	95.0
Province of Carinthia	12.6	91.8	104.4
Province of Styria	0.0	12.1	12.1
Province of Burgenland	0.0	97.6	97.6
Municipality of Vienna	13.2	0.0	13.2
Total	**26.8**	**380.0**	**406.8**

The comparative values for 2017 are as follows:

Total exposure Austria 31/12/2017 in EUR million	Direct exposure	Exposure guaranteed by provincial government	Total exposure
Province of Upper Austria	3.4	95.8	99.2
Province of Lower Austria	33.7	94.1	127.8
Province of Carinthia	0.0	127.1	127.1
Province of Styria	0.0	49.8	49.8
Province of Burgenland	0.0	99.5	99.5
City of Vienna	16.8	0.0	16.8
Total	**53.9**	**466.3**	**520.2**

In addition to the exposures listed in the above table, Kommunalkredit holds housing loans of Austrian provinces secured by mortgages in a total volume of EUR 163.2m (31/12/2017: EUR 151.4m), which are guaranteed by the provinces concerned (Upper Austria EUR 72.4m (31/12/2017: EUR 54.3m); Burgenland EUR 90.8m (31/12/2017: EUR 97.1m)).

Portfolio quality

Given the good ratings (weighted average rating of the total portfolio "A-") and the degree of diversification, the portfolio quality is sound. This is also reflected in the non-performing-loan ratio of 0.0% as at 31 December 2018 (31/12/2017: 0.0%). Kommunalkredit had no financial assets (receivables) on its books that were more than 90 days past due, nor any substantial payment arrears of between 0 and 90 days.

65.5.5. Loan loss provisions

The portfolio is reviewed regularly for objective indications of impairments of customer exposures or exposures to "groups of related customers". Assessments of impairment are performed in the course of the annual rating updates, the annual rating review or on an event-triggered basis. Impairments to be booked for defaulting loans are determined by Risk Management, subject to approval by the Executive Board (see Note 8: Risk Provisions).

Counterparties with increased credit risk

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

- Risk class 0: Regular business
- Risk class 1: Intensive management / performing
- Risk class 2: Workout / restructuring
- Risk class 3: Workout / resolution

As at 31 December 2018, the exposure in risk class 1 (intensive management/performing) amounted to EUR 6.0m (31/12/2017: EUR 23.4m). None of Kommunalkredit's exposures are classified as risk classes 2 and 3.

Credit Risk Management continuously updates the list of counterparties with increased credit risk and submits monthly reports to the Credit Committee meeting, which then decides on the measures to be taken.

65.5.6. Investment risk

Given the nature of the participations held, the investment risk is of minor importance. As at 31 December 2018, the book value of investments in associates (at equity) was EUR 0.0m (31/12/2017: EUR 0.0m). The book value of investments in assets at fair value through other comprehensive income amounted to EUR 2.0m (31/12/2017: EUR 2.8m). Under IAS 39, these were recognised in the previous year under assets available for sale.

65.5.7 Counterparty default risk from derivatives, repo transactions and securities transactions

Legally binding netting arrangements for derivatives and repo transactions (close-out netting) have been concluded with all active counterparties of Kommunalkredit. For derivatives, credit support agreements and/or collateral annexes to framework contracts providing for daily collateral margining in accordance with the bilateral collateralisation requirement of the European Market Infrastructure Regulation (EMIR) have been concluded with all active financial counterparties. The only exception are derivative agreements in the cover pool, for which framework agreements and netting arrangements have been made at market conditions (unilateral collateralisation by the counterparty, rating trigger).

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

Repo transactions are cleared in the form of genuine repos mainly via platforms with daily margining. If in repo or securities lending transactions, a counterparty default risk results for Kommunalkredit from the difference between the liability/receivable and the market value of the corresponding collateral put up/received, this risk counts as exposure to the counterparty and is taken into account in credit risk.

Securities transactions are cleared mainly on the basis of “delivery against payment” via Euroclear and/or Clearstream.

Counterparty default risk positions are limited through volume-based counterparty and credit concentration limits, on the one hand, and credit-VaR-based portfolio limits, on the other hand. Given the settlement and clearing principles described above, the counterparty default risk from derivatives, repo transactions and securities transactions is immaterial.

The counterparty default risk from derivatives is calculated as a credit valuation adjustment (CVA) according to IFRS 13. Kommunalkredit calculates CVA and DVA (debt valuation adjustment), aggregated as BCVA (bilateral CVA), on the basis of the potential exposure method by means of Monte Carlo simulations. The risk of BCVA fluctuations (BCVA risk) is determined by means of a VaR-based approach.

65.6. Liquidity risk management

Based on the ILAAP (Internal Liquidity Adequacy Assessment Process) definition, Kommunalkredit distinguishes between the structural liquidity risk, the funding risk and the market liquidity risk. The structural liquidity risk (liquidity risk in the narrow sense of the term) arises if follow-up financing for asset portfolios cannot be secured according to the maturity schedules. The funding risk is determined by the degree of diversification of funding sources and the risk of potentially restricted access to certain main funding markets under stressed market conditions. The market liquidity risk consists in a possible increase of liquidity costs due to bank-specific or idiosyncratic factors (liability-side market liquidity risk), on the one hand, and the necessary acceptance of discounts or time delays in the realisation of a position due to its relative size and/or the absence of a liquid market (asset-side market liquidity risk), on the other hand.

Kommunalkredit distinguishes between short-term (up to one year) and long-term (more than one year) liquidity management.

Central elements of liquidity risk management include the following:

- Analysis of the liquidity position
- Reporting to the Executive Board and the Supervisory Board
- Determination of the medium- and long-term funding requirements, including a liquidity plan
- Scenario-based dynamic liquidity forecast for the base case and for a defined bad case, as well as liquidity coverage ratio (LCR) simulation
- Management and further development of the liquidity model
- Regular review and setting of internal transfer prices
- Securing of operational liquidity by defining time-to-wall hedging targets in order to ensure the survival of the bank for the defined minimum period even without access to money and capital markets.
- Internal limitation of maturity transformation by setting limits on structural liquidity gaps
- Regulatory limitation of maturity transformation through the liquidity coverage ratio and the net stable funding ratio
- A liquidity emergency plan with clearly defined responsibilities, reporting requirements and measures is in place in case a liquidity crisis occurs.

Operational liquidity risk (< 1 year)
For the purposes of short-term liquidity steering, the management uses short- and medium-term liquidity scenarios. These scenarios include not only contractually determined cash flows, but also expected cash flows from new issues, the termination of transactions, cash-out from new transactions, cash inflows from syndication agreements, retail deposits repayable on demand, repo prolongations and liquidity demand for cash collateral received (under credit support agreements/ISDA arrangements). The resulting liquidity gaps are managed daily in the short-term liquidity scenario, subsequently to be followed by monthly management.

The following table shows the expected liquidity gaps after the measures planned, the free liquidity reserve, and the net liquidity position resulting from the liquidity gap and the liquidity reserve:

31/12/2018 in EUR million	Expected liquidity gap	Available liquidity	Liquidity position
Up to one month	275.0	259.2	534.2
More than one month up to three months	137.4	2.8	140.2
More than three month up to one year	-132.1	10.4	-121.7
Total	**280.3**	**272.4**	**552.7**

The comparative figures for 2017 are as follows:

31/12/2017 in EUR million	Expected liquidity gap	Available liquidity	Liquidity position
Up to one month	273.9	183.7	457.6
More than one month up to three months	97.5	16.9	114.5
More than three months up to one year	214.5	-19.8	194.7
Total	**585.9**	**180.9**	**766.8**

Structural liquidity risk (>= 1 year)

For the purposes of liquidity management and the structural analysis of its liquidity risk position, Kommunalkredit analyses the expected capital flows over the entire term of all on-balance and off-balance transactions. Overhangs from capital inflows and capital outflows are monitored by maturity range and at cumulative level and provide the basis for strategic liquidity management.

Organisation and reporting

A projection of the operational liquidity risk, including an assessment of the additional liquidity available, is drawn up every other day and reported regularly to the Executive Board. In addition, ALCO meetings on operational and strategic liquidity management are held once every two weeks. The long-term liquidity risk is monitored and managed by the monthly RMC.

Emergency plan

The bank's liquidity emergency plan specifies the tasks and the composition of emergency units to be set up in a crisis, the internal and external communication channels and, if necessary, the measures to be taken. The emergency plan permits efficient liquidity management in a market environment in crisis and is activated by clearly defined events and/or early warning indicators. In the event of an emergency, liquidity management is taken over by the emergency unit, which then decides on the specific measures to be taken.

ILAAP

Introduced alongside ICAAP within the framework of Pillar 2 of the Basel Accord, the Internal Liquidity Adequacy Assessment Process (ILAAP) serves the purpose of safeguarding the adequacy of the bank's own liquidity risk management procedures.

The individual components of ILAAP cover:

- Liquidity risk strategy and tolerance
- Organisation / policies / processes
- Risk measurement and reporting
- Stress testing
- Liquidity ICS framework
- Emergency plan
- Funding plan

All ILAAP components form an integral part of the more comprehensive ICAAP, which covers all bank-specific risks, including the liquidity risks in all its forms.

Analysis of financial liabilities

The following table shows the maturities of contractual, non-discounted cash flows of financial liabilities as at 31 December 2018 (net for interest and currency swaps, gross for cross-currency swaps, positive value for payout overhang):

Cash flows in EUR million as at 31/12/2018	Liabilities at amortised cost	Derivatives designated as hedging instruments	Trading*
Up to one month	134.2	7.3	2.3
More than one month up to three months	139.3	2.1	4.2
More than three months up to one year	681.1	12.4	14.1
More than one year up to five years	1,614.4	37.0	56.4
More than five years	1,302.7	13.1	30.9
Total	**3,871.7**	**71.9**	**107.9**

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

The nominal amount of interest-rate and cross-currency swaps as of 31 December 2018 came to EUR 3.1bn (31/12/2017: EUR 3.1bn).

The comparative figures for 2017 are as follows:

Cash flows in EUR million as at 31/12/2017	Liabilities at amortised cost	Derivatives designated as hedging instruments	Trading*
Up to one month	147.5	1.8	3.6
More than one month up to three months	125.4	0.9	31.1
More than three months up to one year	378.7	14.1	26.6
More than one year up to five years	1,515.0	26.6	64.6
More than five years	1,555.3	15.7	37.1
Total	**3,721.8**	**59.1**	**163.1**

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

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

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

65.7. Market risk management

65.7.1. Interest rate risk

For the measurement, management and limitation of interest rate risks from positions not held in the trading book, Kommunalkredit distinguishes between the period-oriented repricing risk and the NPV-oriented risk of changing interest rates.

For the purpose of efficiently managing the interest rate risk and net interest income, Kommunalkredit uses an analysis and simulation tool (interest rate gap structure by currency, interest rate VaR, sensitivity analyses, simulation trades), which permits the forecast and targeted management of the bank's interest rate risk from positions not held in the trading book, the P&L sensitivity of the fair value portfolios according to IFRS, and net interest income for the period. To calculate the interest rate VaR, the variance/co-variance approach with a holding period of 20 trading days and a confidence interval of 95% is used, based on equally weighted historical volatilities and correlations.

Kommunalkredit's portfolio mainly comprises positions with clearly defined interest rate and capital commitment. As a rule, non-linear risks are completely hedged. Open positions are strictly limited and monitored. Retail deposits include positions without clearly defined interest rate and capital commitment (deposits repayable on demand). In principle, the interest rate commitment of deposits repayable on demand is modelled as a function of the pricing strategy. Non-linear risks that are not hedged are quantified through a scenario analysis and added to the interest rate VaR. Kommunalkredit uses the fully integrated SAP/SEM-IT system and the Numerix software for risk quantification.

For interest rate risk management by the RCM and ALCO, the gap structures, broken down by currency, are analysed and the price sensitivity of the overall position as well as the impact of interest rate changes on the net interest income of the period (repricing risk) are quantified for different scenarios. The repricing risk is measured daily for the main currencies of Kommunalkredit (EUR, USD, CHF, JPY) and communicated to Treasury as a basis for risk management.

For risk management purposes, Kommunalkredit differentiates between the following sub-portfolios:

- less-than-twelve-months interest-rate position (short-term ALM)
- more-than-twelve-months interest-rate position (long-term ALM)
- equity investment portfolio ("equity book")
- IFRS fair value position
- IFRS OCI value position

An analysis and steering tool is used for the management of short-term, less-than-twelve-months interest risk positions, which permits the efficient management of the repricing risk by currency.

- Annual net interest income effect from Kommunalkredit's repricing risk as at 31 December 2018 in EUR million in the event of a parallel rise of short-term interest by +100bp:

EUR	USD	CHF	JPY	Other	Total
+0.4	0.0	-1.2	-0.2	0.0	-1.0

- NPV risk of interest rate changes in Kommunalkredit's banking book as at 31 December 2018 in EUR million in the event of a +30bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total	VAR total
+0.1	0.0	-0.8	+0.1	-0.1	+0.7	-9.3

- NPV risk of interest rate changes of the IFRS interest-rate risk position carrying through profit or loss in EUR million as at 31 December 2018 in the event of a +30bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total
+3.7	0.0	-0.7	-0.1	+0.1	+3.0

- NPV risk of interest rate changes of the IFRS interest-rate risk position carrying through carrying through other comprehensive income in EUR million as at 31 December 2018 in the event of a +30bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total
-4.2	0.0	0.0	0.0	-0.1	-4.3

The comparative figures for 2017 are as follows:

- Annual net interest income effect from Kommunalkredit's repricing risk as at 31 December 2017 in EUR million in the event of a parallel rise of short-term interest by +100bp:

EUR	USD	CHF	JPY	Other	Total
+4.6	0.0	-0.3	0.0	0.0	+4.3

- NPV risk of interest rate changes in Kommunalkredit's banking book as at 31 December 2017 in EUR million in the event of a +25bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total	VAR total
+1.7	0.0	-0.2	+1.0	-0.4	+2.1	-1.1

Owing to the first-time application of IFRS 9 as of 1 January 2018, comparative values for IFRS sensitivities are not indicated.

65.7.2. Currency risk

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

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

Except for small residual positions, the open FX position according to Austrian GAAP is closed daily.

The FX VaR as at 31 December 2018 was EUR 0.003m (as at 31/12/2017: EUR 0.011m).

65.7.3. Spread widening risk

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

The credit spread risk of the IFRS P&L position in the event of spreads widening by 20 basis points (CS20) is EUR 0.0m as at 31 December 2018.

The credit spread risk of the IFRS OCI position in the event of spread widening by 20 basis points (CS20) amounted to EUR 11.8m as at 31 December 2018.

Owing to the first-time application of IFRS 9 as of 1 January 2018, comparative values for IFRS sensitivities are not indicated.

65.7.4. Basis spread risk

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

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

As at 31 December 2018, the basis spread risk in the event of basis spreads widening by 1 basis point was EUR +0.1m (as at 31/12/2017: EUR +0.1m).

65.7.5. Option price risk

The option price risk for Kommunalkredit is the risk of changes in the market values of open option positions.

To measure the option price risk, a scenario matrix is used to determine interest rate shifts (-/+ 30bp), volatility shifts (-/+30%) and combined shifts.

The option price risk in the banking book calculated on the basis of the scenario matrix amounted to EUR -0.1m as at 31 December 2018 (as at 31/12/2017: EUR -0.8m based on a -/+50bp interest rate shift). However, the open option price risk in the banking book results almost exclusively from unilateral call rights of Kommunalkredit for own issues (i.e. Kommunalkredit has the right to call). As at 31 December 2018, there were no P&L-relevant option price risks.

65.8. Operational risk

Kommunalkredit defines operational risk as the possibility of losses occurring due to the inadequacy or failure of internal procedures (processes), people and systems or as a result of external events. The legal risk is part of the operational risk. External events classified as pure credit risk, market risk, liquidity risk or other types of risk with no operational background are not covered by this definition. Operational risk management (ORM) is intended to generate added value for the bank through the ORM process.

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

An operational default database as well as risk and control self-assessments are the instruments available for the management of operational risk. The operational default database represents a retrospective view, i.e. realised gains/losses from operational events in the past are recorded in the database and cleared for further processing by the line managers in charge. Operational risk and control self-assessments represent a prospective, future-oriented view. Risks are identified and their severity is subjectively assessed. At Kommunalkredit these assessments are performed as coached self-assessments, i.e. individual risks are assessed and evaluated by the units concerned. The entries in the operational default database serve as input and provide feedback for the revaluation of risks. The Executive Board and the senior management are informed about operational risks at the monthly RMS meetings.

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

65.9. Business Continuity Management

Business continuity management (BCM) ensures the adequate, comprehensive and efficient management of business continuity. This includes the elaboration and management of continuity and re-startup plans as well as the implementation of measures designed to minimise interruptions of critical business processes. This includes the provision of alternative workplaces in the event of Kommunalkredit’s office premises being out of order.

The annual resource assessment was performed, and the resources required in the event of a crisis were established. The annual business impact analysis (BIA), performed within the framework of the resource assessment, served to assess business processes and IT services for their criticality and to verify the time to full restoration of services. The emergency plans were revised at the same time. The annual emergency exercise was performed in the fourth quarter of 2018.

66. Legal Risks

No material legal risks that would have an impact on the assets, the financial position and the income of the Group were identified as of the end of the reporting period.

67. Other Obligations

Liability arising from the demerger

Pursuant to § 15 (1) of the Demerger Act, Kommunalkredit is liable jointly and severally with KA Finanz AG (KF) for obligations having arisen prior to the entry of the demerger in the Companies Register on 26 September 2015 and transferred from the former Kommunalkredit to KF. The liability arising from the demerger is limited to the net assets allocated to Kommunalkredit at the effective date of the demerger. Obligations having arisen after the effective date of the demerger are not subject to liability arising from the demerger. Kommunalkredit does not expect to be held liable for such obligations.

Other obligations

Pursuant to § 2 (3) of the Deposit Guarantee and Investor Compensation Act, Kommunalkredit is obliged to undertake proportional safeguarding of depositors' accounts within the framework of the deposit guarantee regime of Banken und Bankiers Gesellschaft mbH, Vienna.

68. Date Of Release For Publication

These Consolidated Financial Statements as well as the Separate Financial Statements of Kommunalkredit were signed by the Executive Board on 12 March 2019. Both the Supervisory Board (13 March 2019) and the Annual Shareholders' Meeting (13 March 2019) can make amendments to the Separate Financial Statements, which in turn can have an impact on these Consolidated Financial Statements.

69. Employee Disclosures

From 1 January to 31 December 2018, the Kommunalkredit Group had, on average, 268 employees (1/1-31/12/2107: 290 employees), including the Executive Board; 181 of them were (1/1-31/12/2107: 199) engaged in banking operations and 87 (1/1-31/12/2107: 91) were working for KPC. 9 of the 181 employees, on average, of Kommunalkredit's banking operations were exclusively working for KA Finanz AG within the framework of a staff leasing agreement. Part-time employees are weighted according to the extent of employment.

As at 31 December 2018, the Kommunalkredit Group had 253 employees (31/12/2017: 284 employees), including the Executive Board, 165 (31/12/2016: 197) of them engaged in banking operations and 88 (31/12/2016: 87) working for KPC. 3 of the 165 employees of Kommunalkredit's banking operations were exclusively working for KA Finanz AG within the framework of a staff leasing agreement.

70. Related Party Disclosures

As a matter of principle, transactions with related parties are made on the same terms and conditions as transactions with independent business partners.

Ownership structure

Name of the company	Relationship with Kommunalkredit	Registered office	Shares held
Gesona Beteiligungsverwaltung GmbH	Direct parent	Vienna, Austria Comp.Reg.no 428969m	99.78% in Kommunalkredit
Satere Beteiligungsverwaltungs GmbH	Controlling parent	Vienna, Austria Comp.Reg.no 428981f	100% in Gesona

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

Kommunalkredit takes over the fiduciary management of loans for a related party of Trinity under a framework agreement. As at 31 December 2018, positions in the amount of TEUR 432,671.2 (31/12/2017: TEUR 239,210.8) were held in trust on the basis of a trust agreement; as Kommunalkredit has no rights or duties relative to the underlying lending business, the criteria for balance sheet recognition do not apply. Through the fiduciary management of these transactions, fee and commission income in the amount of TEUR 1,171.9 (1/1-31/12/2017: TEUR 659.3) was generated in 2018, with open balances in the amount of TEUR 935.3 (31/12/2017: TEUR 474.1) reported under "Other assets" as at 31 December 2018. Moreover, other income in the amount of TEUR 300.0 was generated from services invoiced in 2018, with open balances in the same amount reported under "Other liabilities" as at 31 December 2018.

Tax group

Effective as of 2016, a tax group pursuant to § 9 of the Corporate Income Tax Act was established with Satere Beteiligungsverwaltungs GmbH as the group parent and Gesona Beteiligungsverwaltung GmbH, Kommunalkredit, KBI, KPC and TrendMind IT Dienstleistung GmbH (TrendMind) as group members (for details see Note 22).

Relations with associates

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

- Receivables from loans in the amount of TEUR 34,855.2 (31/12/2017: TEUR 37,246.47)
- Contingent liabilities in the form of guarantees in the amount of TEUR 1,350.0, unchanged from the previous year

Transactions with key management personnel

Key management personnel are defined as persons having direct or indirect authority and responsibility for planning, directing and controlling the activities of Kommunalkredit. At Kommunalkredit, the members of the Executive Board and the Supervisory Board qualify as key management personnel.

The following table shows the total remuneration earned by members of the Executive Board and the Supervisory Board:

Total remuneration in EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Active Executive Board members	1,961.6	1,983.3
Active Supervisory Board members	116.1	90.3
Total	**2,077.7**	**2,073.6**

The amounts reported under total remuneration of active Executive Board members include amounts falling due on a short-term basis and other long-term benefits of TEUR 1,032.3 (2017: TEUR 478.5) as specified in the remuneration manual (deferrals of variable remuneration) pursuant to § 39b of the Austrian Banking Act. Moreover, contributions to a pension fund were made for active Executive Board members in the amount of TEUR 172.7 (2017: TEUR 217.4).

As at 31 December 2018 and unchanged from the previous year, no loans/advances to members of the Executive Board and members of the Supervisory Board were outstanding. No guarantees were issued by Kommunalkredit for Board members.

A company within the sphere of control of an Executive Board member of Kommunalkredit and a close relative of said member of the Executive Board holds a 15% share in Fidelio KA Beteiligung GmbH established in the first half of 2018 with a capital of EUR 25,000.00. Fidelio KA Beteiligung GmbH was established for the purpose of acquiring and holding participating interests, among others in the fields of business of alternative investment funds, asset management and advisory; it holds participating interests in Fidelio KA Investment Advisory GmbH and Fidelio KA Infrastructure Opportunities Fund GB S. à r. l., which were also established in the first half of 2018.

Apart from the above, there were no business relations during the reporting year and no open balances between Kommunalkredit and the members of the Executive Board and the Supervisory Board at the balance sheet date.

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

Expenses for severance pay and pensions in EUR 1,000	1/1-31/12/2018	1/1-31/12/2017
Executive Board members and senior employees	668.5	363.0
Other employees	693.7	417.4
Total	**1,362.2**	**780.4**
of which recognised in equity (change in provisions due to actuarial gains/losses)	*-790.7*	*-992.8*
of which recognised in general administrative expenses	*2,152.9*	*1,773.2*

71. Service Agreement with KA Finanz AG

Kommunalkredit acts as a service provider for the banking operations of KA Finanz AG. The services to be provided are defined in a service agreement and a service level agreement. In 2018, a total of TEUR 8,601.5 (1/1-31/12/2017: TEUR 12,105.8) was invoiced to KA Finanz AG for services provided. Receivables for services invoiced to KA Finanz AG in the amount of TEUR 1,222.7 (31/12/2017: TEUR 3,678.8) are reported under “Other assets”.

After a call for tenders in the second quarter of 2018, KA Finanz AG decided to award the contract for services, previously provided by Kommunalkredit under a service agreement and a service level agreement, to another group of bidders. For good order’s sake, Kommunalkredit terminated the service agreement as of 31 March 2019. As of 31 December 2018, Kommunalkredit set up a restructuring provision of TEUR 2,500.0 for capacity adjustments in the wake of termination of the service agreement; in particular, the provision takes voluntary expenses for employees into account, which are expected within the framework of a company agreement on the reconciliation of interests concluded between the bank and the staff council.

72. Disclosure Pursuant to Part 8 CRR

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

73. Disclosures relating to the Boards of the Bank

Executive Board

Karl-Bernd Fislage
Chief Executive Officer
since 1 September 2018

Alois Steinbichler
Chief Executive Officer
until 31 August 2018

Jochen Lucht
Member of the Executive Board
since 1 July 2018

Jörn Engelmann
Member of the Executive Board
until 31 January 2019

Wolfgang Meister
Member of the Executive Board
until 6 March 2018

Supervisory Board

Patrick Bettscheider
Chairman; delegated by Gesona Beteiligungsverwaltung GmbH; Managing Director Gesona Beteiligungsverwaltung GmbH and Satere Beteiligungsverwaltungs GmbH

Christopher Guth
Deputy Chairman; delegated
by Gesona Beteiligungsverwaltung GmbH

Friedrich Andreae
Managing Director of
Gesona Beteiligungsverwaltung GmbH
and Satere Beteiligungsverwaltungs GmbH

Katharina Gehra
Managing Director of
Gesona Beteiligungsverwaltung GmbH
and Satere Beteiligungsverwaltungs GmbH
until 5 September 2018

Jürgen Meisch
Managing Director of Achalm Capital GmbH

Martin Rey
Managing Director of Maroban GmbH

Alois Steinbichler
since 30 September 2018

Patrick Höller
nominated by the Staff Council

Paul Matousek
nominated by the Staff Council
until 14 December 2018

Renate Schneider
nominated by the Staff Council

Vienna, 12 March 2019

The Executive Board of
Kommunalkredit Austria AG

Bernd Fislage
CEO

Jochen Lucht
CFO, CRO, COO

Auditor’s Report

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion

We have audited the consolidated financial statements of Kommunalkredit Austria AG, Vienna, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2018, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the fiscal year then ended, and the notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as at December 31, 2018, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements under Section 59a Austrian Banking Act in conjunction with Section 245a Austrian Commercial Code

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 (hereinafter EU Regulation) and Austrian generally accepted auditing standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report.

We are independent of the Group in accordance with Austrian Generally Accepted Accounting Principles and professional requirements and the requirements of the Austrian Banking Act, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

We have structured key audit matters as follows:

- Description
- Audit approach and key observations
- Reference to related disclosures

1. Impairment of Loans (Expected Credit Losses)

Description

Loss allowances represent management's best estimate of the credit losses expected with respect to the loan portfolio at balance sheet date. Due to the underlying assumptions and estimations, the determination of expected credit losses is inherently subject to substantial judgement applied by the management board.

As at December 31, 2018, Kommunalkredit Group set up impairment allowances in the amount of EUR 2 million for a portfolio (loans and advances to customers and banks accounted for at amortised cost as well as assets at fair value through other comprehensive income) accounted for at amortised cost of EUR 2.3 billion.

Kommunalkredit Group has implemented internal guidelines and specific processes to identify significant increases in credit risk and loss events. These processes rely significantly on quantitative criteria and involve management judgement.

To determine the level of loss allowances using scenario-based discounted cash flow methods as required by IFRS 9 the following methods are applied:

- For non-defaulted loans, loss allowances are generally measured at an amount equal to 12-month expected credit loss. In case of a significant increase in credit risk, loss allowances are measured as lifetime expected credit losses.

- This collective measurement of loss allowances takes into account the probability of default, the impact of forward looking information and parameters that reflect the expected cash flows as well as the expected proceeds from the realization of collaterals. These estimates are based on statistical models.

- For defaulted loans considered to be significant at customer level, loss allowances are determined on a case-by-case basis. These loss allowances are determined considering scenario probabilities, expected cash flows as well as expected proceeds from the realization of collateral (where applicable). This process involves significant judgement and management estimates.

- The Company has implemented internal policies and processes to detect a significant increase in credit risk for individual loans and default events for individual borrowers. On the basis of the results of this assessment, different discounted cash flow methods are applied to determine the amount of the value adjustments taking into account several scenarios. Parameters used in the calculation are, if necessary, determined by means of statistical models. The parameters used are estimates.

Due to the uncertainty of estimates in the determination of expected credit losses as well as to the amounts involved, we identified this area to be a key audit matter.

Audit approach and key observations

To assess the appropriateness of the loss allowances, we:

- obtained an understanding of the methodology applied by Kommunalkredit Group to determine expected credit losses;

- evaluated control activities in credit risk management and lending business processes and tested key controls, notably with respect to the approval of loans, ongoing monitoring and early warning;

- evaluated control activities and tested key controls in the area of rating models and collateral valuation;

- reviewed the validation processes and the results of backtesting and model validations for credit risk models;

- tested the completeness and accuracy of the data used in the models to determine parameters such as probability of default, loss given default over lifetime and exposure at default;

- assessed the appropriateness and reasonableness of forward-looking information incorporated in the estimates;

- evaluated whether key components of the calculation of expected credit losses are correctly incorporated in the models by performing walkthroughs;

- verified mathematical accuracy of the automated calculation of expected credit losses based on test cases;
- tested, on a sample basis, the correct stage allocation according to the relevant policies;
- tested, on a sample basis, whether loss events were identified according to the applicable policies and assessed whether events occurred that significantly affect the borrower's repayment ability with regard to loans and advances;
- tested, on a sample basis, the economic situation of the loans or guarantors of the loans in terms of their creditworthiness;
- reconciled the loss allowances determined with the accounting entries.

Based on our audit procedures, we were able to convince ourselves that the methods and models used are appropriate and have been properly implemented, and that the assumptions and assessments made by the legal representatives are within the acceptable range from our point of view.

Reference to related disclosures

Please refer to statements made by management in items 8 and 25 in the notes to the consolidated financial statements ("notes") and in the section "Assets, financial position and income" of the management report for the Group.

2. Loans at fair value

Description

The business model of Kommunalkredit Group focuses on the syndication of infrastructure and project finance. From the total portfolio of EUR 2.0 billion (loans and advances to customers) presented in the consolidated financial statements as of December 31, 2018, EUR 1.1 billion are measured at fair value. The recoverability of these loans for project finance, which are very complex due to their particularly individual nature, depends on the expectations of the economic development of the projects financed and on the assumptions used in the valuation of each loan.

Therefore, we identified the determination of the fair values of project financing loans as a key audit matter

Audit approach and key observations

To assess the valuation process and valuations of project financing loans, we:

- reviewed relevant guidelines and documentation on the evaluation process, valuation models and market data;
- evaluated major loan business processes and assessed their appropriateness;
- tested, based on samples, whether appropriate valuation methods have been selected that meet the requirements of IFRS 13 (exit price) and whether these are applied consistently;
- evaluated the process of determining the fair values and determining credit spreads and tested selected key controls related to those processes; in doing so, we assessed the information regularly brought to the attention of management during the meetings of the Risk Management Committee "RMC" and the quarterly valuation jour fixe and constantly followed up on decisions by these committees. In the valuation jour fixe, the relevant decisions on any credit spread adjustments required in the context of model changes are made;
- on a sample basis, critically assessed the evaluation parameters used and the key model inputs and carried out an independent revaluation;
- on a sample basis, assessed the financial position of the loans or guarantors of the loans in terms of their creditworthiness;
- traced the records of loans accounted for at fair value in the valuation system and the core banking system.

The fair values of loans determined on the basis of the valuation methods and assumptions applied by the legal representatives are within the acceptable ranges from our point of view.

Reference to related disclosures

Please refer to statements made by management in items 4 and 24 in the notes to the consolidated financial statements (“notes”) and in the section “Assets, financial position and income” of the management report for the Group.

3. Fidelio Funds

Description

During 2018, the company launched a fund of funds (Fidelio KA Infrastructure Opportunities Fund) in Luxembourg; it manages the operations of the Fund through a subsidiary as general partner, with an administrator of alternative investment funds, who can be dismissed at any time, being entrusted with the administration. In November 2018, 7 loan exposures from the Company's portfolio were sold to the first sub-fund. KA holds 15.8% of the shares with a book value of EUR 22 million in this sub-fund and acts as asset servicer.

The Sub-Fund is designed to distribute the net income from interest and principal and to terminate with the scheduled maturing of the loans. Thus, the relevant activities of the Sub-Fund are limited to such decisions relating to the individual assets that may result in a change in the originally agreed cash flows. As these decisions are made by the administrator appointed by the general partner and whose appointment may be cancelled at any time, and thus the company exercises control over the fund, the fund is fully consolidated; the non-controlling interests are reported as liabilities.

As of December 31, 2018, the assets of Fidelio KA Infrastructure Debt Fund Europe 1 amounting to EUR 134m are recognized in the consolidated balance sheet at fair value through other comprehensive income. The non-controlling interests amounting to EUR 116 million are reported under amounts owed to customers.

Due to the complexity of the underlying contractual arrangements and the relevance to the presentation of net assets and results of operations in the consolidated financial statements, we concluded that this issue was of particular importance to our audit.

Audit approach and key observations

We assessed whether the Company has control over the Fund and therefore the Fund should be consolidated in accordance with IFRS 10. In this context, involving experts from Germany, Luxembourg and Austria, we

- analysed the relevant agreements (in particular the Articles of Association, the Offering Memorandum, the Asset Service Agreement between Kommunalkredit Austria AG and the Fund and the AIFM Agreement between the Administrator and the Fund);

- requested legal opinions on specific issues;

- examined the decision-making mechanisms and business practices relating to the underlying assets;

- performed an analysis as to whether there is any indication that Kommunalkredit Austria AG is an agent within the meaning of IFRS 10 for other investors;
- assessed whether the classification of non-controlling interests as a liability is in line with IAS 32;
- verified that the necessary consolidation procedures have been performed correctly.

We concluded that the inclusion of the sub-fund in the consolidated financial statements by way of full consolidation is appropriate.

Reference to related disclosures

Please refer to statements made by management in items 3 and 5 in the notes to the consolidated financial statements ("notes") and in the section "Equity Participations" of the management report for the Group.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements under Section 59a BWG and Section 245a UGB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with the EU Regulation and with Austrian generally accepted auditing standards, which require the application of ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control,

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control,

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern,

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

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Comments on the Management Report for the Group

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

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

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

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

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

Other information

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

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

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

Additional Information in Accordance with Article 10 of the EU Regulation

We were appointed as statutory auditor at the ordinary general meeting dated March 10, 2017. We were engaged by the supervisory board on April 20, 2017. We have audited the Company for an uninterrupted period since its foundation in 2015, i.e. for four years. In 2015, the operating business of Kommunalkredit Austria AG, Vienna, Austrian Companies Register no. 439528s, was spun off to Kommunalkredit Austria AG, Vienna, Austrian Companies Register no. 45776v ("KA old"). We had audited KA old since 2010.

We confirm that the audit opinion in the "Report on the Consolidated Financial Statements" section is consistent with the additional report to the audit committee referred to in Article 11 of the EU Regulation.

We declare that we did not provide any prohibited non-audit services (Article 5 (1) of the EU Regulation) and that we remained independent of the audited company in conducting the audit.

Responsible Engagement Partner

Responsible for the proper performance of the engagement is Ms. Dorotea-E. Rebmann, Austrian Certified Public Accountant.

Vienna, March 13, 2019

PwC Wirtschaftsprüfung GmbH

signed:

Dorotea-E. Rebmann

AUSTRIAN CERTIFIED PUBLIC ACCOUNTANT

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

STATEMENT BY THE LEGAL REPRESENTATIVES

KOMMUNALKREDIT GROUP

Consolidated Financial Statements 2018

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

Vienna, 12 March 2019

The Executive Board of
Kommunalkredit Austria AG

Bernd Fislage
CEO

Jochen Lucht
CFO, CRO, COO

MANAGEMENT REPORT

KOMMUNALKREDIT AUSTRIA AG

ALWAYS FOCUSSED

KOMMUNALKREDIT – THE INFRASTRUCTURE SPECIALIST

Kommunalkredit is a specialised bank for infrastructure and energy financing. We are agile and nimble with short decision-making processes, and we have a clear objective: We aim to establish ourselves as a leading name in the European infrastructure market. Working in partnership with our customers, we create value that sustainably improves people's lives. In 2018 we have made significant progress in strengthening our market position. This has been recognized by strong positive feedback from our business partners and customers as well as competitors and the industry media. In 2018, Kommunalkredit ranked among the Top 30 Initial Mandated Lead Arrangers of credit financing in the EMEA region (Europe, Middle East and Africa) recorded by the leading industry magazine PFI (Thomson Reuters).

Top 30

Well established in the European infrastructure market

Our vision

We will become the most agile and nimble infrastructure bank in Europe, helping to create a better world.

Our mission

We are always first when it comes to delivering outstanding results with speed and precision. We never stand still. We take "always first" as an obligation to get better every day.

We provide benefit to the community

- We help to create a better world by enabling the development of sustainable infrastructure that improve the quality of people's lives
- Infrastructure investments serve as a powerful tool for answering social needs and fundamentally increasing the general well-being of communities
- We provide tangible benefits to the community:
  - Economic dynamism
  - Urban development and renewal
  - Job creation
  - Measures to combat climate change
  - Social cohesion
- We focus on providing a secure, stable and sustainable yield to our investors
- Kommunalkredit is the partner of choice for a long-term commitment

ALWAYS SUCCESS-DRIVEN

OUR BUSINESS MODEL

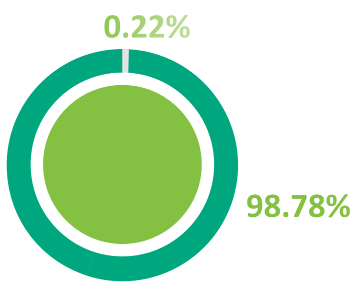
Kommunalkredit is the banking partner of choice for both corporate and financial sponsors active in the construction, acquisition and/or operation of infrastructure and energy projects as well as the public sector in the financing of its infrastructure investments and beyond. Our work focuses on delivering tangible benefits to smaller and larger communities by impacting key issues including economic growth, job creation, social cohesion and climate improvement.

We combine in-depth industry expertise and structuring know-how to provide tailor-made solutions for our clients with speed, precision and enthusiasm. Our strong relationships with both local communities on the one hand and international clients and investors on the other hand are firmly rooted in our ability to create sustainable value by providing flexible financing solutions across all layers of the capital structure. We provide an extensive range of

Shareholder structure

Gesona Beteiligungsverwaltung GmbH[1]

Österreichischer Gemeindebund (Austrian Association of Municipalities)



[1] Gesona Beteiligungsverwaltung GmbH is a holding company through which Interritus Limited and Trinity Investments Designated Activity Company – via Satere Beteiligungsverwaltungs GmbH – hold their participations in Kommunalkredit. Interritus and Trinity, respectively, hold 55% and 45% of Satere, which in turn holds 100% of Gesona.

products, from financial advisory services to arranging and underwriting of senior and junior debt as well as asset management through the Fidelio KA Infrastructure Debt Fund platform.

We are an enabler in the implementation and operation of infrastructure assets by matching the financing needs of project sponsors and developers with the growing number of investors searching sustainable investment opportunities such as insurance companies, pension funds and asset managers.

What sets us apart

- Our unique combination of in-depth industry expertise and structuring know-how with the financing capabilities of a bank
- Our access to a captive asset base and large investors
- Our strong track record of a senior team in managing risk and growing business; investment in talent and management development
- Our expertise in pricing risk and consistent delivery on our commitment to sponsors
- The benefits of an agile bank: nimble, flexible, no silo mentality and commitment to success

Our investment segments

Energy & Environment

Energy supply & distribution
Renewable energy
Water supply & treatment
Waste management & disposal

Communication & Digitalisation

Broadband
Fibre optic
Data centres

Transport

Roads, bridges, tunnels
Airports, ports, waterways
Rail/light rail, rolling stock

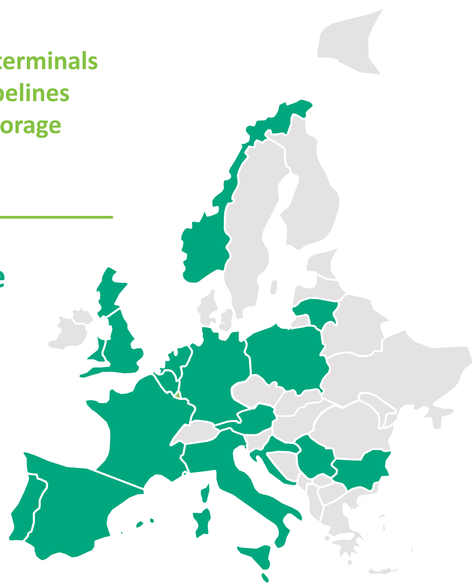
Natural Resources

LNG terminals
Pipelines
Storage

Social Infrastructure

Nurseries, schools, universities
Hospitals, nursing homes
Court buildings and correction facilities
Administrative buildings

Focus on Europe and selected OECD countries



Transactions in 2018

ALWAYS AMBITIOUS

50 I 50 I 10

In 2018, Kommunalkredit launched its strategic programme setting out clear and ambitious targets for 2022 : 50 I 50 I 10. We aim to increase the operating result to EUR 50m, reduce the cost/income ratio to 50% and generate a return on equity of 10% (all under local GAAP).

1 What is our goal?

We aim to establish Kommunalkredit as partner of choice for infrastructure investments and, as a result, a leading player in the European infrastructure market.

What did we achieve in 2018?

We completed transactions across Europe with a total volume of EUR 1.2bn., thereby increasing new business volume by 89% compared to the prior year. The volume placed with investors rose by 53% to EUR 570m.

2 How will we achieve this goal?

We focus on our core business. We live customer centricity and concentrate on operational efficiency and clearly-defined placement criteria.

What did we achieve in 2018?

We broadened our client network, ensured repeat business with key clients, and achieved a high implementation ratio in the acquisition and execution of projects. The successful placement activities confirm our ability to structure, price and manage credit risk to the market.

3 Where do we aim to improve in our core business?

We broaden the product range, grow the fee business, and improve productivity and profitability. We focus strongly on risk-adjusted returns.

What did we achieve in 2018?

We extended the range of products on offer adding asset management services through our Fidelio KA Infrastructure Debt Fund platform and we expanded our financial advisory services. Net fee and commission income rose by 67%. The strong risk-return focus is reflected in the significant increase in net interest income by 15%, with an average loan portfolio rating of “A-”.

4 What do we need to achieve this?

We aim to strengthen our capital basis. This will allow us to increase our underwriting capacity and to benefit from economies of scale. We invest in talent and the digitalisation of our processes. And we are comitted to improve our rating.

What did we achieve in 2018?

In order to support the growth of the bank, the 2018 profit will be fully retained to strenghten our capital basis. We further expanded our team of international infrastructure experts and invested in the digitalisation of our management information systems (MIS). The outlook for the DBRS long-term rating for Kommunalkredit (BBB low) was lifted from “negative” to „stable“.

5 Why is this attractive to our shareholders?

We aim to increase the operating result to EUR 50m by 2022, reduce the cost/income ratio to 50% and generate RoE of 10%. All these achievements will result into an attractive RoI through improvement of the P/B ratio.

What did we achieve in 2018?

We increased the operating result by 65% to EUR 22m, we reduced the cost/income ratio from 78.7% to 68.4% and improved the return on equity from 8.4% to 13.1% on a CET 1 ratio of 19.9% (all under local GAAP).

ALWAYS RELEVANT

WHY DO WE FOCUS ON INFRASTRUCTURE?

Infrastructure will always be relevant

1

Infrastructure by its very nature is essential to the efficient functioning of society. Improvements in infrastructure quality have a positive effect on economic growth, at local, regional and global levels. By giving populations improved access to essential services such as water, electricity, roads, schools and hospitals, the standard of living of the public will be improved. Infrastructure remains an essential backbone for the growth of developed and emerging economies alike.

Developed countries need to maintain and upgrade their existing utility, transport and social infrastructure assets, while coping with the demographic shift towards an aging population and the need to support them. In emerging countries with high demographic growth rates, infrastructure is crucial to sustained and balanced development. Climate change and scarcity of fossil fuel resources create the need to find sustainable energy production means and carbon footprint reduction is a key priority for regulators. Technological change plays both a positive and a negative role, putting the long-term relevance of certain infrastructure assets into question while enabling efficiency gains through digitalisation for a wide range of others.

High demand for investments in Europe

2

Demand for investment in infrastructure is enormous. The European Investment Bank (EIB) forecasts spending requirement of EUR 150bn to EUR 200bn per annum to reach the targets of the Europe 2020 strategy.[1] Investment demand is particularly high in the energy sector, with a special focus on renewable energy, and in the transport, social infrastructure and communication technology sectors.

Increasingly recognised as an asset class

3

The way in which infrastructure projects are financed has changed significantly in recent years. As the financial latitude of the public sector is decreasing on account of the high level of government debt and budget caps, a shift from classic budget finance to project finance continues to occur thanks to private funding.

Commercial banks continue to be a main source of debt financing for infrastructure projects. However, a host of other funding providers and products have appeared, given the increasing recognition of infrastructure as an asset class in its own right. Private placements, public bonds, direct institutional debt, multilaterals and export credit agencies are also heavily contributing to the sector. For investors seeking stable and predictable long-term cash flows from a relatively low-risk asset class, this offers an opportunity for real return enhancement in the current low yield environment.

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

Resilient, low default rates and high recovery rates

4

Infrastructure debt has consistently generated default rates lower than equivalently rated non-financial corporate bonds. According to Moody's the 10-year cumulative default rate for BBB-rated infrastructure debt is ca. 1.4%, compared with 3.4% for equivalently rated corporate issuers.[2] Among project finance bank loans the lowest default rates were recorded in infrastructure (3.3%) as well as power (5.0%), followed by oil & gas (5.7%).[3]

Infrastructure debt has demonstrated on average higher recovery rates compared with non-financial corporates, for both senior secured and unsecured debt. Senior secured infrastructure debt shows recovery rates of 74%, compared to 54% for non-financial corporate debt of an equivalent rating.[2] The ultimate global recovery rate for project finance bank loans averaged 79%. Among Kommunalkredit's focus industries recovery rates were between 60–80% (for infrastructure, media & telecoms, oil & gas) and 80–100% (power).[3]

Due to the fully or partly contracted or regulated nature of their revenue stream, infrastructure assets are less sensitive to economic cycles and therefore less correlated to traditional asset classes, such as corporate bonds and equities. Indeed, the majority of infrastructure debt investments exhibit very low cyclicality. This distinguishes infrastructure investments from many other asset classes such as commercial and residential real estate.

Furthermore, infrastructure investments may also offer a wide range of political and social benefits, as certain infrastructure assets will meet the sustainability investment criteria with which institutional investors are increasingly obliged to comply.

[2] Moody's: Infrastructure default and recovery rates, 1983-2016.

[3] Moody's: Default and recovery rates for project finance bank loans, 1983-2016.


+6.5%
Trends
More info
78%
Shares
CTMX
FTR
CSCO
CHK
AAPL
PRTO
AMZN
TSLA
AVGO
SIRI
0.45
-0.23
-1.01
0.02
-0.65
-2.34%
-1.89%

ALWAYS SUSTAINABLE

BENEFIT TO THE COMMUNITY

As a specialist bank for infrastructure and energy financing Kommunalkredit provides benefit to the community. We help to create a better world by enabling the development of sustainable infrastructure that improve the quality of people's lives. Investments in infrastructure serve as a powerful tool for answering social needs and fundamentally increasing the general well-being of communities. Efficient infrastructure strengthens the dynamism of the economy, encourages urban development, creates jobs, is essential in the fight against climate change and promotes social cohesion. It meets the needs of today's generation and creates opportunities for the next one.

Kommunalkredit contributed towards the education of 1,100 children, helped 10.5 million people to stay connected by advanced communication networks, supported the construction of 400 kilometres of road, helped to create care facilities for around 1,500 patients as well as accommodation for 8,300 elderly and disabled people. Kommunalkredit helped to provide renewable energy to one million households and to supply potable water to seven million people.

Sustainability as a business model

The concept of sustainability is firmly embedded in Kommunalkredit's business model and processes. In 1997, Kommunalkredit established an EMAS environmental management system and since then has further developed it into an overall sustainability management system. The significance of sustainability for Kommunalkredit is also highlighted by it becoming the first Austrian issuer of a Social Covered Bond.

Kommunalkredit Public Consulting GmbH (KPC), a subsidiary of Kommunalkredit, contributes towards the implementation of national and international environmental and climate protection projects. It develops and manages environmental as well as energy support programmes, and also established the Initiative „Climate Austria“ for the voluntary offsetting of CO_2 emissions as part of the fight against climate change. In addition, KPC contributes towards the development and spread of advanced environmental and technological standards through a wide variety of international consulting projects in the areas of water, energy and climate finance.

Sustainability ratings

Kommunalkredit has a number of sustainability ratings from well recognised agencies. oekom research rates Kommunalkredit as a „Prime“ company. The consultancy firm imug (Beratungsgesellschaft für sozial-ökologische Innovationen, Investment Research) assigns a rating of „very positive“ to Kommunalkredit's covered bonds. Sustainalytics ranks Kommunalkredit's sustainability practices as „above average“. The firm rfu (Reinhard Friesenbichler Unternehmensberatung/Business Consulting), a specialist in sustainable investments and sustainability analysis, assigns a status of „Qualified“ to Kommunalkredit in its sustainability rating.

Detailed information on sustainability issues can be found in the Kommunalkredit Sustainability Report, which is available via **www.kommunalkredit.at**.

Creating a better everyday life

We contributed to the education of approx. 1,100 pupils

Schools

We equipped over 10.5m people with high speed communication

Telecoms

We support infrastructure development. We financed over 400 km of roads

Roads

We got over 8.3m passengers home faster

Airports

We provided environmentally friendly traffic solutions for **27m passengers** annually

Light rail

We created care facilities for almost **1,500 patients**

Hospitals

We provided accommodation for **8,300 elderly and disabled people**

Care homes

We provide renewable power to about **1.4m homes** annually

Wind and solar energy

We contribute to the avoidance of **2m tonnes** of waste to landfill annually

Waste to energy

We provide **7m people** with clean water

Water

Economic Environment

GLOBAL GDP GROWTH PEAKED IN 2018

Macroeconomic environment in 2018

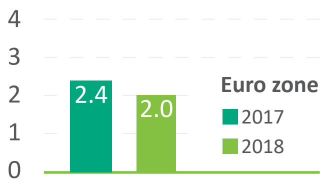
Global GDP growth is expected to have peaked at 3.7% in 2018, with the OECD countries having grown at a rate of 2.5%. However, macroeconomic policies have become less accommodative over time, and headwinds from trade tensions and tighter financial conditions have set the stage for 2019. Against this backdrop, global trade has started to deteriorate. Trade restrictions have adverse effects on confidence and investment plans. On average, global trade grew in 2018 by just 4.0% per annum. Further retaliatory measures from the United States and China to raise barriers on bilateral trade would hit output in these economies, with resulting adverse effects on global growth and trade.[1]

Strong growth in 2018

GDP growth continued throughout the year, although below projections

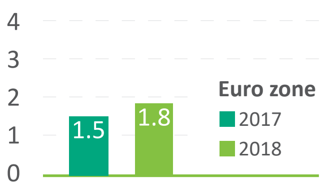
In 2018, the phase of strong growth continued throughout the year, driven by positive developments in both the industrialised world and emerging markets. However, the performance fell short of projections.

GDP growth in %



In 2018, the US economy grew by 2.9% (2017: 2.2%) based on solid private consumption, fiscal relief for corporates and a historically unprecedented low unemployment rate. The euro zone also maintained its positive momentum. Based on developments in the year, 2.0% GDP growth was recorded in the euro zone for 2018 (2017: 2.4%). Austria's GDP exceeded the euro zone average at a rate of 2.7%, the same as in 2017. A growth rate of 2.0% is recorded for Germany compared to 2.2% for the previous year and 2.0% for France (2017: 1.8%). GPD growth in the UK slowed down to 3.2% (2017: 3.8%) following the planned exit from the European Union.

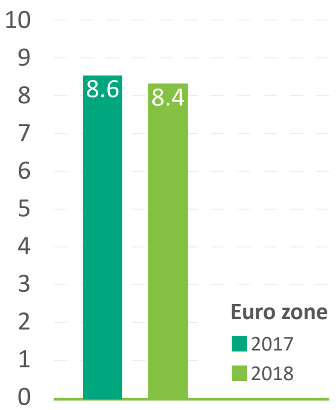
Rate of inflation in %



During 2018, the rate of inflation in the euro zone countries ranged between 0.8% and 2.7%. For the euro zone as a whole, it reached 1.8% (2017: 1.5%) due to the significant increase in crude oil prices. The majority of the world's central banks are aiming for an inflation rate of 2.0% as their monetary policy target. The po-

[1] OECD Economic Outlook, Volume 2018 Issue 2.

Unemployment rate in %



sitive labour market development experienced in 2017 continued throughout 2018: The unemployment rate in the euro zone dropped from 8.6% at the beginning of the year to 8.4% at the end of 2018.

The European Central Bank (ECB) kept the interest rates on its marginal lending facility and its main financing operations unchanged at 0.25% and 0% respectively; the interest rate on its deposit facility remained at -0.40%. During the year, the euro system continued on the path of quantitative easing within the framework of the Asset Purchase Programme (APP), with ongoing purchases of public sector securities, covered bonds, asset-backed securities and corporate bonds, though at a reduced average volume of EUR 30bn per month until September 2018 and EUR 15bn per month for the remainder of the year. In December 2018, the Governing Council of the ECB decided to end the net purchases under the APP.[2]

The Federal Reserve System (Fed) aims at reducing its bond investments by USD 50bn each month. The Fed raised its benchmark interest rate four times in 2018. By end of December Fed's interest rate on the marginal lending facility was in a range of 2.25% to 2.50%, the interest rate on the term deposit facility stood at 3.0%. The development of interest rates on US government bonds towards the end of 2018 has given rise to concerns over an inverted yield curve, which is an indicator of an imminent slowdown of the economy. The spread differential between the 10 year and the 2 year bond, however, continues to be stable and positively signalling a flat curve for the time being.

The European infrastructure market in 2018

The European infrastructure market rallied in 2018, demonstrated, inter alia by the significant increase of 30% in deal volume compared to the previous year. At EUR 211bn, this is the largest value ever recorded in Europe.[3]

For European infrastructure investments, 2018 was the year of "big-ticket" deals. The ten largest deals represented 26% of the overall deal value. While the value of brownfield projects grew by 33% to EUR 105bn, the refinancing volume rose by only 6% to EUR 55bn. The value of greenfield projects grew by 65% to EUR 51bn. This reflects the domination of refinancings and acquisition financings, as opposed to single asset greenfield project finance. A novelty of the market was the regular involvement of institutional lenders in short-dated, bank-style, acquisition financing lending structures, showing those players have developed increasingly flexible investment guidelines and adapted to the market.

Boom in 2018

Deal value rose to EUR 211bn – the largest value ever recorded in Europe

Energy & environment (environment, power, renewables) accounted for 50% of total deal value, transport for 32%, telecommunications for 15% and social infrastructure for 3%.

[2] Minutes of the Meetings of the Governing Council and the General Council (ECB).

[3] All figures in the section „The European infrastructure market in 2018" according to Inframation – An Acuris Company.

With a financing volume of EUR 41.0bn, up by 169% from the previous year, **Spain** was by far the market with the highest demand for infrastructure finance in the euro zone during the course of 2018. To this position the 16.8bn Abertis acquisition by a consortium comprising Italian infrastructure giant Atlantia and Spanish developer ACS jointly with its German subsidiary HOCHTIEF made a strong contribution, followed by the acquisition of OHL Concesiones by IFM Investors, the Radexis gas sale, the Gas Natural Fenosa refinancing and the Ufinet sale.

Spain #1 in the euro zone

With a financing volume of EUR 41.0bn by far the biggest market in the euro zone

Even stronger growth was recorded in **Italy**, the second biggest market of the euro zone, where the financing volume increased by 200% to EUR 28.2bn. The Open Fibre Italian broadband project played a strong part, involving all of Europe's major infrastructure lenders including the EIB and a multi-billion euro debt package to finance the roll-out of a broadband network across over 270 Italian cities. Second largest contributor to the Italian deal volume in 2018 was the EUR 5.5bn Trans Adriatic Pipeline (TAP) project involving the construction of an 878 km-long pipeline linking Turkey and Italy and running through Greece and Albania.

France ranked third with EUR 17.6bn (-17% from 2017) seeing volumes dominated by the acquisition financings of the water utility group SAUR, the IDEX district heating and the SFR telecommunications towers, all EUR 1bn plus deals. The EUR2.2bn refinancing of high speed line between Tours and Bordeaux also kept lenders busy in the second half of the year and saw a number of institutional lenders stepping to EUR 100m a piece or above. It signed in December 2018 but reached financial close early January 2019.

Germany followed with EUR 13.8bn (-31%), featuring the EUR 4bn plus sale of MIRA-owned Techem, the Merkur and Veja Mate off-shore wind refinancings, acquisition financing activity in the rolling stock space, the 2018 vintage of the A-model programme, the A10/A24 and the borrowing activity of KKR- owned Deutsche Glasfaser.

Netherlands with EUR 9.9bn (+29%) is one of the Western European countries which saw deal volume continue to be sustained by PPPs, with the exception of the Borseele III and IV off shore wind farms. The Blankenburg tunnel, the A16 highway, the Afsuildijk dam and the Amsterdam court PPP all reached financial close in 2018, a testimony to the importance of active public procurement in the project finance deal flow.

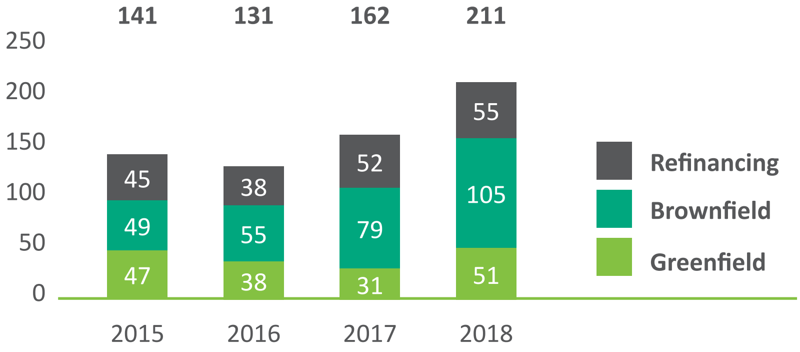
Despite the abolition of the PF2 model and deal value remaining flat in 2018 at EUR 48.9bn compared with EUR 49.9bn in 2017, **the UK** remained the most active infrastructure market in Europe throughout 2018. The leading transactions were all renewable energy deals.

Central and Eastern Europe mirrored Western Europe to a certain extent with large deal activity focusing on refinancings (e.g. A2 motorway in Poland) and acquisitions (e.g. Belgrade airport in Serbia).

The European Infrastructure Market in 2018[4]

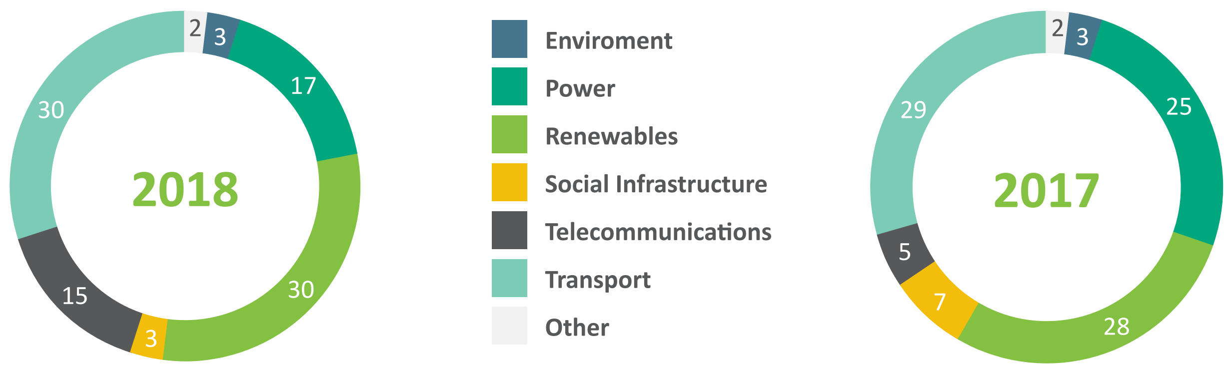
Transaction volume by type

in EUR bn



Sector breakdown by value

in %



Top-5 infrastructure markets in the euro zone by transaction volume

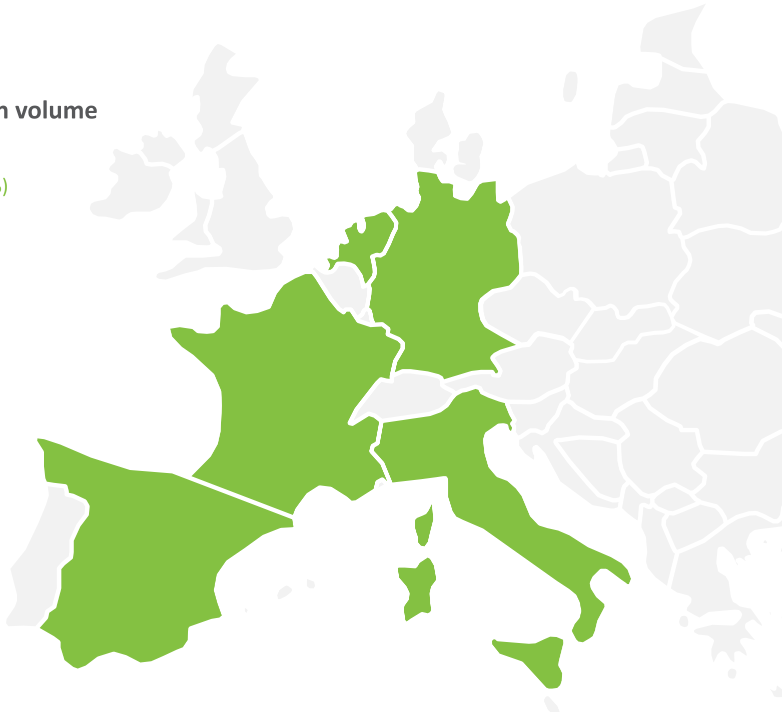
EUR **41**bn (+169%)
Spain 103 transactions (+41%)

EUR **28.2**bn (+200%)
Italy 89 transactions (+3%)

EUR **17.5**bn (-17%)
France 94 transactions (-19%)

EUR **13.8**bn (-31%)
Germany 37 transactions (-42%)

EUR **9.9**bn (+29%)
Netherlands 43 transactions (+34%)



[4] All figures according to Inframation – An Acuris Company.

Business review 2018

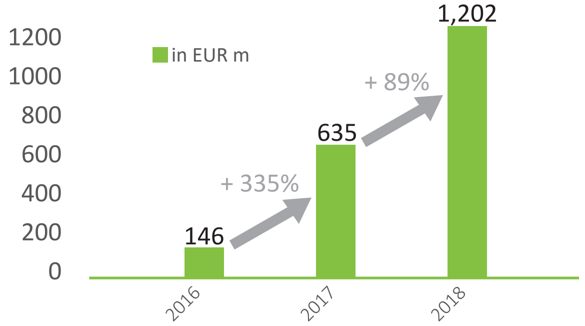
STRONG NEW BUSINESS PERFORMANCE

1. New Business expansion with focus on placement and balanced portfolio

In 2018, Kommunalkredit continued on the trajectory established during 2017 and significantly strengthened its operating earnings power. The bank's infrastructure and energy financing business contributed substantially to net fee and commission income and net interest income, generating 51.6% of the total revenues of the banking business.[1] Whilst public finance lending continues to be an important part of the bank's business, new loans were provided on a selective basis only. In combination with scheduled repayments in the portfolio the revenue contribution from the public finance business decreased to 48.4%.

Overall, the bank increased the volume of new business by 89.2% to EUR 1,201.8m in 2018 (2017: EUR 635.2m) and positioned itself firmly in the European infrastructure financing market. Kommunalkredit ranked among the Top 30 Initial Mandated Lead Arrangers of credit financing in the EMEA region (Europe, Middle East and Africa), reported by the leading industry magazine PFI (Thomson Reuters).

New business volume
in EUR m



In its origination activities the bank put a strong focus on deal selection criteria considering structure, pricing and placeability with investors. New business was well-diversified in terms of asset classes, regions, products and maturities delivering attractive risk-adjusted returns. Total new commitments were widely spread across different asset classes: The Transport segment (public transport, roads, airports) accounted for 40%, Communications & Digitalisation (telecoms, broadband, data centres) for 24 %, Energy & Environment (renewables, water) for 22% and Social Infrastructure (health care, care homes) for 14 %. 2% related to public finance transactions.

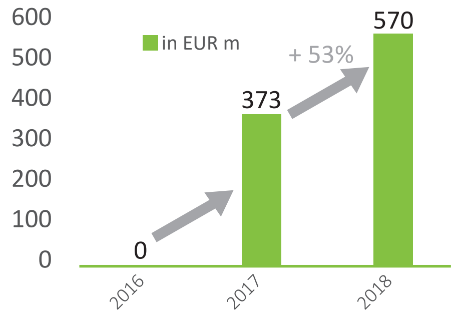
Kommunalkredit's regional footprint was well diversified across the EU and EU associated countries with Poland, Spain, France, the UK and Germany being the Top 5 markets.

Leveraging its successful track record in traditional project finance and its in-depth sector expertise, Kommunalkredit has stepped up its activities in acquisition finance and hybrid/corporate finance situations as well as its financial advisory services.

[1] Under local GAAP.

Kommunalkredit runs an originate-to-distribute model and therefore places strong emphasis on its distribution capabilities. In 2018 Kommunalkredit placed EUR 569.7m of own commitments with a wide range of investors, including insurance companies, asset managers and banks, a 52.7% increase compared to the prior year (2017: EUR 373.2m). Furthermore, the bank successfully launched its own infrastructure debt platform with the first close for the first fund, Fidelio KA Infrastructure Debt Fund Europe 1, in the third quarter of 2018. Through this platform Kommunalkredit is able to offer business partners access to infrastructure financing via an asset management solution. These placement results confirm to the market the bank's ability to structure, price and manage credit risk.

Placement volume
in EUR m



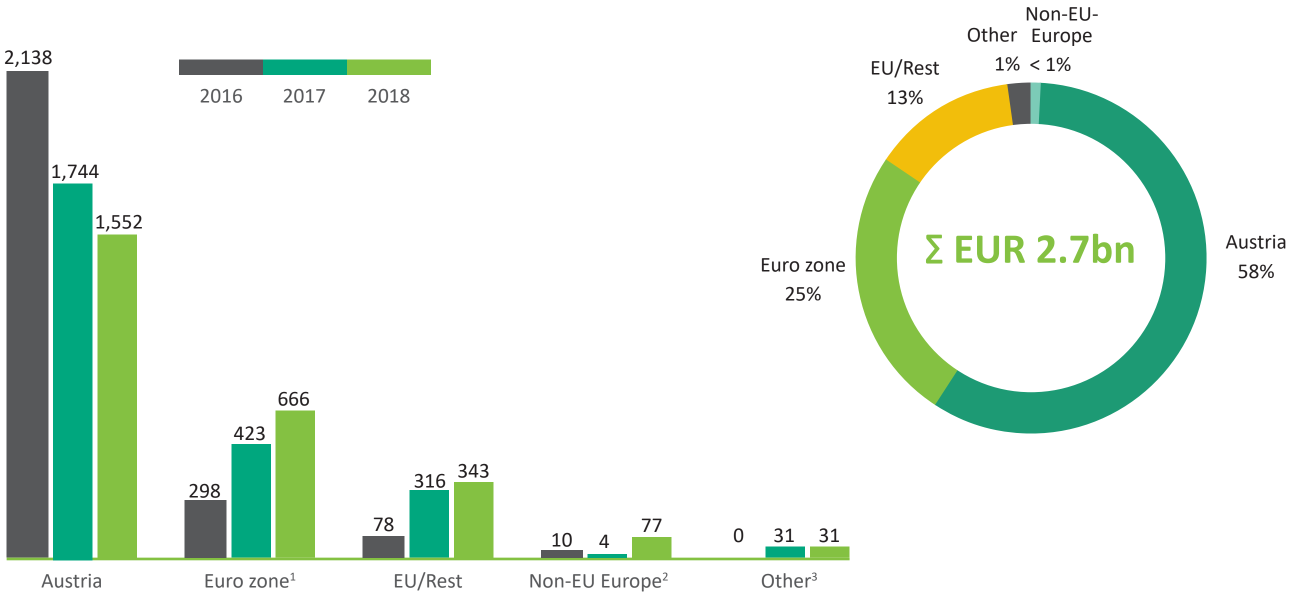
Kommunalkredit was involved in financing a number of high-profile transactions in 2018. In half of the transactions, the bank took a lead role as mandated lead arranger or co-arranger. In the Transport segment the bank acted as mandated lead arranger for the EUR 540m refinancing of a section of the A2 motorway in Poland as well as for the EUR 165m financing of a tram line in Zaragoza, Spain. Further, Kommunalkredit acted as Sole Junior Underwriter of a mezzanine facility in the EUR 279m refinancing of the AP-46, Spain and acted as mandated lead arranger in the financing for the acquisition of the Nikola Tesla Airport concession in Belgrade, Serbia, by VINCI Airports.

In the Communication & Digitalisation segment, the bank played a pathfinding role as mandated lead arranger and sole lender in the EUR 46.5m financing for the Lower Austria Fibre Optic Infrastructure Company (nöGIG) for the roll-out of ultra-high-speed broadband in selected rural areas. This pilot scheme represented phase 1 of the complete roll-out of glass fiber networks in Lower Austria. Kommunalkredit intends to remain on the forefront of financing glass fiber networks capacity in its Austrian home market.

Kommunalkredit was also mandated lead arranger in the EUR 650m refinancing for the German fibre optics network broadband expansion and co-arranger in the EUR 940m financing raised for the merger of the Scandinavian telecommunications firms GlobalConnect and Broadnet.

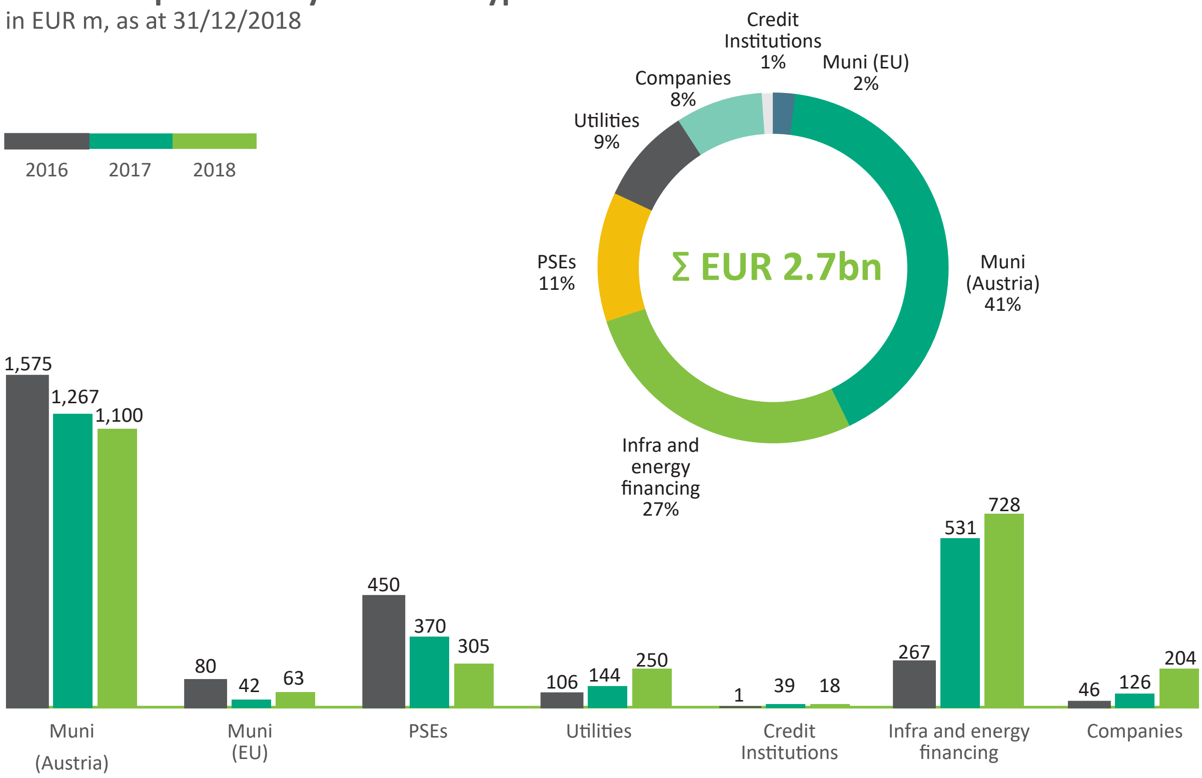
In the Energy & Environment segment, Kommunalkredit acted as mandated lead arranger in the EUR 1bn financing for the acquisition of SAUR by EQT Infrastructure. In the Social Infrastructure segment the bank was mandated lead arranger for the financing of an acquisition in the UK healthcare sector.

Total loan portfolio by region
in EUR m, as at 31/12/2018



[1]Euro zone without Austria
[2]Switzerland
[3]Turkey

Total loan portfolio by borrower type
in EUR m, as at 31/12/2018



Muni: Municipalities
PSEs: Public Sector Entities

2. High quality of the loan portfolio

The bank holds a loan portfolio of high asset quality without a single loan loss in the reporting year. As of 31 December 2018, the bank's portfolio had an average rating of "A-" with 82.4% of the loans being investment grade.

The non-performing-loan ratio (NPL) was maintained at 0.0% throughout 2018. The weighted average probability of default was 0.26% as of 31 December 2018. Kommunalkredit's loan portfolio is well-balanced comprising an increasing proportion of infrastructure and energy and finance transactions and a significant public sector loan book. As of 31 December 2018, loans to municipalities accounted for 43% of the portfolio (with Austrian municipalities making up 41pp), infrastructure and energy financings accounted for 27%, and loans to public sector enterprises had a share of 11%.

Geographically, Austria contributed 58% to the loan portfolio, followed by the rest of the euro zone with 25% and other EU countries with 13%.

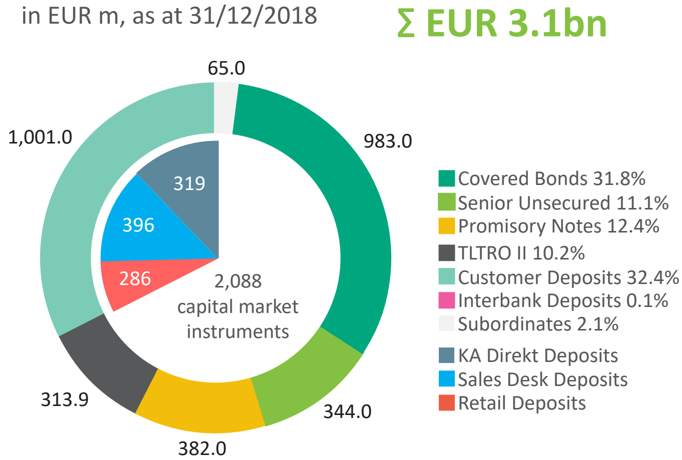
3. Funding position strengthened

As of 31 December 2018, Kommunalkredit reported a strong liquidity position with a free liquidity reserve of EUR 278.9m (31/12/2017: EUR 283.1m). This included high-quality liquid assets (HQLA) in the amount of EUR 249.0m (31/12/2017: EUR 133.1m). In addition, Kommunalkredit had cash and balances with central banks of EUR 314.4m (31/12/2017: EUR 318.1m).

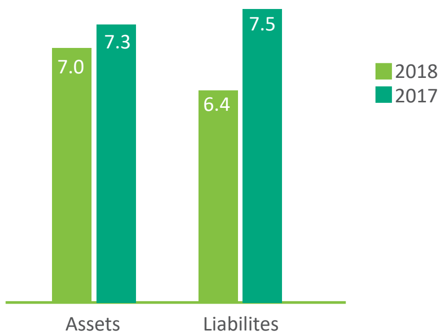
Liquidity reserve strongly contributed to a liquidity coverage ratio in excess of 450% at the end of 2018. The net stable funding ratio (NSFR) was at 104.7%.

During 2018, the bank succeeded in further strengthening its funding structure and broadening its investor base. 54.0% of the bank's funding stems from sources not available at the time of Kommunalkredit's privatisation in autumn 2015 including retail depo-

Funding structure
in EUR m, as at 31/12/2018



Weighted average term in years



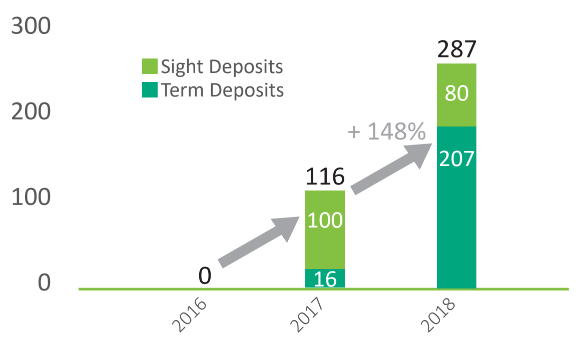
sits (KOMMUNALKREDIT INVEST), wholesale deposits (KOMMUNALKREDIT DIREKT and direct business with corporate customers) as well as new capital market funding via senior unsecured and covered bonds.

Amounts owed to customers increased to a total of EUR 1,348.3m (31/12/2017: EUR 1,038.9m). This positive development was primarily driven by the increase in customer deposits by 56.4% to EUR 1,008.1m (31/12/2017: EUR 644.4m). Amounts owed to customers also included long-term private placements of EUR 280.1m (31/12/2017: EUR 326.5m) and liabilities from collateral received in connection with derivatives of EUR 60.0m (31/12/2017: EUR 63.7m).

Customer deposits up by 56.4%

- Retail deposits (KOMMUNALKREDIT INVEST): The bank conducts its retail business via its online retail platform KOMMUNALKREDIT INVEST. After its market launch in Austria in September 2017, KOMMUNALKREDIT INVEST entered in the German retail market in January 2018. KOMMUNALKREDIT INVEST focuses on attaining term deposits for

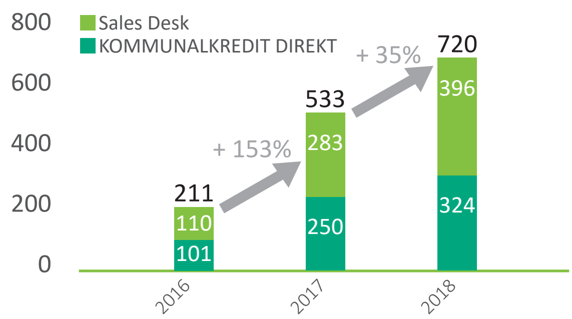
Retail deposits (KOMMUNALKREDIT INVEST)
in EUR m



terms of up to ten years. As of 31 December 2018, the bank had 5,063 retail customers (31/12/2017: 1,900). Compared to the end of 2017, the volume of deposits increased by 147.8% to EUR 286.7m (31/12/2017: EUR 115.7m). The proportion of term deposits increased significantly to 72.1% (31/12/2017: 13.1%), with term deposits with maturities of up to 12 months accounting for 48.8 percentage points and term deposits with maturities of more than 12 months for 23.3 percentage points.

- Wholesale deposits (KOMMUNALKREDIT DIREKT and direct business with corporate customers/ Sales Desk): With its online platform KOMMUNALKREDIT DIREKT, the bank offers an efficient invest-

Wholesale deposits
in EUR m



ment and cash management tool for municipalities and corporates. The continued strong growth of the platform confirms Kommunalkredit's close connection with its traditional municipal customer base in Austria. This is also reflected by the notable number of KOMMUNALKREDIT DIREKT depositors which are customers on the lending side as well (38%). Deposits by corporates equally showed continued growth. In total, wholesale deposits increased by 35% to EUR EUR 720.5m during 2018 (31/12/2017: EUR EUR 533.0m). The steady growth was accompanied by a trend towards longer maturities throughout 2018. With an average volume of about EUR 2.6m, wholesale deposits were highly granular.

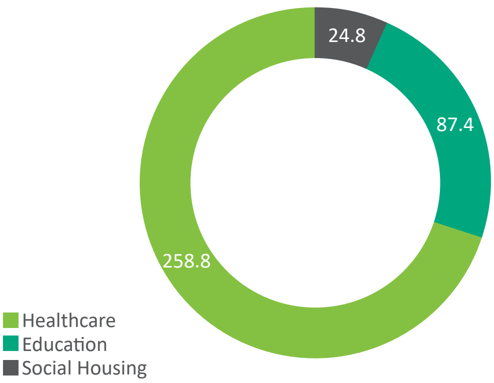
Capital market funding

Kommunalkredit's capital market activities were focused, in particular, on a series of small private placements of senior unsecured bonds with international investors and increasing duration. Within the framework of its Debt Issuance Programme launched in 2017, the volume of bonds issued by Kommunalkredit as of 31 December 2018 stood at EUR 61m, issued in 5 independent tranches. In July 2018, Kommunalkredit bought back a EUR 100m senior note.

Social covered bond – Social asset reporting as of 31/12/2018

As of 31 December 2018, Kommunalkredit's social asset portfolio had a total volume of EUR 371.1m originated in the areas of education, healthcare and social housing. Kommunalkredit reports annually the use of proceeds from the issuance of its social covered bond (per 30 June).

Social covered bond –
Social asset reporting as at 31/12/2018
in EUR m



Strong liquidity ratios

The liquidity coverage ratio (LCR), which measures the short-term resilience of a bank's liquidity risk profile over a 30-day scenario, is closely monitored as part of the bank's early warning system. With a ratio of 453.7% as of 31 December 2018 (31/12/2017: 449.9%), Kommunalkredit significantly exceeded the regulatory minimum ratio of 100%, effective since 1 January 2018.

The net stable funding ratio (NSFR), which shall require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities under future Basel III, was at 104.7% as of 31 December 2018 (31/12/2017: 101.5%).

4. Rating

Kommunalkredit's unsecured debt issues have a long-term rating of "BBB (low)" and a short-term rating of "R-2 (mid)" from DBRS. The ratings were confirmed on 8 October 2018 with the outlook being lifted to stable. On 1 August 2018, Standard & Poor's confirmed its "A" rating of Kommunalkredit's covered bonds, which reflects the high quality of the underlying cover pool.

Widely diversified transaction activity

SELECTED REFERENCE PROJECTS 2018

nöGIG Broadband
(Austria)

Kommunalkredit played a pathfinding role as mandated lead arranger and sole lender for nöGIG in the EUR 46.5m senior debt financing for the roll-out of the ultra-high speed broadband in selected rural areas. nöGIG is a fully owned subsidiary of the province of Lower Austria founded in 2014. This pilot scheme represented phase 1 of the complete roll-out of glass fiber networks in Lower Austria. Kommunalkredit intends to remain on the forefront of financing glass fiber networks capacity in its Austrian home market. Therefore, the bank is also participating in phase 2 of the roll-out in Lower Austria which is currently being tendered by nöGIG.

Takeover of SAUR by EQT
(France)

Kommunalkredit acted as mandated lead arranger in the EUR 1bn financing of the acquisition of SAUR by EQT Infrastructure. SAUR is the third-largest water supplier in the French market, with 9,000 employees serving 13m consumers. Its customers include municipalities and industrial companies, which it supports primarily in the areas of water and waste water management. In addition to its home market in France, SAUR is active in Scotland, Spain, Poland and Saudi Arabia.

Merger of GlobalConnect and Broadnet
(Norway/Denmark)

Kommunalkredit provided a significant underwriting in the EUR 940m financing raised for the merger of GlobalConnect A/S and Broadnet Holding AS. The combination of the two telecommunication companies creates one of the leading providers for fibre optics-based communications in Northern Europe. GlobalConnect has a 15,300 km fibre optic network in Denmark and Northern Germany. Broadnet adds more than 24,000 km of fibre optics in Norway to this infrastructure. The newly merged telecommunication provider will serve corporate customers in Scandinavia and Germany and expand in key markets.

Toll road AP-46 in Andalusia
(Spain)

Kommunalkredit participated as sole mezzanine arranger and underwriter in the EUR 279m refinancing of the Autopista del Guadalmedina (AP-46) in Spain. The overall project comprises the planning, construction, financing, operation and maintenance of the 28km toll road. The road augments the Andalusian motorway network as a main route between central Spain and the Costa del Sol/Malaga. As an alternative to the toll-free A-45, it provides a highly reliable, comfortable and faster link to the Southern part of the country, reduces congestion and brings a lasting improvement to the local infrastructure. The AP-46 was opened in 2011.

Concession for Nikola Tesla Airport
(Serbia)

Kommunalkredit acted as mandated lead arranger in the EUR 420m financing raised for the Nikola Tesla Airport concession in Belgrade. The concession has been awarded to the French giant VINCI Airports under a 25-year tenor to operate the Serbian airport. In the coming years under the concession, the investor targets to expand Belgrade Airport into one of the major hubs in Southeast Europe, contributing to economic growth and increase in tourism. VINCI Airports ranks among the top 5 players globally and operates 45 airports worldwide.

Deutsche Glasfaser
(Germany)

Kommunalkredit acted as mandated lead arranger for Deutsche Glasfaser in the refinancing of a debt package worth EUR 650m for the broadband-expansion in rural Germany. Deutsche Glasfaser is Germany’s leading FttH-player (Fibre-to-the-Home), providing retail customers in rural areas with ultra-high-speed broadband connectivity. The company intends to spend EUR 1.5bn on the expansion of its rural broadband network to reach 1m households and companies over the next few years.

Tram Line 1 in Zaragoza
(Spain)

Kommunalkredit acted as mandated lead arranger for Sociedad de Economia Mixta Los Tranvias de Zaragoza S.A. in the EUR 165m refinancing of a 12.8 km tram line in Zaragoza, Spain’s fifth largest city with 661,000 inhabitants. The project covers the refinancing of the operation and maintenance of the tram line 1 with 33 stations, crossing the City of Zaragoza from North to South. Since the project got fully operational in March 2013, passenger demand has continuously grown. In 2015, the tram carried around 23% of the total users of public transportation in Zaragoza.

A2 Section Toll Road
(Poland)

Kommunalkredit acted as joint structuring bank and mandated lead arranger for Autostrada Wielkopolska S.A. in the EUR 540m refinancing of the A2 Section I toll road in Poland.The A2 forms part of Poland’s strategic Berlin-Warsaw corridor providing one of the most important transportation links between Western and Central Europe (part of the Trans-European Transport Network). The traffic showed resilience during the economic downturn and the past performance shows sustained demand for traffic on the A2 corridor.

Credentials

SELECTED PROJECTS 2018 AND 2017

Belgrade Airport
EUR 1bn
Project Finance
Senior Lender
2018
Serbia

SAUR/HIME Water
EUR 1bn*
Aquisition Finance
MLA, Senior Lender
2018
France

Indigo Telecom
NOK 5.4bn*
DKK 2.8bn*
Aquisition Finance
Senior Lender
2018
Norway

Mirror Solar CSP
EUR 650m*
Project Finance
Senior Lender
2018
Spain

Autopista Guadalmedina
EUR 385m
Project Finance
Sole Junior Underwriter
2018
Spain

Axion Telecom
EUR 68m*
Aquisition Finance
Senior Lender
2018
Spain

NÖGIG Telecom
EUR 111m
Project Finance
MLA, Sole Lender
2018
Austria

A2 - Autostrada Wielkopolska
EUR 540m
Project Finance
MLA, Senior Lender
2018
Poland

Dt. Glasfaser Telecom
EUR 650m*
Project Finance
MLA, Senior Lender
2018
Germany

Tranvia Zaragoza Light Rail
EUR 165m*
Project Finance
MLA, Senior Lender
2018
Spain

Dt. Glasfaser Business
EUR 78m
Project Finance
Senior Lender
2017
Germany

Pedemontana Veneta Road
EUR 1.2bn
Project Finance
Joint Bookrunner, Underwriter
2017
Italy

Berresgasse School Campus	**Invitel Telecom**	**A 21 Motorway**	**Zagreb Airport**
EUR 46m	**EUR 217m**	**EUR 182m**	**EUR 195m**
PPP Advisor of the winning consortium	Acquisition Finance MLA, Senior Lender	Project Finance MLA, Senior Lender	Project Finance Senior Lender
2017 Austria	2017 Hungary	2017 Spain	2017 Croatia
A2 - Autostrada Wielkopolska II	**ELCH - East Lothian Hospital**	**Gipuzkoa Waste to Energy**	**Bursa Healthcare Campus**
EUR 400m	**GBP 78m**	**EUR 240m**	**EUR 503m**
Project Finance MLA, Senior Lender	Project Finance Senior Lender	Project Finance MLA, Senior Lender	Project Finance MLA, EBRD B-Loan Participant
2017 Poland	2017 Great Britain	2017 Spain	2017 Turkey
BNRG Solar PV Portfolio	**Parc Adfer Limited Waste to Energy**	**K3 CHP Limited Waste to Energy**	**A15 Road**
GBP 19.8m	**GBP 179m**	**GBP 468.5m**	**EUR 883m**
Project Finance MLA, Sole Mezzanine Lender	Project Finance Senior Lender	Project Finance Senior Lender	Project Finance Senior Lender
2017 Great Britain	2017 Great Britain	2017 Great Britain	2017 Netherlands

* Total debt

Assets, Financial Position and Income

FINANCIAL PERFORMANCE INDICATORS OF KOMMUNALKREDIT AUSTRIA AG UNDER LOCAL GAAP

Selected balance sheet figures in EUR m	31/12/2018	31/12/2017
Total assets	3,478.8	3,273.5
Cash and balances with central banks	314.4	318.1
Public-sector debt instruments and bonds	418.2	285.4
Loans and advances to banks	97.8	139.5
Loans and advances to customers	2,520.8	2,439.4
Amounts owed to banks	496.0	534.7
Amounts owed to customers	1,348.3	1,038.9
Securitied liabilities	1,238.0	1,289.8
Fund for general banking risks (§ 57 (3) Austrian Banking Act)	40.0	40.0
Equity	223.6	204.7

Selected income statement figures under local GAAP in EUR m	1/1-31/12/2018	1/1-31/12/2017
Net interest income	37.7	32.8
Net fee and commission income	14.1	8.5
General administrative expenses	-45.4	-45.7
Other operating income	11.1	23.7
of which income from services provided for KA Finanz AG & Kommunalkredit Public Consulting	*10.5*	*14.1*
of which income from the transfer of real estate assets	*0.0*	*8.6*
Other operating expenses	-0.8	-0.7
of which stability tax	*-0.6*	*-0.7*
Operating result (adjusted)[1]	22,2	13.5
Operating result	16.8	18.6
Loan impairment, valuation and sales result[2]	12.9	-0.2
Net allocation to provision (§ 57 (1) Austrian Banking Act))	0.9	-3.8
Profit on ordinary activities	29.7	18.3
Taxes on income	0.7	-0.1
Profit for the year after tax	30.4	18.9

[1] Operating result adjusted for restructuring costs, the stability contribution, resolution fund contribution and income from equity participations.
[2] The improvement in the loan impairment, valuation and sales result is mainly due to income from the buy-back of own issues and the sale of asset positions in 2018 as well as the change in provisions pursuant to section 57 (1) Austrian Banking Act.

Key indicators in EUR m or %	2018	2017
Total risk exposure amount pursuant to Art. 92 CRR (risk-weighted assets)	1,334.7	992.4
Own funds[3]	323.7	297.2
Total capital ratio	24.3%	29.9%
Common equity tier 1[3]	265.5	233.0
Common equity tier 1 ratio	19.9%	23.5%
Number of shares	31,007.059	31,007.059

[3] Own funds/common equity tier 1 taking into account Kommunalkredit´s profit for the year under local GAAP of EUR 30.4m.

Rating	31/12/2018	31/12/2017
Long-term DBRS	BBB (low) stable outlook	BBB (low) negative outlook
Short-term DBRS	R-2 (mid)	R-2 (mid)
Covered bonds S&P	A	A

Balance sheet structure

Total assets under local GAAP amounted to EUR 3.5bn as of 31 December 2018 (31/12/2017: EUR 3.3bn). The main balance sheet items were loans and advances to customers of EUR 2.5bn (31/12/2017: EUR 2.4bn) and bonds and debt securities of EUR 0.4bn (31/12/2017: EUR 0.3bn).

Income position

Kommunalkredit Austria AG reported an operating result of EUR 16.8m for 2018 under local GAAP (2017: EUR 18.6m). The bank significantly strengthened its operational earnings power in 2018. This is highlighted by the adjusted operating result, which is calculated as operating result adjusted for restructuring costs, the stability contribution, resolution fund contribution and income from equity participations. The adjusted operating result rose by 65.1% to EUR 22.2m (2017: EUR 13.5m). The loan impairment, valuation and sales result accounted for EUR 12.9m (2017: EUR -0.2m), primarily due to a positive impact from the buyback of own bonds. Profit on ordinary activities increased by 62.3% to EUR 29.7m (2017: EUR 18.3m). After-tax annual profit rose by 61.2% to EUR 30.4m (2017: EUR 18.9m).

The main income and expense items in 2018 under local GAAP are shown below:

- **Net interest income**
  Net interest income rose 14,8% to EUR 37.7m (2017: EUR 32.8m), with the increase being driven by the EUR 15.7m contribution of the infrastructure and energy financing business (2017: EUR 8.1m).

- **Net fee and commission income**
  As a result of the emphasis on its advisory and structuring activities, Kommunalkredit increased its risk-free net fee and commission income by 67.4% to EUR 14.1m (2017: EUR 8.5m), thereby further improving earnings quality. Fee and commission income from the bank's lending business and services came to EUR 15.3m (2017: EUR 10.2m), while fee and commission expenses were EUR 1.2m (2017: EUR 1.7m).

- **General administrative expenses**
  General administrative expenses decreased by 0.7% to EUR 45.5m (2017: EUR 45.7m). General administrative expenses comprised personnel expenses of EUR 28.8m (2017: EUR 29.8m), other administrative expenses of EUR 15.0m (2017: EUR 14.9m) and the contribution of EUR 1.6m to the Bank Resolution Fund (2017: expense of EUR 0.9m following release of a EUR 0.8m provision).

- **Other operating income**
  Other operating income accounted for EUR 11.1m (2017: EUR 23.7m), primarily comprising income of EUR 10.5m from the provision of operational services to KA Finanz AG and Kommunalkredit Public Consulting GmbH (2017: EUR 14.1m). In 2017 other operating income included a one-off profit of 8.6m resulting from streamlining the legal structure of Kommunalkredit's real estate assets and participations.

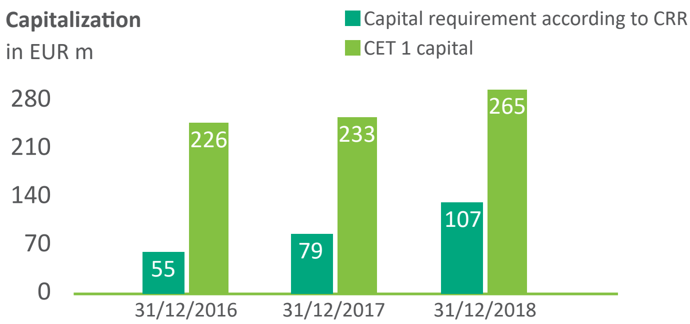
- **Other operating expenses**
  Other operating expenses of EUR 0.8m (2017: EUR 0.7m) mainly included expense for the stability contribution payable by Austrian banks.

- **Loan impairment, valuation and sales result**
  The loan impairment, valuation and sales result amounted to EUR 12.9m (2017: EUR -0.2m) and contained a positive EUR 12.2m (2017: EUR 6.2m) one-off effect from the buyback of own bonds. As in the previous year there were no credit defaults in 2018; the non-performing loan ratio remained at 0.0%. The allocation of loan impairment charge amounted to EUR -1.5m (2017: EUR -0.3m) the first-time application of the statistically calculated provision for expected credit losses.

Risk-weighted assets and regulatory capital

As of 31 December 2018, Kommunalkredit reported a total capital of EUR 323.7m (31/12/2017: EUR 297.2m) and common equity tier 1 capital (CET 1) of EUR 265.5m (31/12/2017: EUR 233.0 m). Risk-weighted assets rose by 34.5% in 2018 to EUR 1,334.7m (31/12/2017: EUR 992.4m) due to the higher risk-weighting of Kommunalkredit's infrastructure and energy financing new business compared to the decreasing existing portfolio that predominantly comprises business with Austrian regional authorities.

Risk-weighted assets and regulatory capital



Kommunalkredit reported a total capital ratio of 24.3% as of 31 December 2018 (31/12/2017: 29.9%) and a CET 1 ratio of 19.9% (31/12/2017: 23.5%). The reduction in the capital ratios is a result of Kommunalkredit's efficient employment of capital for new business growth, which is reflected in its earnings. The leverage ratio as of 31 December 2018 amounted to 7.6% (31/12/2017: 7.3%).

Kommunalkredit is subject to the capital requirements set out in Article 92 CRR and the related Supervisory Review and Evaluation Process (SREP). On the basis of these parameters, as of 31 December 2018 Kommunalkredit was required to maintain a minimum CET 1 ratio of 6.87%, a minimum core capital ratio of 8.47% and a minimum total capital ratio of 10.67%. The bank significantly exceeded these requirements. Kommunalkredit's capital amounts are based on the non-consolidated financial statements of Kommunalkredit pursuant to the Austrian Commercial Code/Austrian Banking Act taking into account the annual result for 2018.

Kommunalkredit is part of a group of credit institutions whose ultimate parent is Satere Beteiligungsverwaltungs GmbH (Satere). As of 31 December 2018, the consolidated total capital ratio accounted for 23.7% (31/12/2017: 29.2%) and the consolidated CET 1 ratio for 19.4% (31/12/2017: 22.8%).

Public sector covered bonds / Cover pool

As of 31 December 2018, Kommunalkredit had a well-diversified cover pool with a value of EUR 1.1bn, while EUR and CHF denominated public sector covered bonds in an amount of approximately EUR 982.9m were outstanding. The cover pool as of 31 December 2018 consisted of assets from Austria (98.1%) and Germany (1.9 %). 91.0% of the pool had a rating of "AAA" or "AA" and 9.0% had a rating of "A".

Kommunalkredit has made a voluntary commitment to maintain a level of nominal over-collateralisation equal to approximately 10% of the redemption amount of its outstanding covered bonds. The level of over-collateralisation as of 31 December 2018 was 16.2%.

Strengthening capital base

Kommunalkredit has a solid capital that is to be further strengthened to support future growth. The Executive Board will propose to the Annual General Meeting that the profit for the year in the amount of EUR 30.4m will be retained. In December 2018 the Supervisory Board of Kommunalkredit decided to call up EUR 20m of the EUR 79.7m capital approved by the March 2017 Annual General Meeting and raise the level of approved capital back to EUR 79.7m. It is planned to undertake such a capital increase in the second quarter of 2019. Together with retention of the annual profit, this results in an overall strengthening of the bank's capital by an amount of EUR 50.4m.

Equity Participations

FOCUS ON CORE BUSINESS

Kommunalkredit Austria AG has holdings in a number of affiliated companies. Kommunalkredit Public Consulting GmbH (KPC), the companies of the Fidelio KA Infrastructure Debt Fund platform and Kommunalnet E-Government Solutions GmbH (Kommunalnet) are strategic investments while the holding in TrendMind IT Dienstleistung GmbH (TrendMind) and affiliated companies relating to the property of the bank (serving as head office) are primarily to support the core business.

Participations of Kommunalkredit Austria AG (Participations > 20 %)	Financial statement disclosures (local GAAP)						
	Investment		Extent of investments in %	Most recent financial statements	Total assets in EUR 1,000	Equity in EUR 1,000	Profit/loss for the year in EUR 1,000
Name and registered office	direct	indirect					
I. Participations							
Kommunalnet E-Government Solutions GmbH, Vienna	x		45.00%	31/12/2018[1]	1,298.6	1,012.3	94.1
Kommunalleasing GmbH, Vienna	x		50.00%	31/12/2018[1]	99,304.5	-15,509.6	957.4
II. Affiliated companies							
Kommunalkredit Public Consulting GmbH, Vienna	x		90.00%	31/12/2018	6,987.7	1,487.7	576.7
Kommunalkredit KBI Immobilien GmbH, Vienna	x		100.00%	-	49.9	49.9	15.0
Kommunalkredit KBI Immobilien GmbH & Co KG, Vienna	x		100.00%	-	32,068.5	32,068.5	-12.8
Fidelio KA Beteiligung GmbH, Germany	x		85.00%	31/12/2018[1]	62.8	61.0	-4.5
TrendMind IT Dienstleistung GmbH, Vienna	x		100.00%	31/12/2018	675.8	467.1	216.1

[1] Preliminary unaudited figures.

Kommunalkredit Public Consulting GmbH (KPC)

Consulting – Funding – Protecting

Kommunalkredit Public Consulting GmbH (KPC) is a specialist provider of management services for public support programmes and consulting services for national and international organisations.

Funding programme management

In 2018, KPC endorsed funding from support programmes of EUR 436.6m, primarily on behalf of the Federal Ministry for Sustainability and Tourism (BMNT) and the Climate and Energy Fund. This public funding resulted an investment volume of EUR 2,331.8m. KPC endorsed a wide range of funding initiatives in the energy supply, energy efficiency,

Funding programme management KPC in 2018					
Amounts in EUR m	Projects assessed	Total capital expenditure	Support granted	Projects cleared	Disbursement
Federal environmental support schemes	**16,270**	**1,848.2**	**374.5**	**17,432**	**561.0**
Water management	1,413	502.9	90.7	1,477	334.4
Environmental support in Austria	5,934	650.2	68.0	5,729	57.8
Consultancy services	2,066	1.2	1.2	2,066	1.2
Renovation support for businesses	180	55.9	10.4	221	9.4
Renovation support for private households	5,782	227,0	25,8	7,235	24.4
Remediation of contaminated sites	16	32.6	29.0	9	38.3
Protective water management	608	203.1	111.2	574	93.8
klimaaktiv mobil	2	0.8	0.2	4	0.0
Funding for international climate projects	4	1.7	1.7	5	1.6
EU con-financing (Environmental Support Act)	265	172.9	36.2	112	0.0
Climate and Energy Fund	**12,678**	**233.3**	**32.7**	**13,997**	**40.8**
Photovoltaics	5,462	60.1	7.1	6,160	8.0
Wood-fired heating and solar installations	3,783	59.4	5.1	4,129	5.5
Mobility management	2,888	84.7	7.5	2,972	9.6
Employment programmes	183	11.6	9.9	290	17.7
EU co-financing	362	17.5	3.1	446	0.0
Other programmes	**1,271**	**250.2**	**29.4**	**966**	**1.2**
Green electricity – hydro power plants	27	201.9	27.2	20	0.0
e-mobile Lower Austria	493	15.1	0.6	493	0.6
Salzburg Climate and Energy Pact	18	1.4	0,1	34	0.2
E-mobility Styria	216	6.4	0.2	216	0.2
Cool businesses in Styria	4	0.6	0.3	0	0.0
Add-on funding Tyrol	314	17.1	0.6	63	0.0
Add-on funding Vorarlberg	91	6.0	0.2	86	0.2
Photovoltaics Vienna	108	1.7	0.2	54	0.0
Total	**30,219**	**2,331.8**	**436.6**	**32,395**	**603.0**

Rounding differences may result from presentation in EUR m.

water, contaminated land remediation, transportation and e-mobility sectors. In 2018, a total of 30,219 projects were approved and 32,395 projects were settled across all of these sectors.[2] KPC acts as an interface between the authorities providing the financial resources and the applicants. It monitors projects throughout the entire term of the support process. Its scope of activity also includes the development and implementation of funding programmes.

Consulting

In the area of consulting, KPC works for national and international organisations and financial institutions. Its range of services includes technical and business consulting services, the undertaking of studies, capacity development and policy advice, particularly in Central Europe, Southeast Europe and Eastern Europe. Its customers include the European Commission, the European Bank for Reconstruction and Development (EBRD), the World Bank, the Organisation for Economic Cooperation and Development (OECD), the German Kreditanstalt für Wiederaufbau (KfW), the German Federal Ministry for the Environment and the Austrian Development Agency (ADA).

EUR 2.3 bn
investment volume managed in 2018

In 2018, KPC was awarded some attractive new contracts: It was engaged by KfW for the project Energy Efficiency in Public Buildings in the East Ukranian cities Saparoshie and in Zhytomyr. This project involves the identification of measures for the energy-efficient modernisation of public buildings in both of the cities, which can subsequently be financed by KfW. KPC was awarded new contracts by the EBRD in the water sector (Visoko Water System Supply Project – Financial and Operational Performance Improvement and Public Service Contracting in Bosnia and Herzegovina) and in the energy sector (e.g. continuation of the Western Balkans Green Economy Financing Facility – “WBGEFF”).

A key focus of KPC is on activities in the area of climate finance/sustainable finance. From 2003 to 2013, KPC managed the purchase of CO_2 emissions certificates from international climate protection projects for the Republic of Austria for meeting the Kyoto targets. KPC draws on its expertise in international climate protection in the provision of consulting services to clients, including the World Bank (the Pilot Auction Facility for Methane and Climate Change Mitigation) and KfW (administration of the Future of the Carbon Market foundation). KPC is also commissioned by the BMNT as a member of the Austrian negotiating team at global climate conferences. In 2018, it was awarded consulting mandates with the German Federal Ministry for the Environment in the area of Sustainable Finance and the EBRD’s project for EU Effort Sharing with a Green Investment Scheme (ESR-GIS), which involves the establishment of EU member state guidelines for sharing the burden related to EU climate targets.

Additionally, since 2008 KPC has provided the Climate Austria platform for the voluntary offsetting of CO_2 emissions, for example in relation to tourist traffic, in cooperation with numerous companies. The ISO certification for KPC’s consulting activities was re-confirmed in 2018.

[2] Payments are not made following approval, but following implementation of the project; the number of payments therefore includes projects from prior years.

Fidelio KA Debt Fund Platform

In the first half of 2018, Kommunalkredit set up the companies Fidelio KA Beteiligung GmbH, Fidelio KA Advisory GmbH and Fidelio KA Infrastructure Opportunities Fund GP S. à r. l. to establish the structures and prerequisites for launching funds for third-party investment in infrastructure and energy projects. The first close for the first sub-fund (the "Fidelio KA Infrastructure Debt Fund Europe 1") took place in the third quarter of 2018.

Kommunalnet E-Government Solutions GmbH

Kommunalkredit has a 45% holding in Kommunalnet E-Government Solutions GmbH (Kommunalnet). A further 45% is held by the Austrian Association of Municipalities and 10% is held by three of its regional organisations. Kommunalnet is the digital work and information portal for the Austrian municipalities, mayors and municipal employees. It provides current local news, access to relevant official databases and serves as a hub for information and communication between the federal government, the states and the municipalities. Kommunalnet is an official element of the Austrian e-government roadmap.

In 2018, Kommunalnet implemented numerous projects to further improve the support provided to the municipalities in carrying out their day-to-day work, broaden the scope of its business activities and thereby utilise growth potential. The main projects were the expansion of the Municipal Deals digital purchasing platform, the implementation of the e-academy and the launch of e-procurement.

At the end of 2018, Kommunalnet had 14,624 registered users from 2,055 Austrian municipalities and municipal associations. This gives Kommunalnet an exceptionally high market share of 95.99% in the municipality sector and consequently a unique position in the Austrian market.

Since April 2018, Kommunalnet has cooperated with Loanboox, a fin-tech company operating an online platform for municipal loans, in the field of municipal financing. With just a few clicks, local authorities can submit financing enquiries to numerous potential providers of capital via this platform. In Switzerland and Germany, Loanboox has already received financing enquiries for a total volume of CHF 10bn from over 1,000 users. Kommunalnet cooperates with Loanboox as its distribution partner in Austria. Since September 2018, Loanboox has also been available for Austrian municipalities. Within the framework of the cooperation, Kommunalnet is taking over the distribution of Loanboox in Austria. By the end of 2018, 30 municipalities and 12 financial institutions were registered.

TrendMind IT Dienstleistung GmbH

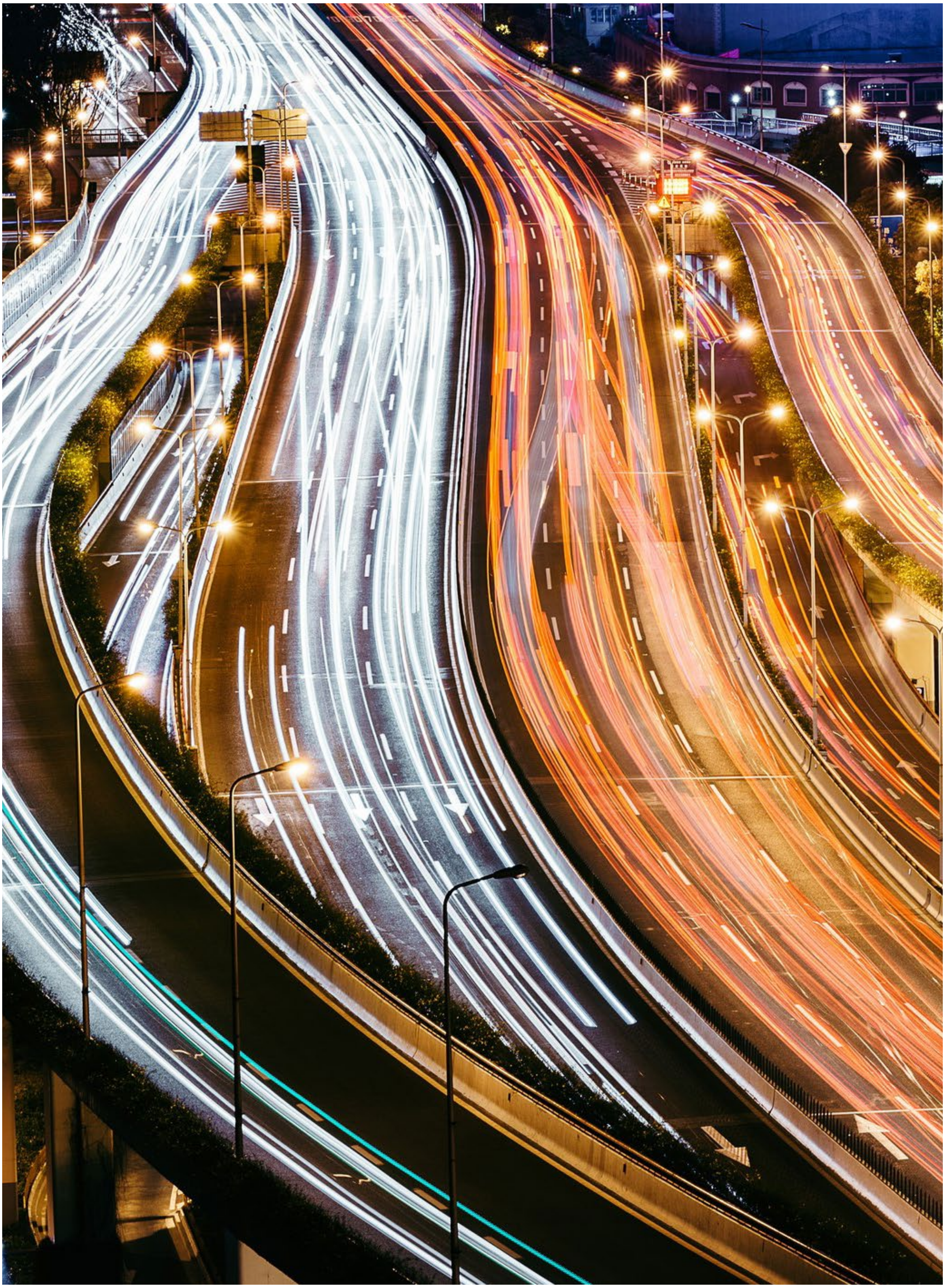
TrendMind IT Dienstleistung GmbH (TrendMind) is an expert IT provider in the areas of financial products, SAP and software for the management of support programmes. Alongside classic software development activities, its range of services includes consultancy and technical project management services. In these areas, TrendMind primarily supports clients from Austria and Germany in their operations and maintenance. TrendMind played a significant role in the success of the online investment platform project KOMMUNALKREDIT INVEST.

Kommunalkredit TLI Immobilien GmbH & Co KG

Kommunalkredit TLI Immobilien GmbH & Co KG owns and manages the properties at Tuerkenstrasse 9 and Liechtensteinstrasse 13. The office premises at the properties were let primarily to Group companies and to KA Finanz AG.

Kommunalleasing GmbH

Kommunalleasing GmbH is a 50% joint venture with BAWAG P.S.K. The company finances a portfolio of EUR 71.6m in the municipal leasing sector, comprising around 70 projects. It has not conducted any new business since August 2008 following changes to taxation legislation in relation to municipalities.



Employees

WE ARE KOMMUNALKREDIT

We made significant progress in the execution of our 50 I 50 I 10 strategic programme. This was thanks to the dedication of our employees. This success is their success!

The good performance of the bank is dependent upon the commitment and achievements of each individual. It also depends, however, on us pulling together and pursuing our goals collectively as a team.

We are a Team

Our success depends on us pulling together and pursuing our goals collectively as a team

And it depends upon each of us possessing the necessary skills to carry out our work to the best degree possible.

Training and professional development therefore play a strategic role in ensuring the success of Kommunalkredit. We support both the professional and personal development of our employees. We have a first-class team with extensive international know-how and a strong track record in the infrastructure business, and we are investing with the purpose of strengthening this competitive advantage.

Employee development, as one of the most important management responsibilities, for us means supporting employees with targeted measures to enable them to optimally perform their functions. We view employee development as a link between corporate strategy and the workforce. It is intended to foster the commitment and development of employees and management and makes an important contribution to us jointly realising our vision, executing our strategy and achieving our goals.

In 2018, we set the following priorities for **training and professional development:**

- We developed a coaching programme for managers, to support them in furthering their ability to carry out their strategic responsibilities.
- We implemented a Learning Management System with extensive e-learning modules, in order to be able to better meet statutory and regulatory requirements.

- We revised the employee performance review process as the basis for the agreement of objectives and development.
- We place great value on the involvement of all employees, so that we can benefit from our collective strength in the execution of our growth strategy.

The figures:

The headcount of the Kommunalkredit Group was 253 full-time equivalents (FTE) as of 31 December 2018 (31/12/2017: 284); thereof 162 in Kommunalkredit Austria AG (31/12/2017: 182), 88 in Kommunalkredit Public Consulting (31/12/2017: 88). 3 staff members were working exclusively for KA Finanz AG (KF), according to a staff leasing agreement. Kommunalkredit in addition provided operational services for KF under a service agreement (SA).

As of 31 December 2018, 44% of the employees of the Kommunalkredit Group were female, who also held 39% of executive positions. The average age of employees was 42. The percentage of university graduates remained high at 61%. As of 31 December 2018, 11 female employees and 6 male employees were on parental leave. In 2018, 7 male employees took paternity leave and another 3 took advantage of the so-called “Papamonat” provision included in the collective labour agreement for banks as of 1 July 2011, which allows new fathers to stay at home for one month after the baby’s birth, or the so-called “family time” provision for children born as of 1 March 2017 respectively.

The remuneration policy and practice of the Kommunalkredit Group is fully in line with the legal requirements for variable remuneration in banks pursuant to § 39b of the Austrian Banking Act and Art. 455 CRR (published in the Disclosure Report), including the implementation of a “Remuneration Committee” of the Supervisory Board.

Other Material Disclosures

CHANGES ON BOARD AND SERVICE AGREEMENT

Changes on the Executive Board and the Supervisory Board

On 1 September 2018, at the age of 66 and following 40 successful years in the banking industry, Alois Steinbichler handed over the chair of the Executive Board to Bernd Fislage, thus achieving management continuity. Bernd Fislage has been a member of the Executive Board since February 2017 and Co-Chief Executive Officer since March 2018.

Elected to the bank's Supervisory Board on 20 September 2018, Alois Steinbichler continues to contribute his wealth of experience to the benefit of the bank.

Jochen Lucht was appointed to the Executive Board on 1 July 2018. Since 1 September 2018, the Executive Board of Kommunalkredit Austria AG has consisted of Bernd Fislage (Chief Executive Officer), Jochen Lucht (Chief Financial Officer and Chief Operating Officer) and Jörn Engelmann (Chief Risk Officer).

Wolfgang Meister stepped down from the Executive Board on 6 March 2018. Katharina Gehra resigned from the Supervisory Board on 5 September 2018.

Service Agreement between Kommunalkredit and KA Finanz AG

Under the service level agreement (SA), which has been in place since 2009, Kommunalkredit provides operational services for the banking operations of KA Finanz AG (KF). As of 31 December 2018, 3 staff members were delegated to KF on a full-time basis under a staff services agreement. Kommunalkredit's expenses under the SA are charged to KF.

Within the framework of a public tender in the second quarter of 2018, KF decided to award the contract for the provision of services to another group of bidders. Therefore, the existing SA will expire as of 31 March 2019. Kommunalkredit will adjust its operational capacities accordingly.

Significant Events after the Balance Sheet Date

Changes on the Executive Board

Jörn Engelmann left the Executive Board on 31 January 2019 after the expiration of his contract. Since 1 February 2019, the Executive Board has consisted of Bernd Fislage (Chief Executive Officer) and Jochen Lucht (Chief Finance Officer, Chief Risk Officer and Chief Operating Officer).

Branch Offices

As of 31 December 2018, Kommunalkredit had a branch office in Frankfurt am Main, Germany.

Research and Development

Given the sector in which the company operates, statements on research and development do not apply.

Internal Control System (ICS)

TIGHT CONTROL OF KEY IN ACCOUNTING AND FINANCIAL REPORTING

The objective of the internal control system (ICS) is to support the management in the implementation of effective and continuously improving internal controls, especially in terms of compliance with the relevant legal provisions, the regularity of accounting practices, the reliability of financial reporting and the effectiveness and efficiency of operational processes. The ICS is intended to ensure compliance with guidelines and regulations as well as to establish the prerequisites for specific control measures applied in key accounting and financial reporting processes. Its primary goals include the correct and transparent disclosure of the assets, the financial position and the income of the company, as well as ensuring compliance with regulatory requirements.

The Kommunalkredit ICS comprises five interrelated components: control environment, risk assessment, control measures, information and communication, and supervision.

Control environment

The corporate culture within which management and staff operate forms the basis of the control environment. Central organisational principles include the avoidance of conflicts of interest through a strict segregation of front-office and back-office operations, the transparent documentation of core processes and control measures, and consistent adherence to the four-eyes principle. Furthermore, areas of responsibility and the scope of activity at top management level are defined and/or limited by the Supervisory Board committees in their various functions and the rules of procedure for the Executive Board.

The internal audit unit independently audits all departments to assess compliance with the internal rules on a regular basis. The head of the internal audit unit and the compliance officer report directly to the Executive Board and the Supervisory Board.

Risk assessment

The objective of Kommunalkredit's risk management activities is to record all identifiable risks and take mitigative and preventive measures where necessary through optimised processes. The risk management system comprises all processes serving to identify, analyse and assess risks. Risks are assessed and monitored by the management, with a focus on those risks viewed as material. The internal control measures taken by the responsible units are evaluated on a regular basis.

Control measures

Kommunalkredit has a control system which defines the structures, processes, functions and roles within the company as well as the related control activities. It provides explicit instructions on how to deal with and/or enforce standard operating procedures or guidelines. This also applies to information processing, the documentation of information sent and received, and the avoidance of transaction errors.

All control measures are implemented to ensure that potential errors or deviations are prevented and/or identified and corrected.

IT security control measures are an essential component of the internal control system. The separation of sensitive activities is supported through a restrictive policy of granting IT user authorisations; compliance with the four-eyes principle is strictly observed.

Information and communication

The individual units at Kommunalkredit – in particular the risk controlling and accounting units – submit regular reports, primarily monthly and quarterly results, to the Executive Board. The Executive Board in turn reports regularly to the Supervisory Board. The head of the internal audit unit and the compliance officer also report directly to the Supervisory Board. Furthermore, the risk managers in the credit risk management and risk controlling units report to the Risk Committee of the Supervisory Board.

Comprehensive reports are submitted to the Supervisory Board and its committees on a regular basis. The information provided comprises company accounting data (balance sheet and income statement, budget and capital budget, comparison of actual figures to target figures and comments on significant developments), quarterly risk reports, liquidity risk analyses in relation to the markets department and analyses of banking activities. The shareholders, investors and market partners as well as the public are informed through the half-year financial report and the annual financial report. Information is also communicated in the form of ad-hoc disclosures, as required by law.

Supervision

Financial statements to be published are subject to a final review, coordinated with the external auditor, and explicitly released by senior accounting staff and the Executive Board prior to their submission to the Audit Committee of the Supervisory Board. By monitoring compliance with all rules, Kommunalkredit aims to achieve a maximum level of security for all operational procedures and processes and ensure conformity with all group-wide and legal standards. If risks and weaknesses in the control system are detected, remedial and mitigative measures are immediately established and implementation of the follow-up steps is monitored. To ensure compliance with rules and guidelines throughout the bank, regular audits are performed in accordance with the annual audit plan drawn up by the internal audit unit.

Compliance and Anti-Money Laundering

MAINTENANCE OF HIGHEST COMPLIANCE STANDARDS

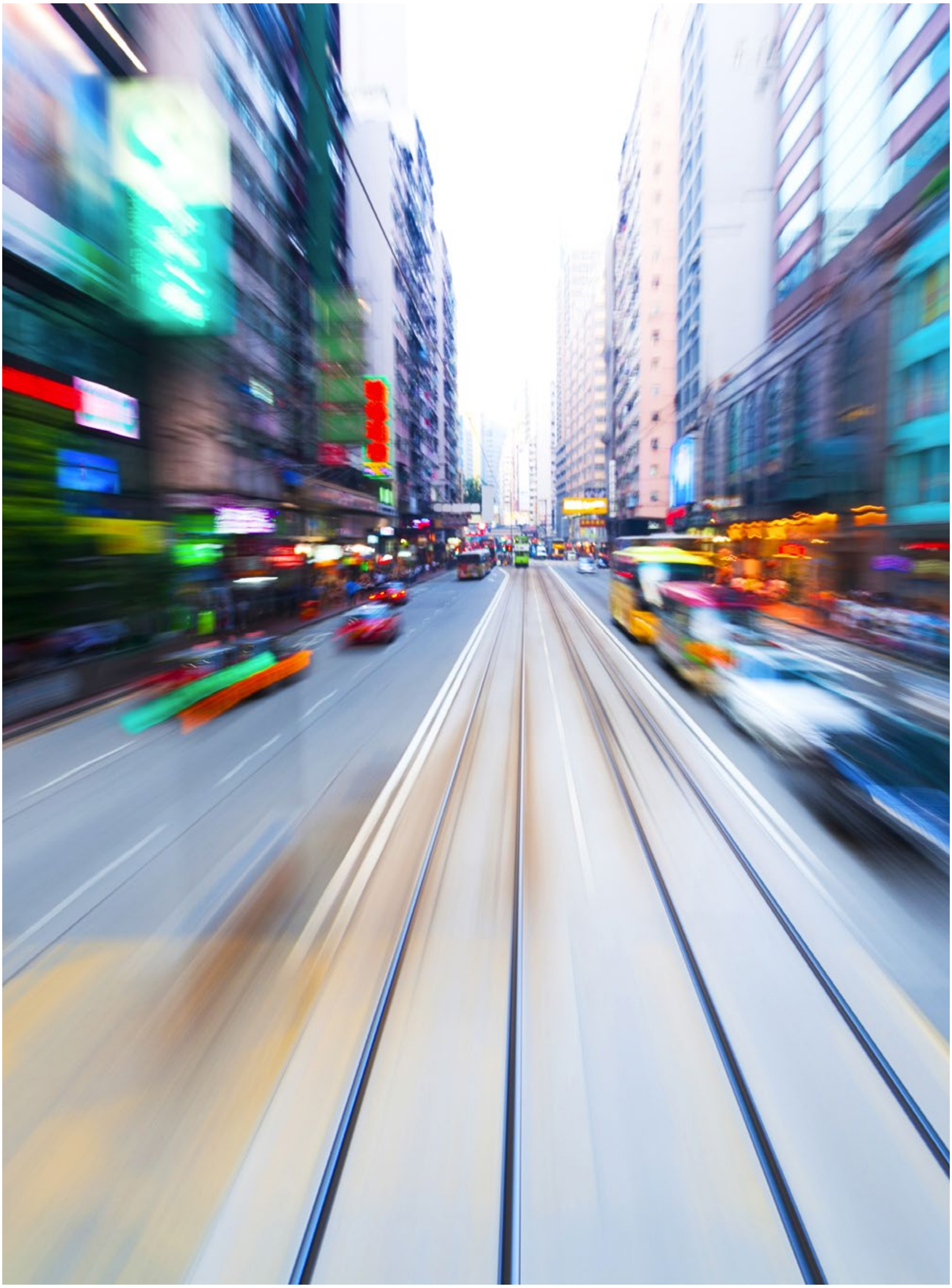
Kommunalkredit is committed to maintaining the highest compliance standards. The internal compliance code implements the stipulations set out in the relevant statutory provisions, such as the Stock Exchange Act 2018, the Securities Supervision Act 2018, the Commission Delegated Regulation (EU) 2017/565 and the EU Market Abuse Regulation. The key areas addressed by the compliance code, in alignment with the statutory requirements, are prevention of insider trading and market abuse, adherence to the code of conduct and the identification and avoidance of conflicts of interest.

The compliance function at Kommunalkredit is organised in accordance with the statutory provisions, headed by a compliance officer who reports to the Executive Board. A key responsibility of the compliance function is ensuring adherence to the legal requirements and code of conduct. In addition, Kommunalkredit has set the objective that the compliance function should take pre-emptive measures to identify and prevent any potential violation of legal requirements or internal policies, in order to avoid jeopardising the reputation of the company. Compliance is also responsible for updating the compliance code on an ongoing basis to account for legislative changes or new regulations, as well as for communication of these changes to employees. The compliance officer at Kommunalkredit is the point of contact for all employees in relation to these matters. He is also responsible for the mandatory compliance training for new employees as well as compliance training for employees in specified business areas on a regular basis.

The anti-money laundering officer is responsible for ensuring compliance with the provisions of the Financial Markets Anti-Money Laundering Act and the Beneficial Owners Register Act. He also reports to the Executive Board in this function. The regular training on anti-money laundering and terrorism financing issues enables the employees of Kommunalkredit to identify questionable transactions and business dealings at an early stage and inform the anti-money laundering officer.

Prevention

Key responsibility is ensuring adherence to the legal requirements



Corporate Governance

CLEAR STRUCTURES

Supervisory Board

In 2018, the Supervisory Board performed its duties, as set out in the Articles of Association and rules of procedure, in various ordinary and extraordinary meetings. Four ordinary Supervisory Board meetings, two extraordinary Supervisory Board meetings, two Audit Committee meetings, two Nomination Committee meetings, one Risk Committee meeting and one Remuneration Committee meeting were held during the year.

Executive Board

The Executive Board of Kommunalkredit consisted as at 31 December 2018 in the context of the management transition process of four, respectively three members. The allocation of tasks and the working procedures within the Executive Board are set out in the rules of procedure for the Executive Board. The members of the Executive Board also maintain a regular exchange of information with one another and with the respective responsible managers. The Executive Board informs the Supervisory Board regularly, promptly and comprehensively about all relevant developments in the business, including the risk position and risk management within the company and its material subsidiaries.

Additionally, in accordance with good corporate governance, regular exchanges of information take place between the Chairman of the Supervisory Board and the Executive Board. These address in particular the determination of strategy as well as information relating to the company's business performance and risk management. The Chairman of the Risk Committee is also kept regularly informed about risk management topics. Executive Board meetings are held weekly, with an agenda comprising items requiring resolution and to be reported along with corresponding minutes; follow-up points are agreed, recorded and closely monitored.

Internal Audit / Compliance and money laundering

Internal Audit reports monthly to the Executive Board and submits quarterly reports directly to the Supervisory Board. As well as ongoing contact in the day-to-day business, Compliance submits semi-annual written reports to the Executive Board. The compliance officer also acts as anti-money-laundering officer pursuant to § 23(3) of the Financial Markets Anti-Money Laundering Act (FM-GwG – Finanzmarkt-Geldwäschegesetz) and, as such, is responsible for measures to ensure compliance with the provisions of the Financial Markets Anti-Money Laundering Act, in particular the duties of diligence vis-à-vis customers as laid down in §§ 5ff. The semi-annual anti-money laundering and compliance reports are also submitted to the Supervisory Board.

Risk Management

RISK CONTROL AND MONITORING

Capital adequacy

In accordance with the agreed allocation of tasks, the members of the Executive Board share the responsibility for ICAAP (Internal Capital Adequacy Assessment Process). ICAAP is a core element of Pillar 2 of the Basel Accord, comprising all procedures and measures employed by a bank to ensure appropriate identification, measurement and limitation of risks, a level of capitalisation in line with the risk profile of the business model, and the use and ongoing further development of suitable risk management systems.

> **Capital adequacy assessment**
> **Kommunalkredit uses a detailed risk-bearing capacity analysis**

Kommunalkredit uses a detailed risk-bearing capacity analysis for the quantitative assessment of its capital adequacy. Alongside the regulatory perspective under Pillar 1, depending on the target pursued, two different risk management approaches are employed:

- Economic approach (liquidation perspective)
- Going concern approach

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

The risk management and ICAAP methods of the bank are reviewed annually. The monthly meetings of the Risk Management Committee (RMC) deal with credit, liquidity, market, operational and other risks on the basis of comprehensive reports. Other committees dealing with credit, capital and liquidity issues meet at least once a week/every two weeks (see also Notes to the Consolidated Financial Statements of the Kommunalkredit Group).

Risk management strategies and procedures

The instruments used by Kommunalkredit for the complete identification of the risk drivers of the business model are risk assessments and a risk map. Within the framework of risk assessment, the main types of risk for the bank are identified through a structured analytical process. Based on the results of the assessment, a risk map is drawn up for the bank as a whole, which contains a definition of risks, broken down by risk type, and assesses the individual risks in terms of significance, risk transparency, control frequency and limitation. The risk map serves to establish a uniform understanding of the risk concept and a uniform view of risk priorities, and to review the system for completeness and identify potential control gaps. The types of risk covered are those which are classified as highly relevant, but are characterised by low risk transparency and a low control frequency and are therefore given top priority in respect of further development needs. This analysis is performed annually.

The economic capital required for the main types of risk (in particular: liquidity risk, credit risk, market risk and syndication risk) is calculated by internal methods based on generally recognised principles of bank management. Additionally, a risk buffer is available for risks that cannot be sufficiently quantified (in particular: operational risk, reputation risk, legal risks and other risks) and to cover potential model inaccuracies.

Within the framework of the risk strategy for the main types of risk, the Executive Board specifies the principles for their adequate management and limitation. For each main type of risk and each field of business, the economic risk is limited in accordance with the risk-bearing capacity (ICAAP – Internal Capital Adequacy Assessment Process and/or ILAAP – Internal Liquidity Adequacy Assessment Process) and the risk appetite of the bank. Monthly reviews are performed to check the level of utilisation of the risk budget, as well as the risk appetite, for the entire bank and to verify that it is not overrun. Counterparty limits as well as the operational risk limits for the open FX position are reviewed on a daily basis. Kommunalkredit's business operations do not include any trading activities.

Kommunalkredit formally has a trading book, but its use is strictly limited. The transactions exclusively are risk-free through-trading activities within the framework of the provision of customer services. Trading activities aimed at generating a profit from short-term price differences and taking risk positions on the trading book are not part of Kommunalkredit's business and risk strategy and are forbidden under the bank's internal guidelines, the enforcement of which is supported by organisational measures.

Organisational structure of risk management and risk monitoring

The overall responsibility for ICAAP lies with the Executive Board. The risk-policy principles and the risk strategy are derived from Kommunalkredit's business-policy strategy. The Executive Board also decides on the risk management procedures to be applied and regularly informs the Supervisory Board and/or its committees (above all the Risk Committee, the Audit Committee and the Credit Committee) on Kommunalkredit's risk position.

Kommunalkredit has established an organisational structure for risk management, which clearly defines and sets out the tasks, competences and responsibilities within the framework of the risk management process. Risk-taking organisational units (front office) are clearly separated from organisational units in charge of the monitoring and communication of risks (back office) at all levels up to the Executive Board.

The Chief Risk Officer (CRO) is a member of the Executive Board. The function receives technical and operational support from Risk Controlling and Credit Risk Management. Together, these functions independently perform the tasks of a risk management pursuant to § 39 (5) of the Austrian Banking Act and report directly to Kommunalkredit's Executive Board.

Thus, the organisational structure fully meets the regulatory requirement of separation between front-office and back-office functions.

Pursuant to § 39d of the Austrian Banking Act, a Risk Committee of the Supervisory Board has been set up. The committee's mandate includes, in particular, advising the management on the current and future risk appetite and risk strategy of the bank, monitoring the implementation of this risk strategy in connection with the management, monitoring and limitation of risks, and monitoring the capital position and the liquidity position of the bank. Besides the reports submitted by the Risk Committee, the Supervisory Board regularly receives information on the risk position of the bank through comprehensive quarterly risk reports and a monthly key data sheet showing the development of the most important capital, earnings and risk indicators.

Risks are managed and monitored by the Risk Management Committee (RMC), the Asset-Liability Committee (ALCO) and the Credit Committee.

The Risk Management Committee (RMC) constitutes the central element of the comprehensive risk management process, providing information to the Executive Board on the overall risk position of the bank on a monthly basis. In organisational terms, Risk Controlling is in charge of this committee. The RMC is responsible for the establishment of guidelines for the implementation of the risk strategy and is in charge of limit setting (except country and counterparty limits) and limit monitoring by type of risk.

The Asset-Liability Committee (ALCO) supports the operational management of market and liquidity risks. In organisational terms, the Market Division is in charge of this committee. At its meetings, the committee evaluates the market situation, monitors the limits and discusses the management of interest rate and liquidity risks. In addition, a detailed daily liquidity monitoring process is in place.

The weekly Credit Committee (CC) meeting is the central element of the credit approval process and the continuous portfolio and single-name review process. In organisational terms, Credit Risk is responsible for this committee (analysis and assessment of single-name risks, casting of a second vote on credit approval and/or review, management of single-name risks and/or other risks, work-out cases, qualitative portfolio analyses and rating).

Risk Controlling is responsible for the quantification of risks and the aggregate risk cover as well as for the performance of stress tests.

The objective of asset and liability management is to optimise the use of capital resources in terms of risk and return within the framework of the bank's risk appetite and risk-bearing capacity.

The strategies, methods, reporting rules and organisational responsibilities for the management of risks are documented in writing in the ICAAP manual, in risk management manuals for each type of risk and in organisational guidelines, which can be downloaded via the Intranet in their current versions at any time by all staff members concerned.

The following types of risk were identified up to the balance sheet date and are continuously monitored at Kommunalkredit:

- **Credit risk**
  - Default and counterparty risk
  - Replacement risk in the event of counterparty default
  - Rating migration risk
  - Investment risk
  - Country and/or transfer risk
  - Settlement risk
  - Securitisation risk
  - Cluster risk
  - Concentration risk

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

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

- **Operational risk**
  - Risks from human failure, processes, systems and external risks
  - Legal risk
  - Risk from service level agreement (SLA) with KA Finanz AG
  - ICT risk

- **Funding risk**
  - BCVA risk*
  - Replacement risk through rating trigger

* Comprises CVA risk and DVA risk and is allocated in its entirety to the funding risk.

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

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

Risk-policy guidelines for risk management

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

- The limitation of risks at Kommunalkredit is commensurate with the bank's earning strength and its equity base.
- Kommunalkredit supports a risk culture characterised by a deliberate management of risks in day-to-day business, observance of the agreed risk appetite and the promotion of open dialogue on risk-related issues at all levels.
- Kommunalkredit only takes risks in fields of business and markets for which it owns or has access to the necessary expertise. Before activities are taken up in new fields of business or new products are sold, the risks involved and the suitability of the existing methods, instruments and processes for the management of such risks are analysed. For this purpose, a product approval process has been implemented at Kommunalkredit.
- As a matter of principle, any transaction through which Kommunalkredit deliberately takes risks should, viewed from the perspective of the entire business relation with the customer, generate a contribution margin that is commensurate with the risk. In its risk management, Kommunalkredit primarily focuses on covering unexpected losses, whereas expected losses are covered by the margins earned in the individual transactions.
- The expertise of Kommunalkredit staff and the systems in place must correspond to the complexity of the business model and have to be developed together with the core fields of business.
- In terms of organisational structure, a clear separation between risk-taking on the one hand and risk calculation and/or risk management on the other hand is essential. Conflicts of interest for staff members are avoided through a clear separation of the different fields of activity.
- Risk management is an integral component of the business process and is based on recognised methods of risk measurement, monitoring and control. For credit and market risks, this principle is applied on an economic basis (value-at-risk approach).
- All measurable risks are subject to a limit structure; regular monitoring of the observance of limits on the basis of transparent and uniform principles is obligatory. An escalation process applies in the event of limit breaches. A capital buffer is kept for risks that have been identified but are not/not yet sufficiently measurable.
- The risk measurement results have to be subjected to regular stress testing and taken into account in determining the risk-bearing capacity of the credit institution. The results of stress testing have to be related to a limit and/or a hedging target.
- Kommunalkredit's system of risk management provides for comprehensive, regular and standardised risk reporting, with reports on the risk position of Kommunalkredit being produced at least once a month and, if necessary, supplemented by ad-hoc risk reports.
- Core bank functions and important controlling function are not outsourced, unless an adequate level of qualified know-how and experience in these areas is maintained within the bank.
- An integrated IT infrastructure, as a prerequisite for the systematic reduction of risks from interfaces and data inconsistencies and as a basis for efficient reporting and data processing, constitutes an essential organisational and risk-policy objective.

Securing minimum capital adequacy

ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) are core elements of Pillar 2 of the Basel Accord and comprise all procedures and measures applied by a bank to ensure the appropriate identification, measurement and limitation of risks, a level of capitalisation in line with the risk profile of the business model, and the use and continuous further development of suitable risk management systems.

For the main types of risk (in particular: liquidity risk, credit default risk, market risk and syndication risk), the economic capital required to cover the risk is calculated according to recognised internal bank management procedures. In addition, a risk buffer is provided to cover risks that cannot be adequately quantified (in particular: operational risk, reputational risk, legal risks and other risks) as well as potential model inaccuracies. The economic perspective serves to secure adequate long-term capitalisation of the bank.

Kommunalkredit uses the method of risk-bearing-capacity analysis for the quantitative assessment of its capital adequacy, by which the economic risks are compared with the risk coverage potential. Depending on the hedging target pursued, two economic control loops are applied:

- **Liquidation perspective**
  (Economic control loop based on the principle of creditor protection)

  Hedging objective: The main focus is on the protection of creditors and on securing a level of capitalisation to ensure that, in the event of liquidation of the company, all lenders can be satisfied with a defined probability.

  Economic capital requirements (internal risk measurement) are compared with the company's own funds, adjusted for hidden burdens and reserves. The aggregate risk cover is determined on the basis of its present value ("full fair value" approach) and is therefore not subject to accounting and measurement rules. A confidence level of 99.95% is used in determining the economic risk.

  Risk status: As at 31 December 2018, the economic risks correspond to 34.1% (31/12/2017: 26.3%) of the aggregate risk cover, the **risk buffer** being **65.9%** (31/12/2017: 73.7%).

- **Going concern perspective**
  (Economic control loop based on the going-concern principle)

  Hedging objective: If the risks materialise, the survival of the bank as a going concern without additional equity is to be ensured with a defined degree of probability. The defined level of protection from risk under the going-concern perspective is a minimum tier 1 ratio of 12%.

  All risks impacting on profit and loss must be covered by the budgeted annual result, realisable reserves and the "free tier 1" capital. Free tier 1 is the tier 1 portion over and above the capital required to secure a tier 1 ratio of 12%. The aggregate risk cover is broken down into primary and secondary coverage potential, always considering possible realisation and external effects; early warning levels have been introduced. A confidence level of 95% is used in determining the economic risk.

  Risk status: As at 31 December 2018, the economic risks correspond to 52.4% (31/12/2017: 43.1%) of the aggregate risk cover, the **risk buffer** being **47.6%** (31/12/2017: 56.9%).

Alongside these economic control loops, compliance with regulatory/statutory minimum requirements and hedging objectives within the framework of medium-term planning and current capital budgeting is guaranteed.

Additionally, stress tests are performed regularly to test the robustness of the business model and to ensure capital adequacy. For this purpose, two different economic scenarios (general recession scenario and portfolio-specific stress) are defined and their impact on the bank's risk-bearing capacity is quantified. In addition to the stressed risk-bearing capacity, a stressed multi-year plan is drawn up for each scenario in order to test the stability of the business model over time. Besides the macroeconomic stress tests, reverse stress tests are performed. These are intended to show the extent to which parameters and risks can be stressed before regulatory or internal minimum requirements can no longer be met.

Credit risk management

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

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

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

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

Unexpected loss

To quantify the unexpected loss, monthly credit VaR calculations are performed to manage and limit the risk and to determine the economic capital required within the framework of risk-bearing-capacity analyses. Kommunalkredit uses a default model based on the CreditRisk+ approach to quantify the risk of unexpected default for credit risks. To calculate the credit VaR, rating-dependent one-year probabilities of default (PD) as well as regional and sector-specific loss ratios (LGD) are used. These parameters are reviewed and updated at least once a year and documented in a validation report.

From the **liquidation perspective,** the potential unexpected loss from credit defaults for a holding period of one year as at 31 December 2018 amounted to 7.6% (31/12/2017: 5.8%) relative to the economic aggregate risk cover.

From the **going-concern perspective,** the potential unexpected loss from credit defaults for a holding period of one year as at 31 December 2018 amounted to 18.7% (31/12/2017: 14.6%) relative to the economic aggregate risk cover.

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

Breakdown by rating

The breakdown of credit exposure by rating shows that the exposure is concentrated in the top rating categories: as at 31 December 2018, 42.9% (31/12/2017: 46.4%) of the exposure was rated “AAA”/“AA”; 82.4% (31/12/2017: 89.4%) was rated investment grade. Overall, the Kommunalkredit portfolio has a high asset quality; the exposure-weighted average rating of the total exposure is “A-” (according to Standard & Poor’s rating scale).

Breakdown of exposure* by rating 31/12/2018 in EUR m	Exposure	Proportion	of which securities	of which guarantees	of which loans
AAA	51.1	1.6%	35.3	0.0	15.8
AA	1,322.7	41.3%	197.9	0.0	1,124.4
A	510.5	15.9%	66.0	0.0	382.0
BBB	756.1	23.6%	119.0	4.8	591.5
BB	524.7	16.4%	0.0	0.0	514.4
B	40.1	1.2%	0.0	0.0	40.1
CCC	0.0	0.0%	0.0	0.0	0.0
D	0.0	0.0%	0.0	0.0	0.0
non-rated	0.0	0.0%	0.0	0.0	0.0
Total	**3,205.2**	**100.0%**	**418.2**	**4.8**	**2,668.2**

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

Breakdown of exposure* by rating 31/12/2017 in EUR m	Exposure	Proportion	of which securities	of which guarantees	of which loans
AAA	17.9	0.6%	0.0	0.0	17.9
AA	1,337.2	45.7%	93.9	0.0	1,242.7
A	461.9	15.8%	46.6	0.0	348.1
BBB	795.3	27.2%	145.0	6.0	599.2
BB	249.7	8.5%	0.0	0.0	249.7
B	61.1	2.1%	0.0	0.0	61.1
CCC	0.0	0.0%	0.0	0.0	0.0
D	0.0	0.0%	0.0	0.0	0.0
non-rated	0.0	0.0%	0.0	0.0	0.0
Total	**2,923.3**	**100.0%**	**285.4**	**6.0**	**2,518.8**

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

Concentration risk

Risk concentrations are taken into account in the process of loan origination, monitored in the course of the monthly credit risk reports to the RMC, and shown in reports to the Credit Committee and the Supervisory Board. The total portfolio is broken down according to different parameters (breakdown by country, region, top 20 “groups of related customers”, rating, sector); limits are set by top risk drivers, sectors and geographic regions. In addition, risk concentrations in individual sub-portfolios are identified by Credit Risk Management, which performs sub-portfolio analyses. Portfolio analyses comprise correlating regional and/or sectorial risks or risk concentrations and permit the early detection, limitation and management of risk portfolios under current and future conditions. Depending on the risk assessment, reviews are performed at different intervals, but at least once a year.

The exposure to the top 20 “group of related customers” comprises an exposure of EUR 0.6bn (31/12/2017: EUR 0.7bn) to the Austrian provinces, accounting for 42.2% (31/12/2017: 44.2)%) of the total exposure. It includes broadly diversified mortgage loans in a total amount of EUR 163.2m (31/12/2017: EUR 151.4m) that are guaranteed by the Austrian provinces concerned.

Economic country risk

Credit exposures are reported for the purpose of internal risk management on the basis of the economic country risk. Kommunalkredit’s country risk is reported monthly to the RCM and at least once a year to the Credit Committee of the Supervisory Board. For each country, information on the country rating, limit utilization and exposure by product type is monitored.

Geographically, most of the exposure is accounted for by EU Member States (EU, incl. Austria, 94.1%; 31/12/2017: 98.2%).

Breakdown of exposure by region 31/12/2018 in EUR m	Exposure	Proportion	of which securities	of which guarantees	of which loans
Austria	1,708.6	53.3%	152.6	1.3	1,551.6
EU-28 (European Union excl. Austria)	1,307.4	40.8%	190.6	3.5	1,008.9
of which EU-19 (euro area excl. Austria)	888.6	13.2%	158.0	3.5	665.9
Non-EU Europe	91.8	2.9%	9.0	0.0	76.8
Other	97.4	3.0%	66.0	0.0	31.0
Total	**3,205.2**	**100.0%**	**418.2**	**4.8**	**2,668.3**

Kreditexposureverteilung by region 31/12/2017 in EUR m	Exposure	Proportion	of which securities	of which guarantees	of which loans
Austria	1,826.2	62.5%	79.5	1.5	1,744.0
EU-28 (European Union excl. Austria)	1,044.0	35.7%	193.5	4.5	739.5
of which EU-19 (euro area excl. Austria)	564.2	19.3%	80.4	4.5	423.2
Non-EU Europe	9.0	0.3%	0.0	0.0	4.3
Other	44.1	1.5%	12.4	0.0	31.1
Total	**2,923.3**	**100.0%**	**285.4**	**6.0**	**2,518.8**

Exposure to sovereigns and territorial authorities as at 31 December 2018

Direct exposures to sovereigns and territorial authorities as well as exposures guaranteed by sovereigns in the countries of the euro area (EU-19) are broken down as follows:

31/12/2018 in EUR m	Exposure	of which sovereigns	of which territorial authorities	of which government-guaranteed
Austria	1,200.1	0.0	1,200.1	0.0
Germany	21.8	0.0	6.0	15.8
Ireland	20.2	20.2	0.0	0.0
Slovakia	13.6	13.6	0.0	0.0
Slovenia	25.8	25.8	0.0	0.0
Italy	0.0	0.0	0.0	0.0
Lithuania	18.6	18.6	0.0	0.0
Spain	23.2	15.9	7.3	0.0
Latvia	14.6	14.6	0.0	0.0

Except for Austria and Germany, these exposures refer, in particular, to securities held for the purpose of liquidity management. The comparative values of the previous year are as follows:

31/12/2017 in EUR m	Exposure	of which sovereigns	of which territorial authorities	of which government-guaranteed
Austria	1,346.1	0.0	1,346.1	0.0
Germany	25.1	0.0	7.2	17.8
Ireland	10.2	10.2	0.0	0.0
Slovakia	10.6	10.6	0.0	0.0
Slovenia	15.7	15.7	0.0	0.0
Italy	10.3	10.3	0.0	0.0
Lithuania	10.2	10.2	0.0	0.0
Spain	21.3	16.0	5.4	0.0
Latvia	0.0	0.0	0.0	0.0

Exposure to Austrian provinces as at 31 December 2018

Of Kommunalkredit's total exposure to Austria in a volume of EUR 708.6m (31/12/2017: EUR 1,826.2m), the following exposures are to Austrian provinces and/or provincial entities guaranteed by provincial governments:

31/12/2018 in EUR m	Direct exposure	Exposure guaranteed by provincial government	Total exposure
Province of Upper Austria	0.0	84.5	84.5
Province of Lower Austria	1.0	94.0	95.0
Province of Carinthia	12.6	91.8	104.4
Province of Styria	0.0	12.1	12.1
Province of Burgenland	0.0	97.6	97.6
City of Vienna	13.2	0.0	13.2
Total	**26.8**	**380.0**	**406.8**

The comparative values of the previous year are as follows:

31/12/2017 in EUR m	Direct exposure	Exposure guaranteed by provincial government	Total exposure
Province of Upper Austria	3.4	95.8	99.2
Province of Lower Austria	33.7	94.1	127.8
Province of Carinthia	0.0	127.1	127.1
Province of Styria	0.0	49.8	49.8
Province of Burgenland	0.0	99.5	99.5
City of Vienna	16.8	0.0	16.8
Total	**53.9**	**466.3**	**520.2**

In addition to the exposures listed in the above table, Kommunalkredit holds housing loans of Austrian provinces secured by mortgages in a total volume of EUR 163.2m (31/12/2017: EUR 151.4m), which are guaranteed by the provinces concerned (Upper Austria EUR 72.4m (31/12/2017: EUR 54.3m); Burgenland EUR 90.8m (31/12/2017: EUR 97.1m)).

Portfolio quality

Given the good ratings (weighted average rating of the total portfolio "A") and the degree of diversification, the portfolio quality is sound. This is also reflected in the non-performing-loan ratio of 0.0% as at 31 December 2018 (31/12/2017: 0.0%). Kommunalkredit had no financial assets (receivables) on its books that were more than 90 days past due, nor any substantial payment arrears of between 0 and 90 days.

Loan loss provisions

The portfolio is reviewed regularly for objective indications of impairments of customer exposures or exposures to "groups of related customers". Assessments of impairment are performed in the course of the annual rating updates, the annual rating review or on an event-triggered basis. Impairments to be booked for defaulting loans are determined by Risk Management, subject to approval by the Executive Board (see Note 8: Risk Provisions).

Counterparties with increased credit risk

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

- Risk class 0: Regular business
- Risk class 1: Intensive management / performing
- Risk class 2: Workout / restructuring
- Risk class 3: Workout / resolution

As at 31 December 2018, the exposure in risk class 1 (intensive management/performing) amounted to EUR 6.0m (31/12/2017: EUR 23.4m). This corresponds to 0.2% of the loan portfolio. None of Kommunalkredit's exposures are classified as risk classes 2 and 3.

Credit Risk Management continuously updates the list of counterparties with increased credit risk and submits monthly reports to the Credit Committee meeting, which then decides on the measures to be taken.

Investment risk

Given the nature of the participations held, the investment risk is of minor importance. As at 31 December 2018, the book value of investments was EUR 0.3m (31/12/2017: EUR 0.2m), affiliated companies amounted to EUR 32.7m (31/12/2017: EUR 32.6m).

Counterparty default risk from derivatives, repo transactions and securities transactions

Legally binding netting arrangements for derivatives and repo transactions (close-out netting) have been concluded with all active counterparties of Kommunalkredit. For derivatives, credit support agreements and/or collateral annexes to framework contracts providing for daily collateral margining in accordance with the bilateral collateralisation requirement of the European Market Infrastructure Regulation (EMIR) have been concluded with all active financial counterparties. The only exception are derivative agreements in the cover pool, for which framework agreements and netting arrangements have been made at market conditions (unilateral collateralisation by the counterparty, rating trigger).

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

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

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

Securities transactions are cleared mainly on the basis of “delivery against payment” via Euroclear and/or Clearstream.

Counterparty default risk positions are limited through volume-based counterparty and credit concentration limits, on the one hand, and credit-VaR-based portfolio limits, on the other hand. Given the settlement and clearing principles described above, the counterparty default risk from derivatives, repo transactions and securities transactions is immaterial.

The counterparty default risk from derivatives is calculated as a credit valuation adjustment (CVA) according to IFRS 13. Kommunalkredit calculates CVA and DVA (debt valuation adjustment), aggregated as BCVA (bilateral CVA), on the basis of the potential exposure method by means of Monte Carlo simulations. The risk of BCVA fluctuations (BCVA risk) is determined by means of a VaR-based approach.

Liquidity risk management

Based on the ILAAP (Internal Liquidity Adequacy Assessment Process) definition, Kommunalkredit distinguishes between the structural liquidity risk, the funding risk and the market liquidity risk. The structural liquidity risk (liquidity risk in the narrow sense of the term) arises if follow-up financing for asset portfolios cannot be secured according to the maturity schedules. The funding risk is determined by the degree of diversification of funding sources and the risk of potentially restricted access to certain main funding markets under stressed market conditions. The market liquidity risk consists in a possible increase of liquidity costs due to bank-specific or idiosyncratic factors (liability-side market liquidity risk), on the one hand, and the necessary acceptance of discounts or time delays in the realisation of a position due to its relative size and/or the absence of a liquid market (asset-side market liquidity risk), on the other hand.

Kommunalkredit distinguishes between short-term (up to one year) and long-term (more than one year) liquidity management.

Central elements of liquidity risk management include the following:

- Analysis of the liquidity position
- Reporting to the Executive Board and the Supervisory Board
- Determination of the medium- and long-term funding requirements, including a liquidity plan
- Scenario-based dynamic liquidity forecast for the base case and for a defined bad case, as well as liquidity coverage ratio (LCR) simulation
- Management and further development of the liquidity model
- Regular review and setting of internal transfer prices
- Securing of operational liquidity by defining time-to-wall hedging targets in order to ensure the survival of the bank for the defined minimum period even without access to money and capital markets.
- Internal limitation of maturity transformation by setting limits on structural liquidity gaps
- Regulatory limitation of maturity transformation through the liquidity coverage ratio and the net stable funding ratio
- A liquidity emergency plan with clearly defined responsibilities, reporting requirements and measures is in place in case a liquidity crisis occurs.

Operational liquidity risk (< 1 year)

For the purposes of short-term liquidity steering, the management uses short- and medium-term liquidity scenarios. These scenarios include not only contractually determined cash flows, but also expected cash flows from new issues, the termination of transactions, cash-out from new transactions, cash inflows from syndication agreements, retail deposits repayable on demand, repo prolongations and liquidity demand for cash collateral received (under credit support agreements/ISDA arrangements). The resulting liquidity gaps are managed daily in the short-term liquidity scenario, subsequently to be followed by monthly management.

The following table shows the expected liquidity gaps after the measures planned, the free liquidity reserve, and the net liquidity position resulting from the liquidity gap and the liquidity reserve:

31/12/2018 in EUR m	Expected liquidity gap	Available liquidity	Liquidity position
Up to one month	275.0	259.2	534.2
More than one month up to three months	137.4	2.8	140.2
More than three month up to one year	-132.1	10.4	-121.7
Total	**280.3**	**272.4**	**552.7**

The comparative figures for 2017 are as follows:

31/12/2017 in EUR m	Expected liquidity gap	Available liquidity	Liquidity position
Up to one month	273.9	183.7	457.6
More than one month up to three months	97.5	16.9	114.5
More than three month up to one year	214.5	-19.8	194.7
Total	**585.9**	**180.9**	**766.8**

Structural liquidity risk (>= 1 year)

For the purposes of liquidity management and the structural analysis of its liquidity risk position, Kommunalkredit analyses the expected capital flows over the entire term of all on-balance and off-balance transactions. Overhangs from capital inflows and capital outflows are monitored by maturity range and at cumulative level and provide the basis for strategic liquidity management.

Organisation and reporting

A projection of the operational liquidity risk, including an assessment of the additional liquidity available, is drawn up every other day and reported regularly to the Executive Board. In addition, ALCO meetings on operational and strategic liquidity management are held once every two weeks. The long-term liquidity risk is monitored and managed by the monthly RMC.

Emergency plan

The bank's liquidity emergency plan specifies the tasks and the composition of emergency units to be set up in a crisis, the internal and external communication channels and, if necessary, the measures to be taken. The emergency plan permits efficient liquidity management in a market environment in crisis and is activated by clearly defined events and/or early warning indicators. In the event of an emergency, liquidity management is taken over by the emergency unit, which then decides on the specific measures to be taken.

ILAAP

Introduced alongside ICAAP within the framework of Pillar 2 of the Basel Accord, the Internal Liquidity Adequacy Assessment Process (ILAAP) serves the purpose of safeguarding the adequacy of the bank's own liquidity risk management procedures.

The individual components of ILAAP cover:
- Liquidity risk strategy and tolerance
- Organisation / policies / processes
- Risk measurement and reporting
- Stress testing
- Liquidity ICS framework
- Emergency plan
- Funding plan

All ILAAP components form an integral part of the more comprehensive ICAAP, which covers all bank-specific risks, including the liquidity risks in all its forms.

Analysis of financial liabilities

The following table shows the maturities of contractual, non-discounted cash flows of financial liabilities as at 31 December 2018 (net for interest and currency swaps, gross for cross-currency swaps, positive value for payout overhang):

Cash flows in EUR m as at 31/12/2018	Liabilities at amortised cost	Derivatives designated as hedging instruments	Trading*
Up to one month	134.2	7.3	2.3
More than one month up to three months	139.3	2.1	4.2
More than three months up to one year	681.1	12.4	14.1
More than one year up to five years	1,614.4	37.0	56.4
More than five years	1,302.7	13.1	30.9
Total	**3,871.7**	**71.9**	**107.9**

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

The nominal amount of interest-rate and cross-currency swaps as of 31 December 2018 came to EUR 3.1bn (31/12/2017: EUR 3.1bn).
The comparative figures for 2017 are as follows:

Cash flows in EUR m as at 31/12/2017	Liabilities at amortised cost	Derivatives designated as hedging instruments	Trading*
Up to one month	147.5	1.8	3.6
More than one month up to three months	125.4	0.9	31.1
More than three months up to one year	378.7	14.1	26.6
More than one year up to five years	1,515.0	26.6	64.6
More than five years	1,555.3	15.7	37.1
Total	**3,721.8**	**59.1**	**163.1**

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

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

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

Market risk management

Interest rate risk

For the measurement, management and limitation of interest rate risks from positions not held in the trading book, Kommunalkredit distinguishes between the period-oriented repricing risk and the NPV-oriented risk of changing interest rates.

For the purpose of efficiently managing the interest rate risk and net interest income, Kommunalkredit uses an analysis and simulation tool (interest rate gap structure by currency, interest rate VaR, sensitivity analyses, simulation trades), which permits the forecast and targeted management of the bank's interest rate risk from positions not held in the trading book, the P&L sensitivity of the fair value portfolios according to IFRS, and net interest income for the period. To calculate the interest rate VaR, the variance/co-variance approach with a holding period of 20 trading days and a confidence interval of 95% is used, based on equally weighted historical volatilities and correlations.

Kommunalkredit's portfolio mainly comprises positions with clearly defined interest rate and capital commitment. As a rule, non-linear risks are completely hedged. Open positions are strictly limited and monitored. Retail deposits include positions without clearly defined interest rate and capital commitment (deposits repayable on demand). In principle, the interest rate commitment of deposits repayable on demand is modelled as a function of the pricing strategy. Non-linear risks that are not hedged are quantified through a scenario analysis and added to the interest rate VaR. Kommunalkredit uses the fully integrated SAP/SEM-IT system and the Numerix software for risk quantification.

For interest rate risk management by the RCM and ALCO, the gap structures, broken down by currency, are analysed and the price sensitivity of the overall position as well as the impact of interest rate changes on the net interest income of the period (repricing risk) are quantified for different scenarios. The repricing risk is measured daily for the main currencies of Kommunalkredit (EUR, USD, CHF, JPY) and communicated to Treasury as a basis for risk management.

For risk management purposes, Kommunalkredit differentiates between the following sub-portfolios:

- less-than-twelve-months interest-rate position (short-term ALM)
- more-than-twelve-months interest-rate position (long-term ALM)
- equity investment portfolio ("equity book")

An analysis and steering tool is used for the management of short-term, less-than-twelve-months interest risk positions, which permits the efficient management of the repricing risk by currency.

- Annual net interest income effect from Kommunalkredit's repricing risk as at 31 December 2018 in EUR million in the event of a parallel rise of short-term interest by +100bp:

EUR	USD	CHF	JPY	Other	Total
+0.4	0.0	-1.2	-0.2	-1.0	-1.0

- NPV risk of interest rate changes in Kommunalkredit's banking book as at 31 December 2018 in EUR million in the event of a +30bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total
+0.1	0.0	-0.8	+0.1	-0.1	+0.7

VAR total
9.3

- The comparative figures for 2017 are as follows:

- Annual net interest income effect from Kommunalkredit's repricing risk as at 31 December 2017 in EUR million in the event of a parallel rise of short-term interest by +100bp:

EUR	USD	CHF	JPY	Other	Total
+4.6	0.0	-0.3	0.0	0.0	+4.3

- NPV risk of interest rate changes in Kommunalkredit's banking book as at 31 December 2017 in EUR million in the event of a +25bp parallel shift in the yield curve:

EUR	USD	CHF	JPY	Other	Total
+1.7	0.0	-0.2	+1.0	-0.4	+2.1

VAR total
-1.1

Currency risk

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

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

Except for small residual positions, the open FX position according to Austrian GAAP is closed daily.

The FX VaR as at 31 December 2018 was EUR 0.003m (as at 31/12/2017: EUR 0.011m).

Spread widening risk

The spread widening risk is the risk of losses in value due to market-related changes in credit spreads. The credit spread risk of the IFRS P&L position in the event of spreads widening by 20 basis points (CS20) amounted to EUR 0.0m as at 31 December 2018.

The credit spread risk of the IFRS OCI position in the event of spread widening by 20 basis points (CS20) amounted to EUR 11.8m as at 31 December 2018.

Basis spread risk

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

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

As at 31 December 2018, the basis spread risk in the event of basis spreads widening by 1 basis point was EUR +0.1m (as at 31/12/2017: EUR +0.1m).

Option price risk

The option price risk for Kommunalkredit is the risk of changes in the market values of open option positions.

To measure the option price risk, a scenario matrix is used to determine interest rate shifts (-/+ 30bp), volatility shifts (-/+30%) and combined shifts.

The option price risk in the banking book calculated on the basis of the scenario matrix amounted to EUR -0.1m as at 31 December 2018 (as at 31/12/2017: EUR -0.8m based on a -/+50bp interest rate shift). However, the open option price risk in the banking book results almost exclusively from unilateral call rights of Kommunalkredit for own issues (i.e. Kommunalkredit has the right to call). As at 31 December 2018, there were no P&L-relevant option price risks.

Operational risk

Kommunalkredit defines operational risk as the possibility of losses occurring due to the inadequacy or failure of internal procedures (processes), people and systems or as a result of external events. The legal risk is part of the operational risk. External events classified as pure credit risk, market risk, liquidity risk or other types of risk with no operational background are not covered by this definition. Operational risk management (ORM) is intended to generate added value for the bank through the ORM process.

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

An operational default database as well as risk and control self-assessments are the instruments available for the management of operational risk. The operational default database represents a retrospective view, i.e. realised gains/losses from operational events in the past are recorded in the database and cleared for further processing by the line managers in charge. Operational risk and control self-assessments represent a prospective, future-oriented view. Risks are identified and their severity is subjectively assessed. At Kommunalkredit these assessments are performed as coached self-assessments, i.e. individual risks are assessed and evaluated by the units concerned. The entries in the operational default database serve as input and provide feedback for the revaluation of risks. The Executive Board and the senior management are informed about operational risks at the monthly RMS meetings.

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

Business Continuity Management

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

The annual resource assessment was performed, and the resources required in the event of a crisis were established. The annual business impact analysis (BIA), performed within the framework of the resource assessment, served to assess business processes and IT services for their criticality and to verify the time to full restoration of services. The emergency plans were revised at the same time. The annual emergency exercise was performed in the fourth quarter of 2018.

Outlook

Economic environment in 2019

Global GDP growth is expected to have peaked in 2018, however, the outlook for 2019 remains positive for the global economy as a whole. This is supported by prevailing monetary policy and strong job growth which is expected to continue to underpin domestic demand. Global GDP growth is projected to ease gradually to around 3.5% in 2019 and 2020. Growth for the euro zone is forecast to decrease to 1.9% in 2019 with expectations of a further decrease to slightly over 1.5% by 2020. Wage and price inflation are projected to rise moderately.[1]

Overall, the world economy is exposed to notably higher risks in the medium term. This is mainly due to uncertainty surrounding the future outcome of US-Chinese negotiations to avoid escalation of the trade disputes as well as address the existing trade restrictions. In addition to the punitive import tariffs in a magnitude of USD 50bn on Chinese goods initially imposed, the US could impose further tariffs on another USD 200bn of imports. With 1 March although, the scheduled tariff increase was suspended until further notice for the time being. Corporate profits are exptected to experience massive pressure in case of a tariff increase, especially those of US companies directly involved in bilateral trade with China. Consequently, the affected regions in Asia, which have been the most important driver of the global economy over the past ten years, would be subject to greater economic and market volatility. Also, the European Union and many other economies integrated in regional and global supply chains, including commodity exporters, will remain affected by these bilateral tariffs and the associated trade diversion effects, especially if additional tariffs are to affect imports in the automotive industry. The outlook for Europe is also exposed to specific additional risks, such as uncertainties about the future political orientation after the European elections and the materialization and real impact of the implementation of Brexit. In the event of a no-deal Brexit, Kommunalkredit has received temporary approval from the Bank of England to continue its business activities temporarily for up to three years after 29 March 2019. The bank does not expect a substantial impact from Brexit on its business.

On 13 December 2018, the ECB announced that it intends to continue reinvesting the principal payments from maturing securities purchased under the Asset Purchase Programme (APP) for an extended period of time past the date when it starts raising the key ECB interest rates. The APP will be continued as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. Also, the ECB will aim to maintain throughout 2019 the size of its cumulative net purchases under each constituent programme of the APP at their respective levels as at the end of December 2018. For

[1] OECD Economic Outlook, Volume 2018 Issue 2.

the time being, an increase in key lending rates is not foreseeable.[2]

The Fed, however, is expected to increase interest rates further during 2019. The prospect of a curve inversion should give the Fed leeway for scheduling future rate hikes on its anticipated path to further normalisation of US monetary policy.[3]

The European infrastructure market – trends in 2019

European deal activity is expected to remain high in 2019, with new opportunities continuing to arise from maturing eastern European markets. Like in 2018, brownfield and M&A activity is expected to fuel the bulk of the deal flow.

The majority interest in French airport operator AdP valued at EUR 10bn, along with the privatisation of regional airports such as Bordeaux, Montpellier and Marseille are expected to fuel some of the acquisition financing activity in France. After Belgrade airport in 2018, the privatisation of Sofia airport in Bulgaria is expected to attract large investment appetite. One of the largest European utilities deals next year is anticipated to be the sale of a minority stake in Germany's EWE.

Digital infrastructure featuring data centres, towers and broadband networks has seen sustained M&A activity in 2018, with some 40 transactions closing, a trend that is expected to continue in 2019. While the French broadband programme is reaching completion, Austria is rolling out its own rural fibre coverage. Equity investors' appetite for demographic infrastructure such as social housing and care homes was strong in 2018, with a fragmented UK market being the most active for M&A. This trend can be expected to continue and to manifest itself also in continental Europe.

In the market for greenfield projects, Scandinavia is picking up the momentum created by the Netherlands with several large road schemes in Norway. For the past few years, large scale PPPs in Western Europe have been the remit of state-supported banks and institutionals and there are no signs of this changing. An ongoing need for funding for off shore wind greenfield is expected in 2019. The French programme is reaching funding stage and Poland's off shore wind potential is said to be the largest in Europe. Green energy has firmly established itself on the agenda of commercial and institutional lenders alike.

Business Outlook

Kommunalkredit is well-positioned to capitalise on the opportunities available in 2019 in the European infrastructure market. The bank established itself very strongly in the market in 2018 and made good progress in the execution of its 50 I 50 I 10 strategy. It will continue on this path in 2019. Kommunalkredit has a healthy project pipeline and aims to further increase new business volumes. It will extend its network of project sponsors and investors and further broaden its product range.

In the third quarter of 2018, with the first close for the "Fidelio KA Infrastructure Debt Fund Europe 1", Kommunalkredit expanded the product range with the addition of asset management. The final close is scheduled for the first half of 2019 and two more

[2] Minutes of the Meetings of the Governing Council and the General Council (ECB).

[3] Federal Reserve Board of Governors - Minutes.

funds are planned for this year. The bank will place strong emphasis on financial advisory services. Further it will target the market for export credit financings given the attractive risk-adjusted returns for this kind of transactions. The bank will also seek to assume sponsor roles in partnership with specialist developers or infrastructure funds for projects in which it has specific sector expertise. In this capacity, Kommunalkredit may take minority equity positions and/or provide shareholder loans. Public sector financing will continue to be an integral part of the bank's business. However, the contribution from the infrastructure and energy financing to the bank's total revenues, which under local GAAP was 52% in 2018, will grow further. In conjunction with a high level of discipline in placing new business volumes with investors and in the area of cost management, it is expected that this will lead to a further improvement in operational earnings power in 2019.

The Board of
Kommunalkredit Austria AG

Bernd Fislage	**Jochen Lucht**
CEO	CFO, CRO, COO

REPORT OF THE SUPERVISORY BOARD TO THE SHAREHOLDERS‘ MEETING

The Supervisory Board of Kommunalkredit Austria AG (Kommunalkredit) submits its report on the business year 2018 to the Shareholders’ Meeting.

As in the previous year, Patrick Bettscheider, Managing Director of Gesona Beteiligungsverwaltung GmbH as well as of Satere Beteiligungsverwaltungs GmbH, delegated by Gesona Beteiligungsverwaltung GmbH, holds the position of Chairman of the Supervisory Board. Further capital representatives are Christopher Guth, Deputy Chairman of the Supervisory Board, delegated by Gesona Beteiligungsverwaltung GmbH and Friedrich Andreae, Managing Director of Gesona Beteiligungsverwaltungs GmbH as well as of Satere Beteiligungs GmbH. Katharina Gehra resigned her mandate on 5 September 2018. Alois Steinbichler was newly elected to the Supervisory Board on 20 September 2018. Jürgen Meisch, Managing Director of Achalm Capital GmbH, and Martin Rey, Managing Director of Maroban GmbH, continue to exercise their mandates as independent members of the Supervisory Board. The Supervisory Board members delegated by the Staff Council are Patrick Höller and Renate Schneider, as well as Paul Matousek, who resigned from the Supervisory Board on 14 December 2018. At the time of reporting, the Supervisory Board comprises four capital representatives, two independent representatives and two employee representatives. The Supervisory Board wishes to thank all former members who resigned in the course of 2018 for their trust and cooperation.

Karl-Bernd Fislage was appointed Chairman of the Management Board with effect from 1 September 2018. He succeeded Alois Steinbichler, who resigned from his position as Chairman of the Management Board effective from 31 August 2018. Wolfgang Meister also resigned his mandate on 6 March 2018. As a result, Jochen Lucht was appointed to the Management Board with functions as Chief Financial Officer (CFO) and Chief Operating Officer (COO) with effect from 1 July 2018. The mandate of Jörn Engelmann Chief Risk Officer (CRO) expired on 31 January 2019. At the time of reporting, the Executive Board consists of Chairman Karl-Bernd Fislage (Chief Executive Officer) and Jochen Lucht (Chief Financial Officer, Chief Risk Officer and Chief Operating Officer).

In 2018, Kommunalkredit continued on the trajectory established in 2017, substantially strengthening its operating earnings power. This improvement reflects the successful expansion of the infrastructure and energy financing business, which made a significantly higher contribution to net interest income and net fee and commission income. Leveraging its successful track record in traditional project finance and its in-depth sector expertise, Kommunalkredit has stepped up its activities in acquisition finance and hybrid/corporate finance situations as well as its financial advisory services. On the distribution side, Kommunalkredit placed own commitments with a wide range of investors, including insurance companies, asset managers and banks across Europe. Kommunalkredit established its own Infrastructure Debt Fund platform in 2018. Through this platform the bank is able to offer business partners access to infrastructure financing via an asset management solution.

The Supervisory Board performed its tasks, as defined in the Articles of Association and the Rules of Procedure, within the framework of four ordinary meetings and two extraordinary meetings. Moreover, the statutory committees (Nomination Committee, Audit Committee, Risk Committee, Remuneration Committee and Credit Committee) held their meetings and performed their tasks. The Articles of Association and the Rules of Procedure of the Supervisory Board were amended (i.e. the Presiding Committee and the Nomination Committee were abolished without replacement) with a view to optimising the organisation of the Supervisory Board in connection with the change in the Austrian Banking Act (in Section 29 with effect from 3 January 2018). Furthermore, due to the changes in the Management Board, the allocation of responsibilities for the Management Board was redefined and resolved.

In the course of the meetings of the Supervisory Board and its committees, as well as through direct information, the Supervisory Board was continuously updated on the development of business, the position and performance of the company and its business policy plans. In exercising its tasks conferred upon it by law, the Articles of Association and the Rules of Procedure, the Supervisory Board advised and supervised the Executive Board in the management of the company. In accordance with the fit-and-proper guideline (based on the EBA Guideline for the Assessment of the Suitability of Members of the Service Body and Holders of Key Functions, version 2017/12, and the FMA fit & proper circular of August 2018), the members of the Boards of the bank underwent comprehensive fit-and-proper training covering regulatory changes and/or innovations in December 2018.

These Financial Statements and the Management Report were audited by PwC Wirtschaftsprüfung GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna. The audit did not result in any findings. Given that all legal requirements were complied with by the bank and the annual financial statements present a true and fair view of the assets and the financial position of the company as at 31 December 2018, the auditors issued an unqualified audit opinion. Having examined the financial statements, the Supervisory Board endorsed the result of the audit and approved the 2018 Financial Statements at its meeting on 13 March 2019, which were thus formally adopted. Moreover, the Consolidated Financial Statements as at 31 December 2018, including the Management Report, were examined and taken note of by the Supervisory Board.

Vienna, 13 March 2019

The Supervisory Board

Dr. Patrick Bettscheider

CHAIRMAN

Seperate Financial Statements

OF KOMMUNALKREDIT AUSTRIA AG FOR THE BUSINESS YEAR 2018

I. Balance Sheet (under the Austrian Banking Act)

Assets in EUR	Note	31/12/2018		31/12/2017
1. Cash and balances with central banks			**314,408,013.21**	**318,108,147.58**
2. Public-sector debt instruments eligible as collateral for central bank funding	4.1.		**149,344,969.80**	**196,613,929.01**
Public-sector debt instruments		149,344,969.80		196,613,929.01
3. Loans and advances to banks	4.2.		**97,807,856.91**	**139,452,580.85**
a) repayable on demand		80,150,186.77		101,097,839.01
b) other loans and advances		17,657,670.14		38,354,741.84
4. Loans and advances to customers	4.3.		**2,520,817,666.10**	2,439,396,863.31
5. Bonds and other fixed-income securities	4.4.		**268,834,415.31**	**88,784,895.58**
a) of public issuers		80,400,549.32		81,746,822.44
b) of other issuers		188,433,865.99		7,038,073.14
including own bonds		*0.00*		*0.00*
6. Participations	4.5.		**22,215,095.00**	**2,014,095.00**
of which in banks		*0.00*		*0.00*
7. Investment in affiliates companies	4.5.		**32,700,665.00**	**32,612,865.00**
of which in banks		*0.00*	*0.00*	*0.00*
8. Intangible non-current assets	4.6.		**203,876.92**	**191,401.59**
9. Property, plant and equipment	4.6.		**2,809,101.27**	**2,960,788.45**
of which land and buildings used by the credit institution within the framework of its own activities		*0.00*		*0.00*
10. Other assets	4.7.		**52,096,853.82**	**38,650,054.90**
11. Accruals/deferrals	4.8.		**9,355,423.17**	**7,271,187.41**
12. Deferred tax assets	4.9.		**8,170,133.11**	**7,432,406.33**
Total assets			**3,478,764,069.62**	**3,273,489,215.01**

Off-balance-sheet items				
1. Foreign assets			1,518,028,649.30	1,078,432,821.01

	Liabilities in EUR	Note	31/12/2018		31/12/2017
1.	**Amounts owed to banks**	4.10.		**496,040,147.86**	**534,704,697.44**
	a) repayable on demand		105,070,993.92		116,632,310.77
	b) with fixed maturity or period of call		390,969,153.94		418,072,386.67
2.	**Amounts owed to customers**	4.11.		**1,348,284,448.92**	**1,038,874,555.94**
	a) other liabilities				
	aa) repayable on demand		161,649,972.38		213,537,338.01
	bb) with fixed maturity or period of call		1,186,634,476.54		825,337,217.93
3.	**Securitised liabilities**	4.12.		**1,237,950,116.26**	**1,289,836,740.95**
	a) bonds issued		912,699,365.93		862,466,869.06
	b) other securitised liabilities		325,250,750.33		427,369,871.89
4.	**Other liabilities**	4.13.		**26,402,160.98**	**65,728,797.76**
5.	**Accruals/deferrals**	4.14.		**17,309,255.42**	**12,413,614.20**
6.	**Provisions**	4.15.		**21,686,142.06**	**19,748,299.93**
	a) provisions for severance pay		3,387,075.23		4,154,224.64
	b) provisions for pensions		951,583.11		1,360,466.82
	c) tax provisions		22,833.29		7,602.76
	d) other		17,324,650.43		14,226,005.71
6.A	**Fund for general banking risks (§ 57(3) Austrian Banking Act)**	4.16.		**40,000,000.00**	**40,000,000.00**
7.	**Supplementary capital**	4.17.		**67,527,328.62**	**67,527,328.62**
8.	**Subscribed capital**	4.18.		**159,491,290.16**	**159,491,290.16**
9.	**Retained earnings**			**51,761,933.32**	**4,241,468.85**
	a) statutory reserve	4.19.	5,761,933.32		4,241,468.85
	b) other reserves (unappropriated reserves)	4.19.	46,000,000.00		0.00
10.	**Liability reserve pursuant to § 57 (5) Austrian Banking Act**	4.20.		**12,106,226.51**	**10,000,000.00**
11.	**Net profit**	4.21.		**205,019.51**	**30,922,421.16**
	Total liabilities			**3,478,764,069.62**	**3,273,489,215.01**

	Off-balance-sheet items				
1.	Contingent liabilities	5.1.		5,129,487.24	6,291,083.78
	of which liabilities from sureties and guarantees from the assignment of collateral		*5,129,487.24*		*6,291,083.78*
2.	Credit risk	5.2.		216,907,352.40	135,370,887.50
	of which liabilities from repo transactions		*0.00*		*0.00*
3.	Liabilities from fiduciary transactions	5.3.		432,671,186.55	435,245,981.35
4.	Eligible own funds pursuant to Part 2 of Regulation (EU) No. 575/2013	6.1.		293,331,962.82	286,033,594.94
	of which tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No. 575/2013		*58,287,163.20*		*60,435,616.44*
5.	Own funds requirements pursuant to Art. 92 of Regulation (EU) No. 575/2013	6.1.		1,334,717,606.25	992,393,514.16
	of which own funds requirements pursuant to Art. 92.1.a of Regulation (EU) No. 575/2013 CET 1 capital ratio	*6.1.*	*17.61%*		*22.73%*
	of which own funds requirements pursuant to Art. 92.1.b of Regulation (EU) No. 575/2013 Tier 1 capital ratio	*6.1.*	*17.61%*		*22.73%*
	of which own funds requirements pursuant to Art. 92.1.c of Regulation (EU) No. 575/2013 Total capital ratio	*6.1.*	*21.98%*		*28.82%*
6.	Foreign liabilities			1,755,673,898.26	1,916,089,465.85

II. Income Statement (under the Austrian Banking Act)

Income statement in EUR	Note	1/1-31/12/2018			1/1-31/12/2017
1. Interest and similar income				151,046,916.77	153,394,125.01
of which from fixed-income securities			*7,677,596.60*		*9,414,675.59*
2. Interest and similar expenses				-113,385,417.85	-120,583,632.51
I. NET INTEREST INCOME	**7.1.1.**			**37,661,498.92**	**32,810,492.50**
3. Income from securities and investments	7.1.2.			747,466.12	836,512.95
a) income from participations			36,000.00		23,400.00
b) income from investments in affiliated companies			711,466.12		813,112.95
4. Fee and commission income	7.1.3.			15,326,025.64	10,103,319.86
5. Fee and commission expenses	7.1.3.			-1,179,040.19	-1,651,578.27
6. Income/expenses from financial transactions				11,047.47	9,412.81
7. Other operating income	7.1.5.			11,137,148.54	23,697,276.31
II. OPERATING INCOME				**63,704,146.50**	**65,805,436.16**
8. General administrative expenses	7.1.4.			-45,382,227.53	-45,712,282.20
a) Personnel expenses	7.1.4.1.		-28,843,222.19		-29,827,116.15
aa) salaries		-23,142,059.64			-24,058,118.74
bb) expenses for statutory social charges, salary-dependent charges and compulsory contributions		-3,816,801.62			-4,468,631.67
cc) other social expenses		-717,861.73			-619,562.73
dd) expenses for pension costs		-555,408.46			-560,872.86
ee) appropriation / release of pension provisions		408,883.71			-161,705.82
ff) expenses for severance pay and contributions to company pension plans		-1,019,974.45			41,775.67
b) other administrative expenses (non-personnel expenses)	7.1.4.2.		-16,539,005.34		-15,885,166.05
9. Impairment charges to assets reported under asset items 8 and 9				-714,229.90	-861,517.07
10. Other operating expenses	7.1.6.			-784,614.69	-675,587.58
III. OPERATING EXPENSES				**-46,881,072.12**	**-47,249,386.85**
IV. OPERATING RESULT				**16,823,074.38**	**18,556,049.31**

Income statement in EUR		Note	1/1-31/12/2018			1/1-31/12/2017
11.	Expenses from the impairment of receivables and appropriations to provisions for contingent liabilities and credit risks	7.1.7.			0.00	-3,662,905.65
12.	Income from the impairment of receivables and appropriations to provisions for contingent liabilities and credit risks	7.1.7.			592,708.89	0.00
13.	Income from the impairment of securities measured as financial assets and of participations and investments in affiliated companies	7.1.7.			12,311,568.18	3,415,578.98
V.	**PROFIT ON ORDINARY ACTIVITIES**				**29,727,351.45**	**18,308,722.64**
14.	Extraordinary income/expenses				0.00	702,745.23
	of which appropriations to the fund for general banking risks				*0.00*	*0.00*
15.	**Extraordinary income/expenses**				**0.00**	**702,745.23**
16.	Taxes on income	7.1.8.			718,460.89	-115,583.56
17.	Other taxes not reported under item 16	7.1.8.			-36,523.01	-30,084.39
VI.	**PROFIT FOR THE YEAR**	**7.1.9.**			**30,409,289.33**	**18,865,799.92**
18.	Appropriation to and release of reserves				-49,626,690.98	-943,290.00
			Appropr. (-)	Release (+)		
	a) liability reserve pursuant to § 57 (5) Austrian Banking Act		-2,106,226.51			0.00
	b) statutory reserve		-1,520,464.47			-943,290.00
	c) unappropriated reserve		-46,000,000.00			0.00
19.	Profit carried forward				19,422,421.16	12,999,911.24
VII.	**NET PROFIT**				**205,019.51**	**30,922,421.16**

1. General Information

Kommunalkredit Austria AG (Kommunalkredit), with its registered office in Vienna, Tuerkenstrasse 9, is a specialist bank for infrastructure and energy financing. It acts as a link between project sponsors (developers and operators of infrastructure facilities), on the one hand, and institutional investors, such as insurance companies and pension funds, on the other hand. It is registered with the Commercial Court of Vienna under Companies Register number 439528s.

Kommunalkredit was established on 26 September 2015 through the demerger for new incorporation of the former Kommunalkredit. The entire business operation of the former Kommunalkredit (including all its subsidiaries) was transferred to a newly established company (Kommunalkredit) by way of a proportionate demerger for new incorporation. The part of the former Kommunalkredit remaining after the demerger was merged into KA Finanz AG (KF).

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

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

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

2. Accounting Rules applied

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

3. Accounting and Measurement Rules

3.1. General remarks

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

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

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

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

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

3.2. Currency translation

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

3.3. Receivables

Receivables purchased from third parties are recognised at amortised cost. All other loans and advances to banks and loans and advances to customers are recognised at their nominal value. For receivables with an intention of syndication, the book value is reduced by the expected syndication expense.

Specific loan loss provisions are set up for identifiable borrower risks.

In addition, expected credit losses are taken into account through portfolio allowances. Through the first-time adoption of IFRS 9 for the consolidated annual statements, a risk provisioning model has been introduced on the basis of statistically calculable empirical values which, from 2018 onwards, are also applied to the separate financial statements of Kommunalkredit prepared in accordance with the Austrian Company Code/ Austrian Banking Act. The portfolio allowance is calculated either as the expected 12-month credit loss or the lifetime expected credit loss, depending on whether the risk of default has increased significantly since the first recognition of the financial asset. The expected loss is determined as the product of probabilities of default, default rates and the expected amount of the receivable at the time of default.

In order to assess if the risk of default has increased significantly, Kommunalkredit takes quantitative and qualitative factors into account. These include, in particular:

- Absolute amount of the credit risk, the expected 12-month credit loss being generally recognised for financial assets rated investment grade;

- Relative change in credit risk on the basis of the probability of default and with default-preventing collateral taken into account;

- Changes of internal price indicators with terms and conditions remaining the same;

- Possible significant changes of contract terms if the financial instrument were newly issued;

- Changes in external market indicators of a financial instrument of equivalent design;

- In the case of arrears of more than 30 days, an individual analysis will be performed to establish if this leads to a significant increase in credit risk.

Moreover, for reasons of prudence and in view of the special risks of the banking business, Kommunalkredit set up a provision pursuant to § 57 (1) of the Austrian Banking Act, which is recognised under loans and advances to customers.

3.4. Securities

Securities to be held for the company's business operations on a permanent basis are classified as non-current assets. Securities acquired with the intention to trade are assigned to the trading book. For the time being, Kommunalkredit has no securities in the trading book. Securities that are neither classified as non-current assets nor assigned to the trading portfolio are classified as current assets. Securities are recognised at cost, based on the mitigated lower-of-cost-or-market principle for non-current assets and the strict lower-of-cost-or-market principle for current assets. Securities of the trading portfolio are recognised at their market value on the balance sheet date.

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

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

Differences pursuant to § 56 (2) and § 56 (3) Austrian Banking Act in EUR	31/12/2018	31/12/2017
Difference pursuant to § 56 (2) Austrian Banking Act (Difference between the higher acquisition cost and the amount repayable for the securities)	7,993,036.20	3,179,429.40
Difference pursuant to § 56 (3) Austrian Banking Act (Difference between the lower acquisition cost and the amount repayable for the securities)	951,972.50	5,617.50

Moreover, securities classified as non-current assets include the following hidden reserves and/or hidden burdens (without taking the related interest rate swaps into account):

Calculation of hidden reserves in EUR	31/12/2018	31/12/2017
Book value	589,457,734.66	484,784,760.50
Fair value	636,669,734.62	537,179,755.57
Hidden reserves	**47,211,999.96**	**52,394,995.07**

Calculation of hidden burdens in EUR	31/12/2018	31/12/2017
Book value	57,024,340.87	50,615,109.36
Fair value	56,595,468.04	50,344,349.99
Hidden burdens	**-428,872.83**	**-270,759.37**

Hidden reserves mainly result from fixed-income securities, the high fair value being due to the low level of interest. Hidden reserves and hidden burdens are booked against the fair values of interest rate derivatives concluded for hedging purposes. The hidden burdens reported primarily result from changes in credit spreads since the securities were purchased. Securities with hidden burdens are regularly analysed and measured with a view to credit risk. On the basis of these analyses, an extraordinary write-down pursuant to § 204 (1.2) of the Austrian Company Code was not required, as the impairment is assumed to be non-permanent.

Securities classified as current assets include the following hidden reserves (without taking the related interest rate swaps into account):

Calculation of hidden reserves in EUR	31/12/2018	31/12/2017
Book value	10,000,000.00	0.00
Fair value	10,359,290.19	0.00
Hidden reserves	**359,290.19**	**0.00**

Fair value measurement

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

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

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

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

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

Temporary differences 31/12/2018 in EUR	Level 1	Level 2	Level 3
Fair value	339,854,234.24	346,829,290.38	31,656,606.35
Book value	338,138,835.85	301,634,378.68	31,424,499.12
Temporary difference	**1,715,398.39**	**45,194,911.70**	**232,107.23**

Temporary differences 31/12/2017 in EUR	Level 1	Level 2	Level 3
Fair value	204,866,857.48	379,726,237.05	2,931,011.03
Book value	202,035,676.01	330,564,194.18	2,800,000.00
Temporary difference	**2,831,181.47**	**49,162,042.87**	**131,011.03**

In the reporting period, five securities (31/12/2017: none) with a nominal value of EUR 42,200,000.00 were reclassified from level 2 to level 1, as market data became available.

The increase in level 3 instruments, as compared to the previous year, results from new business.

3.5. Participations and investments in affiliated companies

Participations and investments in affiliated companies are measured at cost, unless a write-down to their fair value is required; the analysis is performed annually on the basis of projections.

3.6. Intangible assets

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

3.7. Property, plant and equipment

Property, plant and equipment comprise buildings on third-party land, office furniture and equipment, and works of art. Property, plant and equipment are measured at acquisition or production cost after deduction of linear depreciation in prior years and in the reporting year. The period of depreciation is 3 years for technical equipment and 5 and/or 10 years for other mobile equipment. Investments in third-party buildings are depreciated over 15 and/or 20 years. Works of art are not subject to straight-line depreciation.

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

3.8. Deferred tax assets

The 2014 Accounting Reform Act abolished the right to elect for capitalisation of deferred tax assets from temporary differences between their carrying amount and their tax base and introduced mandatory capitalisation. The difference resulting from this new rule as of 1 January 2016 will be distributed over five years. Kommunalkredit did not elect to capitalise tax loss carryforwards (tax loss carryforward of Kommunalkredit as of 31 December 2018: EUR 96,908,067.43 (31/12/2017: EUR 128,642,595.18)).

Pursuant to § 235 (2) of the Austrian Company Code, the capitalised amount is subject to a dividend ban.

3.9. Liabilities

Liabilities are recognised at the amount repayable. Differences between the issuing amount and the repayable amount (discount/premium) are recognised as accrued/deferred income/expenses in the net interest result, distributed on a linear basis as an interest component over the term of the liability.

3.10. Securitised liabilities

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

Own bonds which are not placed externally, but issued as collateral for the liability arising from the demerger described in Note 6.5, are reported on a net basis (§ 51(5) Austrian Banking Act).

3.11. Provisions

Provisions for pensions, severance pay and jubilee bonus obligations are calculated annually by an independent actuary according to the projected-unit-credit method pursuant to § 211 (1) of the Austrian Company Code in accordance with IAS 19. The "AVÖ 2008-P calculation bases for pension insurance – Pagler & Pagler", in their version for salaried employees, are used as a biometric basis. The actuarial discount rate was determined on the basis of the yields of prime fixed-income corporate bonds, with due consideration given to the terms of the obligations to be met.

The most important parameters underlying the calculation are:

- an actuarial discount rate of 2.00% (2017: 2.00%) for pension obligations, 1.50% (2017: 1.50%) for obligations from severance pay, and 0.50% (2017: 0.50%) for obligations from jubilee bonuses;

- an incremental rate of active salary and pension payments of 2%, unchanged from the previous year;

- a career trend of 1.5%, unchanged from the previous year;

- assumed pensionable ages of 60 for women and 65 for men, taking into account the transitional provisions of the 2003 Budget Framework Act and the provisions on age limits for women of the Act on Occupational Old-Age Provision, and

- a fluctuation discount for severance pay obligations calculated on the basis of statistically derived rates of early termination of employment with or without severance pay, depending on the length of service.

All pension obligations to active employees have been transferred to a pension fund. The provisions reported therefore only contain entitlements from defined-benefit pension obligations for eight employees not covered by the pension fund, resulting from direct commitments within the framework of the collective bargaining agreement (1961 pension reform, as amended on 1 January 1997) made prior to the transfer to the pension fund, or from individual contracts. The pension plan is a defined-benefit plan under which benefits for active staff, relative to the risk of death and invalidity, depend on the salary earned. Benefits for employees reaching retirement age are already fixed and therefore only subject to adjustment in line with the annual increase agreed upon through collective bargaining. As the defined-benefit components are fully funded, supplementary allocations will only be required in the event of underperformance or "premature" payment of benefits. The full actuarial obligation for pensions amounts to EUR 1,358,068.02 (31/12/2017: EUR 1,811,006.93), of which entitlements in the amount of EUR 406,484.91 (31/12/2017: EUR 450,540.11) have been outsourced to the pension fund. The resulting provisioning requirement amounts to EUR 951,583.11 (31/12/2017: EUR 1,360,466.82). Provisions for entitlements to severance pay amount to EUR 3,387,075.22 (31/12/2017: EUR 4,154,224.64); provisions for jubilee bonuses amount to EUR 141,147.92 (31/12/2017: EUR 188,486.46).

All actuarial gains and losses immediately carry through profit or loss. The reduction in provisions for severance pay in 2018 includes actuarial gains of EUR 158,112.52 (2017: actuarial gain of EUR 639,272.88), of which an amount of EUR 69,483.67 is due to changes in the biometric calculation basis ("mortality tables"). The change in pension provisions includes actuarial gains of EUR 540,377.92 (2017: EUR 85,447.10), of which EUR 460,804.41 relates to changes in the biometric calculation basis. Moreover, valuation-related losses on plan assets of EUR 53,066.00 (2017: valuation-related gains on plan assets of EUR 20,580.06) were reported.

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

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

As at 31 December 2018, an amount of EUR 40,000,000.00 (31/12/2017: EUR 40,000,000.00) was appropriated to the fund for general banking risks. Provisions set up pursuant to § 57 (3) of the Austrian Banking Act are recognised in the extraordinary result, as required under the Austrian Banking Act.

3.13. Derivatives

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

- Micro hedge

  For hedge accounting (micro hedges), the AFRAC (Austrian Financial Reporting and Auditing Committee) Opinion on "Derivatives and Hedging Instruments (Austrian Company Code) (version of September 2017)" contains provisions aimed at avoiding economically unjustified effects on the Income

Statement due to the different measurement of hedged underlying transactions and hedging instruments. Underlying transactions are individually recognised assets and liabilities at fixed interest rates as well as pending transactions already concluded at the time of classification. The rules on micro hedges permit the changes in the value of hedging instruments and the hedged transactions to be recognised mostly as mutually offsetting. Proof of an effective hedging relationship between the underlying transaction and the hedging transaction is required as a prerequisite for the application of these rules. A hedging relationship is considered effective if the results from the hedging instrument and the compensatory results from the hedged underlying transaction – relative to the hedged risk – offset each other within a range of 80% to 125%. Kommunalkredit verifies compliance with these requirements through prospective (matching of the components determining the market value) and retrospective effectiveness tests. In a prospective effectiveness test, all parameters of the underlying transaction and the hedging transaction that determine the extent of the hedged value change are compared in order to verify whether the hedged fair value of the structure (underlying and hedging transactions) is within a range of 80% to 125% maximum. If all parameters of the underlying transaction and the hedging transaction determining the amount of the hedged value change are identical but compensatory, this is taken as an indicator of a completely effective hedging relationship (simplified determination of effectiveness). However, this is allowed only if there is no doubt about the creditworthiness of the protection seller and the recoverability of the underlying transaction, apart from the hedged risk. A retrospective effectiveness test verifies whether the hedged fair value of the structure (underlying and hedging transactions) fluctuates within a range of 80% to 125% maximum between two specified dates. Hedging transactions at Kommunalkredit are concluded for the term of the underlying transaction.

- Macro hedge

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

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

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

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

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

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

The above prerequisites are met and documented by Kommunalkredit.

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

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

Derivatives are measured by means of an internal model based on the discounted cash flow method, taking all current yield and basis spread curves into account. Embedded options are measured by means of commonly used option pricing models. For the measurement of interest-sensitive products with variable indicators, yield curves with different spread premiums are used, depending on the indicator (e.g. 3-month Libor, 12-month Libor). These refer to the respective indicator and are used to derive forward rates for cash flow determination. In the case of derivatives in several currencies (e.g. cross-currency swaps), a cross-currency basis is used according to prevailing standards, in addition to the adaptation of forwards by basis swap spreads. OIS curves (overnight index swaps) are used for discounting the cash flows of OTC (over-the-counter) derivatives. To determine the fair value of derivatives, counterparty and own credit risks (credit value adjustment (CVA) and debt value adjustment (DVA)) are also taken into account. To this end, the net present value is adjusted by the BCVA (bilateral CVA adjustment). Kommunalkredit determines the BCVA for all derivatives without daily margin calls at counterparty level. A provision for impending losses is set up for negative BCVAs, whereas positive

BCVAs are not taken into account. For collateralised derivatives with daily margin calls the BCVA is considered to be immaterial. The BCVA is calculated by the potential exposure method.

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

3.14. Residual maturities

Residual maturity is defined as the period of time between the balance sheet date and the contractual maturity of the receivable or liability; in the case of partial amounts, residual maturity is shown for each partial amount. Collaterals for market values from derivatives are shown under "repayable on demand" (daily payment dates); interest accruals/deferrals are shown under "up to 3 months".

4. Notes to the Balance Sheet

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

Securities of public bodies eligible as collateral for funding from the ECB (European Central Bank) are shown under this item; their book value as at 31 December 2018 amounted to EUR 149,344,969.80 (31/12/2017: EUR 196,613,929.01). As in the previous year, all securities shown under this item are classified as non-current assets. None of the public-sector debt instruments will fall due in 2019 (2018: two instruments with a nominal value of EUR 105,000,000.00).

4.2. Loans and advances to banks

Loans and advances to banks include the following:

Loans and advances to banks in EUR	31/12/2018	31/12/2017
Collateral for negative market values from derivative transactions	56,490,000.00	87,362,165.16
Collateral for loan disbursement obligations	17,736,738.63	38,353,033.51
Credit balances with banks	9,614,717.95	9,165,070.29
Other	13,966,400.33	4,572,311.89
Total	**97,807,856.91**	**139,452,580.85**

As in the previous year, loans and advances to banks do not include any bills receivable or subordinated claims held against banks.

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

Loans and advances to banks in EUR	31/12/2018	31/12/2017
Loans and advances repayable on demand	80,150,186.77	101,097,839.01
Other loans and advances		
a) up to 3 months	0.00	11,737.92
b) more than 3 months up to 1 year	0.00	0.00
c) more than 1 year up to 5 years	17,657,670.14	38,343,003.92
d) more than 5 years	0.00	0.00
	17,657,670.14	38,354,741.84
Total	**97,807,856.91**	**139,452,580.85**

4.3. Loans and advances to customers

Loans and advances to customers comprise the following:

Loans and advances to customers in EUR	31/12/2018	31/12/2017
Loans	2,164,051,048.01	2,088,765,307.88
Non-listed securities	258,934,379.11	257,760,921.11
Collateral for negative market values from derivative transactions (collaterals)	102,520,163.60	97,078,987.32
Provision pursuant to § 57 (1) Austrian Banking Act	-2,860,000.00	-3,760,000.00
Portfolio allowance	-1,828,300.57	-448,353.00
Other	375.95	0.00
Total	**2,520,817,666.10**	**2,439,396,863.31**
of which loans and advances to affiliated companies	*0.00*	*0.00*
of which loans and advances to companies in which an equity investment is held	*34,869,575.26*	*37,246,353.95*

The increase in portfolio allowances is primarily due to the first-time calculation of expected losses on the basis of statistically calculable empirical values. Details on the calculation of the portfolio allowance are contained in Note 3.3. On the balance sheet date, securities with a nominal value of EUR 230,749,377.68 (31/12/2017: EUR 254,433,367.02) were classified as non-current assets and EUR 25,000,000.00 (31/12/2017: EUR 0.00) as current assets.

This position includes EUR 10,262,152.78 (31/12/2017: EUR 0.00) in subordinated claims.

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

Loans and advances to customers in EUR	31/12/2018	31/12/2017
Loans and advances repayable on demand	102,593,367.14	98,228,767.30
Other loans and advances		
a) up to 3 months	42,264,591.56	103,129,891.30
b) more than 3 months up to 1 year	150,077,248.83	157,078,365.70
c) more than 1 year up to 5 yeas	1,239,157,749.41	1,022,559,358.76
d) more than 5 years	991,413,009.73	1,062,608,833.25
	2,422,912,599.53	2,345,376,449.01
Provision pursuant to § 57 (1) Austrian Banking Act and portfolio allowance	-4,688,300.57	-4,208,353.00
Total	**2,520,817,666.10**	**2,439,396,863.31**

4.4. Bonds and other fixed-income securities

Bonds in EUR	31/12/2018	31/12/2017
Securities of public issuers	80,400,549.32	81,746,822.44
Securities of other issuers	188,433,865.99	7,038,073.14
of which own issues	*0.00*	*0.00*
Total	**268,834,415.31**	**88,784,895.58**

All instruments reported under bonds and other fixed-income securities are exchange-listed; none of them will fall due in 2019 (2018: none).

Own bonds in the amount of EUR 107,000,000.00 (31/12/2017: EUR 107,000,000.00), which were not placed externally but issued as collateral for the liability arising from the demerger, as outlined in Note 6.5, are recognised on a net basis (§ 51 (5) Austrian Banking Act).

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

4.5. Participations and investments in affiliates

As at 31 December 2018, the book value of participations amounted to EUR 22,215,095.00 (31/12/2017: EUR 2,014,095.00). The increase over the previous year's level is primarily due to investments of EUR 21,870,000.00 in the Fidelio KA Infrastructure Debt Fund Europe 1, an investment fund for infrastructure finance in Europe introduced in the second half of 2018. Investments in affiliates amounted to EUR 32,700,665.00 (31/12/2017: EUR 32,612,865.00).

The composition of participations and investments in affiliates (all of them non-listed), including their financial position, is shown in Annex 1.

4.6. Intangible non-current assets and property, plant and equipment

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

4.7. Other assets

Other assets in EUR	31/12/2018	31/12/2017
Interest accruals/deferrals from derivatives in the banking book	30,235,759.25	30,401,409.28
Foreign-currency valuation of derivatives in the banking book	15,754,292.42	314,877.72
Receivables from deferred interest	2,009,348.99	2,244,314.62
Receivables from services invoiced to KA Finanz AG	1,222,672.53	3,678,787.85
Claims against the tax authorities	154,424.21	389,148.64
Other	2,720,356.42	1,621,516.79
Total	**52,096,853.82**	**38,650,054.90**
of which recognised as cash items after the closing date	*36,304,969.33*	*38,328,019.10*

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

4.8. Accrued income and prepaid expenses

Accrued income and prepaid expenses comprise the following items:

Accrued income and prepaid expenses in EUR	31/12/2018	31/12/2017
Accrued/deferred fees from derivative transactions	7,365,492.47	4,536,874.44
Capitalised offering discounts of bond issues	1,253,034.09	1,689,646.55
Other	736,896.61	1,044,666.42
Total	**9,355,423.17**	**7,271,187.41**

4.9. Deferred tax assets

The 2014 Accounting Reform Act introduced the obligation to capitalise deferred tax assets resulting from temporary differences between the corporate value of an asset and its tax base. As at 31 December 2018, the asset item amounted to EUR 8,170,133.11 (31/12/2017: EUR 7,432,406.33). For Kommunalkredit, temporary differences between corporate law and trade law primarily result from the fund for general banking risks pursuant to § 57 (3) Austrian Banking Act, the general risk provision pursuant to § 57 (1) Austrian Banking Act, personnel provisions, and the tax-neutral transfer of real estate to Kommunalkredit TLI KG in 2017.

The positive temporary difference of EUR 4,429,968.01, resulting from first-time application of the new legal provision as of 1 January 2016, is written up over a period of five years. The remaining temporary difference as at 31 December 2018 amounts to EUR 1,771,987.20 (31/12/2017: EUR 2,657,980.81).

4.10. Amounts owed to banks

Amounts owed to banks include the following:

Amounts owed to banks in EUR	31/12/2018	31/12/2017
TLTRO II programme (Targeted Longer Term Refinancing Operation) of the ECB	311,162,131.11	313,930,000.00
Cash received as collateral for positive market values of derivatives	104,584,912.81	96,216,035.57
Collateralised loans of the European Investment Bank	59,763,004.51	62,209,423.12
Other loans	17,052,952.57	18,929,896.57
Money market trade	3,006,152.94	43,043,836.14
Other	470,993.92	375,506.04
Total	**496,040,147.86**	**534,704,697.44**

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

Amounts owed to banks in EUR	31/12/2018	31/12/2017
Repayable on demand	105,070,993.92	116,632,310.77
Other liabilities		
a) up to 3 months	1,481,684.00	21,476,228.98
b) more than 3 months up to 1 year	5,861,224.00	5,850,201.00
c) more than 1 year up to 5 years	379,713,204.43	386,398,132.57
d) more than 5 years	3,913,041.51	4,347,824.12
	390,969,153.94	418,072,386.67
Total	**496,040,147.86**	**534,704,697.44**

4.11. Amounts owed to customers

Amounts owed to customers are broken down as follows:

Amounts owed to customers in EUR	31/12/2018	31/12/2017
Deposits by corporates, municipalities and quasi-municipal enterprises	720,457,882.47	532,977,112.45
Deposits by retail customers – KOMMUNALKREDIT INVEST	287,681,459.50	115,653,652.26
Cash collateral received for positive market values of derivatives	60,001,319.97	63,715,823.57
Other long-term liabilities to customers	280,143,786.98	326,527,967.66
Total	**1,348,284,448.92**	**1,038,874,555.94**

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

Amounts owed to customers in EUR	31/12/2018	31/12/2017
Liabilities repayable on demand	161,649,972.38	213,537,338.01
Other liabilities		
a) up to 3 months	197,450,876.87	164,154,802.00
b) more than 3 months up to 1 year	474,589,679.49	243,240,964.79
c) more than 1 year up to 5 years	238,510,910.03	111,251,114.71
d) more than 5 years	276,083,010.15	306,690,336.43
	1,186,634,476.54	825,337,217.93
Total	**1,348,284,448.92**	**1,038,874,555.94**

4.12. Securitised liabilities

Securitised liabilities are broken down as follows:

Securitised liabilities in EUR	31/12/2018	31/12/2017
Bonds issued	912,699,365.93	862,466,869.06
Other securitised liabilities	325,250,750.33	427,369,871.89
Securitised liabilities	**1,237,950,116.26**	**1,289,836,740.95**

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

Bonds issued with book values of EUR 69,000,000.00 (2018: EUR 18,000,000.00) and other securitised liabilities in the amount of EUR 23,929,603.93 (2018: EUR 3,703,429.38) will fall due in 2019. As in the previous year, securitised liabilities do not include any subordinated liabilities.

4.13. Other liabilities

Other liabilities in EUR	31/12/2018	31/12/2017
Interest accruals/deferrals from derivatives	16,020,638.93	20,032,273.37
Foreign currency valuation of derivatives in the banking book	6,681,004.48	39,707,056.58
Accruals/deferrals between the spot rate and forward rate of FX swaps	1,052,795.40	1,688,302.10
Other	2,647,722.17	4,301,165.71
Total	**26,402,160.98**	**65,728,797.76**
of which recognised as cash items after the closing date	*18,667,974.39*	*24,333,439.08*

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

4.14. Deferred income and accrued expenses

Deferred income and accrued expenses in EUR	31/12/2018	31/12/2017
Deferred/accrued fees from derivative transactions	14,904,869.65	9,498,978.39
Issuing premiums of bonds issued	1,385,486.93	1,549,321.72
Loan fees deferred/accrued over the term	1,018,898.84	1,365,314.09
Total	**17,309,255.42**	**12,413,614.20**

4.15. Provisions

For details on personnel provisions, see Note 3.11. Provisions.

Other provisions mainly include provisions for personnel-related expenses in the amount of EUR 11,371,435.79 (31/12/2017: EUR 7,991,668.24) and provisions for auditing, and legal and consulting expenses in the amount of EUR 641,845.95 (31/12/2017: EUR 833,700.15). In connection with derivatives, provisions in the amount of EUR 271,025.25 (31/12/2017: EUR 214,022.20) were set up.

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

For prudential reasons and to cover special banking risks, Kommunalkredit, in previous years, appropriated provisions to the fund for general banking risks. As at 31 December 2018, the fund for general banking risks amounted to EUR 40,000,000.00, unchanged from the previous year.

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

As at 31 December 2018, tier 2 capital items comprised eight (31/12/2017: eight) EUR-denominated issues in a total nominal amount of EUR 65,000,000.00 (31/12/2017: EUR 65,000,000.00) with residual maturities of up to 28 years. None of these issues will fall due in 2019.

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

ISIN	Interest rate as at 31/12/2018 in %	Maturity	Currency	Nominal in EUR	Right to call	Conversion to capital
Subordinated liabilities pursuant to § 23 (8) Austrian Banking Act old version						
Subordinated bond 2006-2021	5.4	30/10/2021	EUR	5,000,000.00	Issuer in case of tax event	no
Subordinated bonded loan 2007-2022	4.67	23/02/2022	EUR	10,000,000.00	no	no
Subordinated bonded loan 2007-2022	4.67	23/02/2022	EUR	10,000,000.00	no	no
Subordinated bonded loan 2007-2037	5.08	09/02/2037	EUR	10,000,000.00	Issuer	no
Subordinated bonded loan 2007-2037	5.08	09/02/2037	EUR	800,000.00	Issuer	no
Subordinated bonded loan 2007-2037	5.08	09/02/2037	EUR	10,200,000.00	Issuer	no
Subordinated bonded loan 2007-2047	5.0175	07/03/2047	EUR	10,000,000.00	Issuer	no
Subordinated bonded loan 2007-2047	5.0175	07/03/2047	EUR	9,000,000.00	Issuer	no

Expenses for all subordinated liabilities in 2018 amounted to EUR 3,224,125.00 (2017: EUR 3,223,805.58).

4.18. Subscribed capital

The share capital as at 31 December 2018, unchanged from the previous year, amounted to EUR 159,491,290.16. 30,938,843 no-par-value shares, i.e. 99.78% of the share capital, are held by Gesona Beteiligungsverwaltung GmbH; 68,216 no-par-value shares, i.e. 0.22% of the share capital, are held by the Association of Austrian Municipalities. Each no-par-value share represents an equal part of the share capital. There are no shares that have been issued but not fully paid in. Each no-par-value share represents a share of EUR 5.14 in the share capital. By a resolution adopted by the Annual General Meeting of 10 March 2017, the Executive Board was authorized to increase the share capital through the issue of up to 15,503,529 new no-par-value registered shares by a maximum amount of EUR 79,745,642.51 (authorized capital), subject to approval by the Supervisory Board, within a period of five years after registration of the amendment to the Articles of Association.

4.19. Retained earnings

As at 31 December 2018, the statutory revenue reserve amounted to EUR 5,761,933.32 (31/12/2017: EUR 4,241,468.85).

From the 2018 net profit of EUR 30,409,289.33 and the profit carried forward from 2017 of EUR 19,422,421.16, an amount of EUR 46,000,000.00 was paid into the unappropriated reserve in 2018 (as at 31/12/2017: EUR 0.00).

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

As at the balance sheet date, the liability reserve stood at EUR 12,106,226.51 (31/12/2017: EUR 10,000,000.00), thus meeting the legal requirements.

4.21. Net profit / Profit distribution

The Executive Board will propose to the Shareholders' Meeting on 13 March 2019 that, after appropriation to reserves, the 2018 net profit of EUR 205,019.51 be carried forward to new account.

5. Off-Balance-Sheet Items

5.1. Contingent liabilities

The off-balance-sheet item of contingent liabilities in the amount of EUR 5,129,487.24 (31/12/2017: EUR 6,291,083.78) exclusively concerns guarantee lines granted, including a guarantee of EUR 1,350,000.00 (31/12/2017: EUR 1,350,000.00) for companies in which an equity investment is held.

5.2. Credit risks

Credit risks in the amount of EUR 216,907,352.40 (31/12/2017: EUR 135,370,887.50) relate in their entirety to loan commitments and unused lines from the current lending business (31/12/2017: EUR 133,220,887.50 and a payout obligation for an investment in equity instruments in the amount of EUR 2,150,000.00). As at the balance sheet date, no unused credit lines were granted to companies in which an equity investment is held (31/12/2017: EUR 1,420,439.15).

5.3. Fiduciary transactions

Kommunalkredit holds financial instruments with a nominal value of EUR 432,671,186.55 (31/12/2017: EUR 435,245,981.35) in trust in its own name but at third parties' cost and risk.

6. Supplementary Disclosures

6.1. Own funds and own funds requirements

Kommunalkredit is subject to the own funds requirements pursuant to Article 92 CRR (CET 1 ratio 4.5%, core capital ratio 6%, total capital ratio 8%). Taking into account the capital conservation buffer, the anticyclical buffer and the surcharge from the supervisory review and evaluation process (SREP), a common equity tier 1 ratio of 6.87%, a core capital ratio of 8.47% and a total capital ratio of 10.67% are required. The statutory requirements were met at all times during the reporting year.

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

Assessment base in EUR	31/12/2018	31/12/2017
Total risk exposure amount pursuant to Art. 92 CRR	1,334,717,606.25	992,393,514.16
of which credit risk	*1,210,502,124.00*	*874,843,851.80*
of which operational risk	*106,315,911.43*	*99,943,426.49*
of which CVA charge	*17,779,044.00*	*17,502,059.50*
of which default fund of a qualifying counterparty	*120,526.82*	*104,176.38*

Own funds – actual in EUR	31/12/2018	31/12/2017
Common equity tier 1 after deductible items	265,454,088.95	232,963,778.42
Additional own funds after deductible items	58,287,163.20	64,195,616.44
Eligible own funds (tier 1 and tier 2)	**323,741,252.15**	**297,159,394.86**
Own funds ratio	24.3%	29.9%
CET 1 ratio	19.9%	23.5%

The own funds reported include the 2018 net profit of EUR 30,409,289.32 (2017: EUR 18,865,799.92), which is retained in its entirety and thus increases the company's equity (in 2017, the dividend of EUR 11,500,000.00 reduced the company's equity).

6.2. Total of assets and liabilities denominated in foreign currencies

As at 31 December 2018, assets denominated in foreign currencies in the amount of EUR 257,998,594.03 (31/12/2017: EUR 176,800,614.76) were shown on the balance sheet. Liabilities denominated in foreign currencies amounted to EUR 684,419,870.89 (31/12/2017: EUR 708,965,784.88). Open currency positions are closed through corresponding swap contracts. Kommunalkredit's open foreign currency position is continuously monitored and strictly limited; therefore, there are no material currency risks.

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

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

Derivative transactions not yet settled 31/12/2018 in EUR	Nominal	Positive fair value	Negative fair value
Interest-rate swaps	3,047,809,160	204,144,935	-193,803,370
of which in macro hedge	*772,018,729*	*6,923,371*	*-110,707,993*
of which in unit of account	*2,275,790,430*	*197,221,565*	*-83,095,377*
Currency swaps	85,274,630	2,361,651	-5,845,745
of which in macro hedge	*55,895,275*	*1,412,277*	*-106,438*
of which in unit of account	*29,379,356*	*949,374*	*-5,739,307*
FX forward transactions	712,775,070	14,379,367	-1,327,315
Total	**3,845,858,860**	**220,885,954**	**-200,976,430**

Derivative transactions not yet settled 31/12/2017 in EUR	Nominal	Positive fair value	Negative fair value
Interest-rate swaps	3,071,726,544	231,392,016	-205,016,724
of which in macro hedge	*871,759,299*	*10,487,060*	*-130,603,800*
of which in unit of account	*2,199,967,245*	*220,904,955*	*-74,412,924*
Currency swaps	27,424,023	923,069	-2,991,166
of which in unit of account	*27,424,023*	*923,069*	*-2,991,166*
FX forward transactions	740,221,767	301,735	-36,701,481
Total	**3,839,372,334**	**232,616,819**	**-244,709,372**

Interest accruals/deferrals, foreign currency valuations and accrued/deferred fees from derivative transactions in the amount of EUR 53,393,136.21 (31/12/2017: EUR 35,260,319.52) are reported under other assets and accrued income and prepaid expenses on the assets side, and EUR 38,659,308.46 (31/12/2017: EUR 70,926,610.44) under other liabilities and deferred income and accrued expenses on the liabilities side of the balance sheet. Moreover, provisions in the amount of EUR 271.025.25 (31/12/2017: EUR 214,022.20) relating to derivatives are recognised under other provisions. As in the previous year, no provision for impending losses from macro swaps was required as at 31 December 2018.

6.4. Trading book

In line with its business strategy, Kommunalkredit does not engage in trading activities. As in the previous year, Kommunalkredit therefore had no trading portfolio as at 31 December 2018.

6.5. Other obligations

a. Liability arising from the demerger

Pursuant to § 15 (1) of the Demerger Act, Kommunalkredit is liable jointly and severally with KA Finanz AG for obligations having arisen prior to the entry of the demerger in the Companies Register on 26 September 2015 and transferred from the former Kommunalkredit to KA Finanz AG. Equally, KA Finanz AG is liable jointly and severally with Kommunalkredit for the liabilities transferred to Kommunalkredit. This does not concern liabilities that have arisen after the effective date of the demerger. The liability arising from the demerger is limited to the net assets of the respective entity as at the effective date of the demerger.

b. Other obligations

Obligations in the amount of EUR 1,502,300.00 arise from rental contracts (with affiliated companies) in 2019. The corresponding obligations for the years 2019 to 2023 are expected to total EUR 7,737,100.00.

Pursuant to § 2 (3) of the Deposit Guarantee and Depositor Indemnification Act, Kommunalkredit is obliged to undertake proportional safeguarding of depositors' accounts within the framework of the deposit guarantee regime of Banken und Bankiers Gesellschaft mbH, Vienna.

6.6. Asset items pledged as collateral

Credit balances with banks with a nominal value of EUR 56,490,000.00 (31/12/2017: EUR 87,330,000.00) and credit balances with customers (central counterparties and/or non-bank financial institutions) with a nominal value of EUR 102,542,989.93 (31/12/2017: EUR 97,078,987.32) were pledged as collateral for negative market values from bilateral and cleared derivative contracts. Amounts owed to banks include collateral received in a nominal value of EUR 104,600,000.00 (31/12/2017: EUR 96,185,000.00). Amounts owed to customers include collateral received in a nominal value of EUR 60,001,319.97 (31/12/2017: EUR 63,694,933.36).

For funding raised through participation in the ECB tender, Kommunalkredit pledged securities and loans in a volume of EUR 376,817,480.19 (31/12/2017: EUR 349,905,202.81) as collateral as at 31 December 2018. The collateral taker has the right to realise the collateral only in the event of the debtor's default.

Kommunalkredit has assigned assets in the form of securities in a nominal amount of EUR 69,500,000.00 (31/12/2017: EUR 65,100,000.00) as collateral for global loans and other funding from the European Investment Bank in Luxembourg. The collateral taker has the right to realise the collateral only in the event of the debtor's default.

As collateral for the liability rising from the demerger for KA Finanz AG, which is liable jointly and severally with Kommunalkredit for the obligations which arose prior to the entry of the demerger in the Companies

Register on 26 September 2015 and were transferred to Kommunalkredit, Kommunalkredit issued a covered bond with a nominal value of EUR 107,000,000.00 and pledged it to KA Finanz AG. Pursuant to § 51 (5) of the Austrian Banking Act, this financial instrument is recognised on the liabilities side after netting.

For covered bonds issued by Kommunalkredit with a nominal value of EUR 875,876,297.84 (31/12/2017: EUR 858,267,817.49) as at 31 December 2018 and for the aforementioned covered bond issued as collateral for KA Finanz AG with a nominal value of EUR 107,000,000.00 (31/12/2017: EUR 107,000,000.00), loans with a nominal value of EUR 918,176,164.15 (31/12/2017: EUR 1,005,668,230.70) and securities with a nominal value of EUR 224,040,516.68 (31/12/2017: EUR 251,633,367.02) were appropriated to a cover pool which can only be drawn on with the approval of a government commissioner.

Moreover, as at 31 December 2018, an amount of EUR 27,213,364.49 (31/12/2017: EUR 19,777,713.26) was put up as collateral for other funding.

7. Notes to the Income Statement

7.1. Presentation of material Income Statement items

7.1.1. Net interest income

Interest and similar income in EUR	2018	2017
Lending business	80,999,937.97	76,603,656.80
Investments in banks	-2,180,183.95	-1,386,373.33
Fixed-income securities	7,677,596.60	9,414,675.59
Swap income	64,549,566.15	68,762,165.95
Total interest income	**151,046,916.77**	**153,394,125.01**

Interest and similar expenses in EUR	2018	2017
Deposit business	-18,833,134.69	-19,374,332.92
Own issues	-44,293,683.17	-47,570,619.95
Swap expenses	-50,258,599.99	-53,638,679.64
Total interest expenses	**-113,385,417.85**	**-120,583,632.51**

Net interest income	**37,661,498.92**	**32,810,492.50**

The 2018 net interest income came to EUR 37,661,498.92 (2017: EUR 32,810,492.50), reflecting a significant increase from EUR 7,577,693.64 in income from infrastructure project and energy financing business to EUR 15,716,271.02 (2017: EUR 8,138,577.38). In contrast, net interest income was depressed by the costs of liquidity: In 2018, negative interest in the amount of EUR 1,867,052.12 (2017: EUR 1,428,313.34) was paid for credit balances with banks, which is recognised in interest income under investments in banks.

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

7.1.2. Income from securities and participations

Income from participations amounted to EUR 36,000.00 (2017: EUR 23,400.00), including the dividend paid out by Kommunalnet E-Government Solutions GmbH.

Income from investments in affiliates amounted to EUR 711,466.12 (2017: EUR 813,112.95), including the dividend of EUR 555,426.00 (2017: EUR 494,280.00) paid out by Kommunalkredit Public Consulting (KPC) and the dividend of EUR 156,040.12 (2017: EUR 0.00) paid out by Trendmind IT Dienstleistung GmbH.

7.1.3. Net fee and commission income

Fee and commission income in EUR	2018	2017
Lending business	10,845,850.53	9,237,306.36
Other service business	4,480,175.11	866,013.50
Total fee and commission income	**15,326,025.64**	**10,103,319.86**

Fee and commission expenses in EUR	2018	2017
Lending business	-438,059.25	-196,029.61
Securities business	-541,380.12	-1,262,409.40
Money and X trading	-199,600.82	-193,139.26
Total fee and commission expenses	**-1,179,040.19**	**-1,651,578.27**

Net fee and commission income	**14,146,985.45**	**8,451,741.59**

In 2018, fee and commission income increased to EUR 15,326,025.64 (2017: EUR 10,103,319.86) as a result of intensified advisory and structuring activities. The total comprises, above all, arranging and structuring fees of EUR 11,767,218.24 (2017: EUR 8,702,734.00) in connection with new infrastructure and energy finance deals and income from other services for customers of EUR 3,477,847.80 (2017: EUR 866,013.50).

Fee and commission expenses of EUR 1,179,040.19 (2017: EUR 1,651,578.27) included transaction and payment transfer fees as well as guarantee fees paid.

7.1.4. General administrative expenses

The general administrative expenses are shown below:

General administrative expenses in EUR	2018	2017
Personnel expenses	-28,843,222.19	-29,827,116.15
Other administrative expenses	-16,539,005.34	-15,885,166.05
General administrative expenses	**-45,382,227.53**	**-45,712,282.20**

7.1.4.1. Personnel expenses

Personnel expenses in EUR	2018	2017
Salaries	-20,642,059.64	-21,358,118.74
Expenses for statutory social charges, salary-dependent charges and compulsory contributions	-3,816,801.62	-4,468,631.67
Expenses for restructuring and efficiency measures	-2,500,000.00	-2,700,000.00
Voluntary social contributions	-717,861.73	-619,562.73
Expenses for pension costs	-555,408.46	-560,872.86
Appropriation to/release of pension provision	408,883.71	-161,705.82
Expenses for severance pay and contributions to company pension funds	-1,019,974.45	41,775.67
Total personnel expenses	**-28,843,222.19**	**-29,827,116.15**

Personnel expenses decreased by EUR 983,893.96 from the previous year's level. The reduction is primarily due to lower salary expenses as a result of the efficiency programme for the improvement of operational processes implemented in 2017. Expenses of EUR 2,500,000.00 in connection with capacity adjustments necessary after the termination of the service level agreement with KA Finanz AG as of the end of the first quarter of 2019 are reported in the above table under expenses for restructuring and efficiency measures.

Personnel expenses include expenses for contributions to company pension plans in the amount of EUR 226,568.36 (2017: EUR 229,667.56), and expenses for severance pay of EUR 1,560,555.50 (2017: EUR 56,448.64).

7.1.4.2. Other administrative expenses

Other administrative expenses were as follows:

Other administrative expenses in EUR	2018	2017
Third-party services	-3,234,934.43	-4,053,663.99
Consultancy and audit services	-2,910,220.77	-2,822,516.53
Data processing	-2,042,949.89	-1,904,755.41
News services	-1,276,569.21	-1,644,750.04
Occupancy costs*	-2,245,122.96	-1,639,057.84
Advertising and entertainment	-1,724,473.83	-1,488,490.98
Bank Resolution Fund	-1,570,970.75	-949,493.71
Other non-personnel expenses	-1,533,763.50	-1,382,437.55
Total of other administrative expenses	**-16,539,005.34**	**-15,885,166.05**

* In 2017, occupancy costs included a positive one-off effect of EUR 579,544.66 resulting from the merger with Kommunalkredit Beteiligungs- und Immobilien GmbH.

Other administrative expenses increased by EUR 653,839.29 year on year to EUR 16,539,005.34 (2017: EUR 15,885,166.05). The increase over the previous year's level is due, among other factors, to higher expenses for contributions to the Bank Resolution Fund and higher occupancy costs. Savings were recorded under third-party services (2017 was burdened by expenses for the implementation of the KOMMUNALKREDIT INVEST online platform) and external news services.

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

7.1.5. Other operating income

Other operating income in EUR	2018	2017
Income from services charged to KA Finanz AG and KPC	10,496,942.38	14,128,359.46
Contribution of real estate	0.00	8,622,165.05
Other	640,206.16	946,751.80
Total other operating income	**11,137,148.54**	**23,697,276.31**

Kommunalkredit acts as a service provider for other entities, including KA Finanz AG (for the management of banking operations) and KPC. The services to be provided are defined in service level agreements. An amount of EUR 10,496,942.38 (2017: EUR 14,128,359.46) was charged for services rendered in 2018.

The extraordinary income of EUR 8,622,165.05 reported in 2017 resulted from the transfer and upvaluation of real estate to Kommunalkredit TLI Immobilien GmbH & Co KG within the framework of the separation of real estate and participations under company law.

7.1.6. Other operating expenses

Other operating expenses of EUR 784,614.69 (2017: EUR 675,587.58) mainly comprise the stability tax payable by Austrian banks.

7.1.7. Net risk provisioning, valuation and sales result

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

Net risk provisioning, valuation and sales result in EUR	2018	2017
Proceeds from the buyback of own issues	12,233,829.55	6,240,462.90
Provision released/set up pursuant to § 57 (1) Austrian Banking Act	900,000.00	-3,760,000.00
Proceeds from asset sales	1,330,986.54	-2,465,371.87
Change in portfolio allowance	-1,545,260.09	-300,373.00
Other	-15,278.93	37,955.30
Total	**12,904,277.07**	**-247,326.67**

The 2018 net risk provisioning, valuation and sales result amounted to EUR 12,904,277.07 (2017: EUR -247,326.67) and is primarily due to positive one-off effects from the buyback of own issues in the amount of EUR 12,233,829.55 (2017: EUR 6,240,462.90). The increase in the portfolio allowance is mainly due to first-time calculation of expected credit losses on the basis of statistically calculable empirical values. Details on the calculation of this portfolio allowance are contained in Note 3.3. Moreover, the general risk provision pursuant to § 57 (1) of the Austrian Banking Act was reduced by EUR 900,000.00 (2017: provision set up in the amount of EUR -3,760,000.00).

As in the previous year, there were no credit defaults in 2018; Kommunalkredit's non-performing-loan (NPL) ratio (definition of default according to Basel III) remained at 0.0%.

7.1.8. Taxes on income

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

Corporate income tax in EUR	2018	2017
Corporate income tax expense of the reporting year	-19,265.89	-11,559.00
Corporate income tax from previous years	0.00	-261,291.56
Deferred tax assets	737,726.78	157,267.00
	718,460.89	**-115,583.56**

Effective as of 2016, a tax group pursuant to § 9 of the Corporate Income Tax Act was formed, with Satere as the group parent and Gesona, Kommunalkredit, KBI, KPC and TrendMind IT Dienstleistung GmbH (TrendMind) as group members. On the basis of a group and tax contribution agreement, the stand-alone method was chosen for the calculation of the tax contributions. According to this method, the amount of the tax contributions of the group members depends on the amount of corporate income tax the group member would have had to pay if its tax result had not been counted toward the group parent. Tax loss carryforwards of a group member from periods prior to the formation of the group (pre-group losses) are credited up to the amount of the profit of the group member and diminish the tax contribution of the group member. If a group member's negative income is counted toward the group parent, this tax loss is kept on record for the group member (internal loss carryforward) and offset against the positive income of the group member in subsequent years up to 100%. Upon termination of the tax group or elimination of a group member, a final compensation has to be paid for tax losses not yet offset, multiplied by the corporate tax rate applicable at the time of termination of the agreement.

The corporate tax expense for the business year exclusively results from the branch in Germany and amounts to EUR 19,265.89 (2017: EUR 11,559.00).

Deferred tax assets result from the capitalisation of temporary differences between the corporate amounts of assets and their tax base, introduced as a mandatory provision of the 2014 Accounting Reform Act.

7.1.9. Result for the year and return on assets

Kommunalkredit closed the year under review with a net profit of EUR 30,409,289.33 (31/12/2017: EUR 18,865,799.92). The return on assets, calculated as the after-tax profit for the year divided by total assets as at balance-sheet date, stood at 0.87% (31/12/2017: 0.58%).

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

Interest and similar income in EUR	2018	2017
Austria	96,750,262.65	104,551,042.75
Western Europe	37,244,085.99	36,171,299.93
Central and Eastern Europe	14,343,751.75	12,182,328.90
Rest of the world	2,708,816.37	489,453.42
	151,046,916.77	**153,394,125.01**

Fee and commission income in EUR	2018	2017
Austria	1,038,608.84	225,880.11
Western Europe	8,186,232.02	4,743,807.55
Central and Eastern Europe	6,101,184.78	4,379,010.15
Rest of the world	0.00	754,622.05
	15,326,025.64	**10,103,319.86**

Other operating income in EUR	2018	2017
Austria	10,829,899.21	23,449,124.21
Western Europe	157,249.33	248,152.10
Central and Eastern Europe	0.00	0.00
Rest of the world	150,000.00	0.00
	11,137,148.54	**23,697,276.31**

8. Disclosure Pursuant to Part 8 CRR

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

9. Significant Events after the Balance Sheet Date

Jörn Engelmann left the Executive Board on 31 January 2019 after the expiration of his contract. Since 1 February 2019, the Executive Board has consisted of Bernd Fislage (CEO) and Jochen Lucht (CFO, CRO, COO).

10. Disclosures regarding the Boards of the Bank and its Employees

10.1. Average number of employees during the business year

As at 31 December 2018, Kommunalkredit had 165 employees (31/12/2017: 197 employees).

The average number of employees during the year under review was 182 (2016: 199), including three (2017: four) Executive Board members and excluding employees on leave; part-time employees are weighted according to the extent of employment.

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

Total Executive Board and Supervisory Board remuneration in EUR	2018	2017
Active Executive Board members	1,961,556.26	1,983,341.72
Active Supervisory Board members	116,130.61	90,265.00
	2,077,686.87	**2,073,606.72**

As at 31 December 2018, no loans to members of the Executive Board or members of the Supervisory Board were outstanding. No guarantees were provided by Kommunalkredit for Board members.

As at 31 December 2018, the outstanding volume of loans to employees of the company amounted to EUR 409,634.23 (31/12/2017: EUR 409,945.13).

10.3. Expenses for severance pay and pensions

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

Expenses for severance pay and pensions in EUR	2018	2017
Executive Board, senior employees	596,813.49	355,525.26
Other employees	569,685.70	325,277.75
	1,166,499.19	**680,803.01**

The increase in expenses for severance pay and pensions, as compared to the previous year, primarily results from higher severance payments made.

10.4. Related parties

Tax group

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

Related parties

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

10.5. Disclosures relating to the Boards of the bank

Members of the Executive Board

Karl-Bernd Fislage
Chief Executive Officer
since 1 September 2018

Alois Steinbichler
Chief Executive Officer
until 31 August 2018

Jochen Lucht
since 1 July 2018

Jörn Engelmann
until 31 January 2019

Wolfgang Meister
until 6 March 2018

Members of the Supervisory Board

Patrick Bettscheider
Chairman; delegated by Gesona Beteilgungsverwaltung GmbH; Managing Director
Gesona Beteiligungsverwaltung GmbH and Satere Beteiligungsverwaltungs GmbH

Christopher Guth
Deputy Chairman; delegated by Gesona Beteiligungsverwaltung GmbH

Friedrich Andreae
Managing Director Gesona Beteiligungsverwaltung GmbH and Satere Beteiligungsverwaltungs GmbH

Katharina Gehra
Managing Director Gesona Beteiligungsverwaltung GmbH and Satere Beteiligungsverwaltungs GmbH
until 5 September 2018

Jürgen Meisch
Managing Director of Achalm Capital GmbH

Martin Rey
Managing Director of Maroban GmbH

Alois Steinbichler
since 20 September 2018

Patrick Höller
Nominated by the Staff Council

Paul Matousek
Nominated by the Staff Council
until 14 December 2018

Renate Schneider
Nominated by the Staff Council

10.6. State Commissioner

Philip Schweizer
State Commissioner; Federal Ministry of Finance
since 1 July 2018

Edeltraud Lachmayer
State Commissioner; Federal Ministry of Finance
until 31 May 2018

Bettina Horvath
Deputy State Commissioner; Federal Ministry of Finance

10.7. Government Commissioner

Appointed to serve as Government Commissioner of the cover pool for covered bonds in 2018:

Karin Fischer
Government Commissioner; Federal Ministry of Finance

Sandra Kaiser
Deputy Government Commissioner; Federal Ministry of Finance

Vienna, 12 March 2019

The Executive Board of
Kommunalkredit Austria AG

Bernd Fislage
CEO

Jochen Lucht
CFO, CRO, COO

Schedule of Participations and Investments in Affiliated Companies as at 31 December 2018 (Annex 1)

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

Name and registered office in EUR	Investment in % 2018	Investment in % 2017	Equity	Acquisition cost	Book value 31/12/2018	Book value 31/12/2017	Profit for the period after tax	Latest audited financial statements
I. Participations								
Kommunalnet E-Government Solutions GmbH, Vienna	45.00%	45.00%	1,012,282.14	344,025.00	344,025.00	344,025.00	94,118.76	31/12/2017
Kommunalleasing GmbH, Vienna	50.00%	50.00%	-15,509,635.82	750,000.00	0.00	0.00	957,378.66	31/12/2017
Fidelio KA Infrastructure Opportunities Fund SICAF-RAIF SCA, Luxembourg	15.80%	0.00%	138,541,000.00	21,870,000.00	21,870,000.00	0.00	99,059.57	31/12/2018[1]
Einlagensicherung der Banken und Bankiers Gesellschaft mbH, Vienna	n. a.	n. a.	n. a.	70.00	70.00	70.00	n. a.	n. a.
Einlagensicherung Austria GmbH, Vienna	n. a.	n. a.	n. a.	1,000.00	1,000.00	1,000.00	n. a.	n. a.
II. Investments in affiliated companies								
Kommunalkredit Public Consulting GmbH, Vienna	90.00%	90.00%	1,487,650.35	346,500.00	346,500.00	346,500.00	576,685.08	31/12/2018
Kommunalkredit KBI Immobilien GmbH, Vienna	100.00%	100.00%	49,850.57	35,000.00	35,000.00	35,000.00	14,975.57	31/12/2018
Kommunalkredit KBI Immobilien GmbH & Co KG, Vienna	100.00%	100.00%	32,068,533.70	32,081,365.00	32,081,365.00	32,081,365.00	-12,831.06	31/12/2018
Fidelio KA Beteiligung GmbH, Frankfurt/Main	85.00%	0.00%	60,972.11	57,800.00	57,800.00	0.00	-4,509.13	31/12/2018[1]
TrendMind IT Dienstleistung GmbH, Vienna	100.00%	100.00%	467,052.80	150,000.00	150,000.00	150,000.00	216,052.80	31/12/2018

[1] Preliminary unaudited figures.

Schedule of Non-current Asset Transactions pursuant to § 226 (1) of the Austrian Company Code as at 31 December 2018 (Annex 2)

Non-current assets in EUR	Acquisition costs						Cumulative write-down				Book values			
	as at 1/1/2018	Currency translation	as at 1/1/2018	Additions	Disposals	as at 31/12/2018	Cumulative depreciation and amortisation/ Additions as at 1/1/2018	Additions	Disposals	Cumulative depreciation and amortisation/ Additions 2018	Book value 31/12/2018	Book value 31/12/2017	Write-down 2018	Write-up 2018
1. Public-sector debt instruments	192,811,710.00	0.00	192,811,710.00	71,087,470.00	115,306,000.00	148,593,180.00	52,622.06	349,938.62	-16,444.83	386,115.85	148,207,064.15	192,759,087.94	349,938.62	0.00
2. Loans and advances to customers	254,433,367.02	0.00	254,433,367.02	6,708,861.00	30,392,850.34	230,749,377.68	0.00	0.00	0.00	0.00	230,749,377.68	254,433,367.02	0.00	0.00
3. Bonds and other fixed-income securities	88,302,102.72	0.00	88,302,102.72	180,726,405.00	1,325,623.23	267,702,884.49	94,687.82	140,447.11	-57,884.14	177,250.79	267,525,633.70	88,207,414.90	140,447.11	0.00
4. Participations	3,945,095.00	0.00	3,945,095.00	21,870,000.00	2,850,000.00	22,965,095.00	1,931,000.00	0.00	-1,181,000.00	750,000.00	22,215,095.00	2,014,095.00	0.00	0.00
5. Investments in affiliated companies	32,612,865.00	0.00	32,612,865.00	87,800.00	0.00	32,700,665.00	0.00	0.00	0.00	0.00	32,700,665.00	32,612,865.00	0.00	0.00
6. Intangible non-current assets	4,370,380.91	0.00	4,370,380.91	153,440.46	0.00	4,523,821.37	4,178,979.32	140,965.13	0.00	4,319,944.45	203,876.92	191,401.59	140,965.13	0.00
7. Property, plant and equipment	739,927.88	0.00	739,927.88	183,965.40	0.00	923,893.28	319,995.41	49,784.68	0.00	369,780.09	554,113.19	419,932.47	49,784.68	0.00
8. Office furniture and equipment*	7,551,517.22	0.00	7,551,517.22	238,126.46	102,093.30	7,687,550.38	5,010,661.27	523,480.09	-101,579.03	5,432,562.30	2,254,988.08	2,540,855.98	523,480.09	0.00
	584,766,965.75	**0.00**	**584,766,965.75**	**281,056,068.32**	**149,976,566.87**	**715,846,467.20**	**11,587,945.85**	**1,204,615.62**	**-1,356,907.99**	**11,435,653.48**	**704,410,813.72**	**573,179,019.90**	**1,204,615.62**	**0.00**
* *of which minor value assets according § 241 (1a) Austrian Banking Code*				*73,341.43*	*98,704.80*			*73,341.43*	*-98,704.80*					

Auditor's Report

REPORT ON THE FINANCIAL STATEMENTS

Audit Opinion

We have audited the financial statements of Kommunalkredit Austria AG, Vienna, which comprise the balance sheet as at December 31, 2018, the income statement for the fiscal year then ended, and the notes.

In our opinion, the accompanying financial statements comply with legal requirements and give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance for the fiscal year then ended in accordance with the Austrian Commercial Code and the Austrian banking regulations.

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 (hereinafter EU Regulation) and Austrian generally accepted auditing standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

We are independent of the Group in accordance with Austrian Generally Accepted Accounting Principles and professional requirements and the requirements of the Austrian Banking Act, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

We have structured key audit matters as follows:

- Description
- Audit approach and key observations
- Reference to related disclosures

Impairment of Loans (Expected Credit Losses)

Description

Loss allowances represent management's best estimate of the credit losses expected with respect to the loan portfolio at balance sheet date. Due to the underlying assumptions and estimations, the determination of expected credit losses is inherently subject to substantial judgement applied.

As at December 31, 2018, loans and advances to customers and banks amount to EUR 2.6 billion before deducting loss allowances of EUR 2 million.

Kommunalkredit Austria AG takes into account statistically determinable empirical values in determining the fair value of the loan receivables:

- For non-defaulted loans, loss allowances are determined on a collective basis and generally measured at an amount equal to 12-month expected credit loss. In case of a significant increase in credit risk, loss allowances are measured as lifetime expected credit losses.
- This collective measurement of loss allowances takes into account the probability of default, the impact of forward looking information and parameters that reflect the expected cash flows as well as the expected proceeds from the realization of collaterals. These estimates are based on statistical models.

- For defaulted loans considered to be significant at customer level, loss allowances are determined on a case-by-case basis. These loss allowances are determined considering scenario probabilities, expected cash flows as well as expected proceeds from the realization of collateral (where applicable). This process involves significant judgement and management estimates.

The Company has implemented internal policies and processes to detect a significant increase in credit risk for individual loans and default events for individual borrowers. On the basis of the results of this assessment, different discounted cash flow methods are applied to determine the amount of the value adjustments taking into account several scenarios. Parameters used in the calculation are, if necessary, estimated by means of statistical models.

Due to the uncertainty of estimates in the determination of expected credit losses as well as to the amounts involved, we identified this area to be a key audit matter.

Audit approach and key observations

To assess the appropriateness of the loss allowances, we:

- obtained an understanding of the methodology applied by Kommunalkredit Austria AG to determine expected credit losses;

- evaluated control activities in credit risk management and lending business processes and tested key controls, notably with respect to the approval of loans, ongoing monitoring and early warning;

- evaluated control activities and tested key controls in the area of rating models and collateral valuation;

- reviewed the validation processes and the results of backtesting and model validations for credit risk models;

- assessed the appropriateness and reasonableness of forward-looking information incorporated in the estimates;

- tested the completeness and accuracy of the data used in the models to determine parameters such as probability of default, loss given default over lifetime and exposure at default;

- evaluated whether key components of the calculation of expected credit losses are correctly incorporated in the models by performing walkthroughs;

- tested, on a sample basis, the correct stage allocation according to the relevant policies;

- verified mathematical accuracy of the automated calculation of expected credit losses based on test cases;
- tested, on a sample basis, whether loss events were identified according to the applicable policies and assessed whether events occurred that significantly affect the borrower's repayment ability with regard to loans and advances;
- tested, on a sample basis, the economic situation of the loans or guarantors of the loans in terms of their creditworthiness;
- reconciled the loss allowances determined with the accounting entries.

Based on our audit procedures, we were able to convince ourselves that the methods and models used are appropriate and have been properly implemented, and that the assumptions and assessments made by the legal representatives are within the acceptable range from our point of view.

Reference to related disclosures

Please refer to statements made by management in items 3.3 in the notes to the financial statements ("notes").

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

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

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

The audit committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with the EU Regulation and with Austrian generally accepted auditing standards, which require the application of ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

Report on Other Legal and Regulatory Requirements

Comments on the Management Report for the Company

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

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

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

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

Statement

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

Other information

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

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

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

Additional Information in Accordance with Article 10 of the EU Regulation

We were appointed as statutory auditor for the year ended at 31 December, 2018, at the shareholders' meeting on March 10, 2017. We were engaged by the supervisory board on April 20, 2017. We have audited the Company for an uninterrupted period since its foundation in 2015, i.e. for four years. In 2015, the operating business of Kommunalkredit Austria AG, Vienna, Austrian Companies Register no. 439528s, was spun off to Kommunalkredit Austria AG, Vienna, Austrian Companies Register no. 45776v ("KA old"). We had audited KA old since 2010.

We confirm that the audit opinion in the "Report on the Financial Statements" section is consistent with the additional report to the audit committee referred to in Article 11 of the EU Regulation.

We declare that we did not provide any prohibited non-audit services (Article 5 (1) of the EU Regulation) and that we remained independent of the audited company in conducting the audit.

Responsible Engagement Partner

Responsible for the proper performance of the engagement is Ms. Dorotea-E. Rebmann, Austrian Certified Public Accountant.

Vienna, March 13, 2019

PwC Wirtschaftsprüfung GmbH

signed:

Dipl.Kfm.Univ. Dorotea-E. Rebmann

AUSTRIAN CERTIFIED PUBLIC ACCOUNTANT

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

STATEMENT BY THE LEGAL REPRESENTATIVES

KOMMUNALKREDIT AUSTRIA AG

Annual Financial Statements 2018

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

Vienna, 12 March 2019

The Executive Board of
Kommunalkredit Austria AG

Bernd Fislage
CEO

Jochen Lucht
CFO, CRO, COO

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Tuerkenstrasse 9, 1090 Vienna, Austria
Phone: +43 1 31631

Corporate Communications
communications@kommunalkredit.at
Phone: +43 1 31631 577

Investor Relations
investorrelations@kommunalkredit.at
Phone: +43 1 31631 678

www.kommunalkredit.at

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Strategie- und Markenberatung
Klotzenmoor 52, 22453 Hamburg, Germany
www.tolstoii.de

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